

Nugget Coombs and his place in the postwar order

Evan Jones, University of Sydney

ABSTRACT

The publication of Tim Rowse's biography of H.C. Coombs, *A Reforming Life*, provides an appropriate context to further explore the life of Coombs. In particular, the relationship between Coombs and his environment is an important consideration, given Coombs' iconic status in 'progressive' circles in Australia. Inquiry into the factors that both facilitated and constrained Coombs' influence suggests that his influence has been overstated. This juxtaposition may provide insight into the nature of postwar reconstruction and the long boom in Australia, important periods that remain inadequately understood. Finally, Coombs' experience is relevant for a better understanding of the origins of the current economic policy regime in Australia.

Dr Evan Jones is Associate Professor of Political Economy at the University of Sydney. His research on the politics of economic and industry policies in Australia between 1945–60 has been published recently in the Australian Economic History Review, the Australian Journal of Public Administration, Prometheus, and Rural Society. Jones draws on archival research and personal interviews to illuminate the complexity of the historical process and to provide a broader perspective on the history of post war reconstruction in Australia. His email address is <e.jones@econ.usyd.edu.au>.

‘Men make their own history, but ... they do not make it under circumstances chosen by themselves, but under circumstances directly encountered, given and transmitted from the past.’

Karl Marx, *Eighteenth Brumaire of Louis Bonaparte* (1852).

Herbert (Nugget) Coombs is a mythical figure in Australian economic and cultural life. ‘Mythical’ because he is both important and poorly understood. It is remarkable that Tim Rowse’s *A Reforming Life* (2002) is the first biography of the man.¹ Coombs’ attempt at self-exposure, *Trial Balance* (1981), is enlightening, but it is a guarded and occasionally misleading account of his public life. *Trial Balance* has frustrated those wanting perspective on the myriad policy controversies in which Coombs was a player. Rowse has returned Coombs to the public arena with a meticulous examination of Coombs’ vision for a better world, and it is appropriate to further explore the environment in which Coombs became a significant figure.

In 1972, when Gough Whitlam requested that Coombs become an unofficial economic adviser, it was a newsworthy event.² Channel Ten claimed that Coombs was ‘one of the country’s most influential men’; the Sydney *Telegraph* claimed that ‘Dr. Coombs, as much as anyone else, has been the architect of Australia’s economic growth over the past 25 years’ (Rowse 2002, pp. 292–293). Certainly, Coombs was a giant (figuratively), with several exemplary lives. However, his influence is inflated in these claims (and they aren’t supported in Rowse’s biography).

Coombs’ life deserves close attention for a number of larger purposes. First, there is ‘the man in history’ question. What is the nature of a public figure’s influence? What are the forces that facilitated (and constrained) such influence? In particular, what conditions are likely to empower visionary public servants? Second, there is the economic history question. What were the key tensions in economic policy during Coombs’ career and how were they resolved? The nature of postwar reconstruction and the long boom in Australia remains inadequately understood. Third, what are the lessons from Coombs’ bureaucratic experience for current economic policy-making? Coombs’ successes and failures are of more than historical interest; they are relevant to a better perspective on economic policy in the age of ‘economic rationalism’.

¹ More accurately, *A Reforming Life* is the second of a two-volume biography of Coombs. Coombs’ involvement with the Aboriginal community is separately treated in Tim Rowse (2000b), *Obligated to be difficult: Nugget Coombs’ legacy in indigenous affairs*, Cambridge University Press, Melbourne.

² Coombs had, since his retirement from the Reserve Bank in 1968, provided minor economic advice to Prime Minister William McMahon.

Coombs the economist

Coombs' origins as a major public figure began with his appointment as an economist in the Commonwealth Bank in 1935. Coombs was known to the handful of economists with clout in the corridors of power—Ed Shann, Leslie Melville, Lyndhurst Giblin, and Douglas Copland. The country was wallowing in the Depression, and public debate was consumed by the apparent complicity of the private banks and the Commonwealth Bank in accentuating the suffering. Coombs, previously a schoolteacher, had obtained a scholarship to the London School of Economics, and wrote his doctorate (1931–33) on central banking. The Lyons coalition government established a Royal Commission in Banking in 1936 (one of whose commissioners was Joseph Benedict Chifley, the future prime minister and banking system reformer). Greater regulation of the banking system was heralded, although it took World War II to effect major changes.

Coombs was seconded to the federal Treasury in 1939. It was then a dour organisation, with minimal economics expertise, under a dour Secretary, Stuart McFarlane. Coombs proceeded to make waves. Coombs was also appointed to the Finance and Economic Advisory Committee, made up of eminent economists.³ The coalition government under Robert Menzies (from April 1939) belatedly acknowledged the necessity for war preparation measures, but the commissioning of a Labor government under John Curtin in October 1941 brought a greater sense of urgency.

Coombs was made Director of Rationing in April 1942,⁴ apparently on the recommendation of Copland. This post far exceeded both the administrative demands and political pressure of his previous experience.⁵ The gamble paid off for the government and for Coombs, who was transformed overnight from a backroom technocrat to a front-row administrator and negotiator. The government sympathised with pressures demanding a new social order after the war, and it created a new Department of Post-War Reconstruction in late 1942. Coombs was appointed as its head, a position he held until December 1948.

³ The Finance and Economic Committee, formed in 1938 but later expanded in membership and brief, provided informal advice on the economic problems of transition to and administration of a war economy (Maddock & Penny 1983).

⁴ The rationing of consumer goods was the earliest manifestation of the sacrifices necessary for the pursuit of the war effort, and rationing administrators were constantly harassed by an irresponsible press. Coombs' later Minister of Post-War Reconstruction, John Dedman, for example, was ridiculed as the heartless man who refused to allow pink icing on wedding cakes.

⁵ Coombs claimed that before this position, he had 'never headed any organisation bigger than a class of teenagers' (Hughes 1992).

During this period, Coombs essentially held two jobs—one as head of his department, co-ordinating domestic reconstruction; the other as international diplomat, helping to negotiate the treaties that were intended to underpin the global postwar order. Coombs was overseas frequently from April 1943 to October 1948, especially between February 1946 and March 1948. This was a Herculean effort (similar efforts were also made by contemporaries); the aeroplane had become the vehicle for international diplomacy, but the primitive conditions of flight added to the emotional strain of the job.

Coombs became Governor of the Commonwealth Bank family in January 1949,⁶ and held that position for eleven years, until the separation of the central banking arm from the commercial arms. He continued as Governor of the central bank (under its new name, the Reserve Bank) until his retirement, aged 62, in July 1968.

Formidable personality meets tough environment

In his first operational position, Coombs established the rationing regime in the face of public suspicion and administrative complexity. As Director General of Post-War Reconstruction, he imposed a personal stamp on a visionary agenda—exceptional, given the conservative bureaucratic culture. As a diplomat he used the ‘open door’ language of the Americans to leverage the principles of global reflation and of the rights of underdeveloped countries to development—and on their own terms. He had these principles incorporated into the draft charter for the International Trade Organisation (ITO). He stood up to the naked self-interest of the American powerbrokers (from 1943, at the tender age of 37), a task made more difficult because of the tendency of the Americans to succumb to their own rhetoric. He became a figurehead for third-world interests. Domestically, he worked to persuade Labor parliamentarians and bureaucrats in Trade and Customs of the potential gains from other countries’ concessions if Australia made concessions on tariff protection and Imperial Preference. These achievements are indeed masterly.

But ultimately, how successful was he? The Americans got their way with the International Monetary Fund (IMF) and the World Bank. Keynes’ ambitions for rules to assist global reflation were not realised, and he died exhausted in 1946. The Truman Administration sidelined the ITO in 1949 and the Congress rejected it in 1951. Elements of the spirit of Coombs’ principles were embodied in the ITO’s pragmatic replacement, the General Agreement on Tariffs and Trade (GATT); they

⁶ The Commonwealth Bank comprised the central banking arm, the General Banking Division (after 1953, the Commonwealth Trading Bank) and the Commonwealth Savings Bank. The central banking arm also incorporated a rural marketing financial facility (the Rural Credits Department) and two specialist commercial lenders, the (rural) Mortgage Bank Department and the (small business) Industrial Finance Department.

imparted a modicum of flexibility and robustness to a structure that facilitated trade growth and the (selective) reduction of border protection. But the Americans (and, under their umbrella, the Europeans and Japanese) used the national interest provisions intended for vulnerable countries for their own benefit, forging a GATT that suited the advanced industrialised countries more than it suited less powerful countries. After fifteen years the third world was screaming blue murder, and the 'midway' agricultural exporters (such as Australia)⁷ were asking, 'What's in it for us?' The United Nations (UN), with respect to economic policy, had become merely a talking shop. The early successes of Coombs and his confrères had been whittled away. Coombs himself later acknowledged this first world-dominated postwar order (Coombs 1992; 1994, p. 7).

Domestically, Coombs was overseas too much, fighting international battles, to exert continuing personal influence on postwar reconstruction. His stand-in economist, Trevor Swan, suffered health problems under the pressure, and was sent off to the British Treasury to recuperate.^{8,9} Policy developed unevenly within the Post-War Reconstruction portfolio; it depended on a critical mass of interests and capacities to effect change (as occurred in housing industry policy, the fostering of a domestic automobile industry and the development of the Snowy Mountains Scheme).

Coombs' Department of Post-War Reconstruction was dismantled after the election of the Menzies Government in December 1949. His beloved Division of Economic Policy was taken briefly into the Department of the Prime Minister, but was soon abolished. Other divisions (Industrial Development, Regional Development, Building Industry) were taken into the new Department of National Development and soon after emasculated by the combined bastardry of the Treasury and the Public Service Board (Jones 2002a; 2002b).

Formally, Coombs' appointment as head of the Commonwealth Bank represents the pinnacle of his career in public service. Nineteen and a half years as central banking *supremo* is a very long time in high office; it completely encapsulated Menzies' record period as Prime Minister. Coombs' central bank was a significant player in the postwar macroeconomic policy drama, but other players hogged the limelight.

⁷ Australia's articulation of its 'halfway stage of development' is analysed in Arndt (1965).

⁸ Swan wrote to Coombs, claiming that he (Swan) was so consumed with fighting for Coombs' interests in the Wilson-chaired inter-departmental subcommittee on trade policy that he had neglected the fight with Treasury (an accurate admission) over domestic matters in the Investment and Employment Committee (Rowse 2002, p. 157).

⁹ Coombs apparently drove himself with a punishing work regime, as did his contemporary, John Crawford. Both often demanded more of their subordinates than the latter were physically capable of delivering.

Coombs was instrumental in modernising the culture of the Commonwealth Bank, which was previously starched, impersonal, and inflexible. Yet his reign was one of multiple disappointments. The inflation rate was generally low by the standards of the 1970s and 1980s (apart from the Korean War-induced debacle in 1950), but Coombs was rarely happy with it. Coombs shared the blame around—governments with their unrestrained developmentalist ethos, business with their unprincipled pricing, banks with their undisciplined lending, workers and their union leaders, individuals as consumers. He saw all groups as selfishly taking advantage of the boom, unprepared to collectively make sacrifices for the ‘greater good’.¹⁰

The anti-inflation fight was inhibited by the explosive growth of consumer credit, especially in the form of hire purchase—the ‘poor man’s overdraft’ (Rowse 2002, p. 342). The Commonwealth Bank attempted unsuccessfully to control this growth. There was an atypical common interest with the commercial banks in combating unrestrained growth of this new sector, but the banks resolved their problem by buying into the industry, and the public problem remained.

More fundamentally, Coombs’ power was constrained. Monetary policy was formally the prerogative of the government, but the gatekeeper to the Treasurer and the Cabinet was the Secretary of the Treasury—after April 1951, Roland Wilson. The formal subordination of the Commonwealth Bank to the government was appropriate, given that a key complaint of the Labor Party between the wars had been the autonomy of the Commonwealth Bank and its power to dictate an orthodox monetary agenda. The Commonwealth Bank’s subordination was the consequence of Labor’s 1945 Banking Act and Commonwealth Bank Act.¹¹

Yet Wilson was not a cooperative gatekeeper; he cooperated (as during the belated imposition of repressive measures in late 1951) at his discretion. George Watt (Treasury Secretary, November 1948–March 1951) and Wilson resisted Coombs’ efforts to counter the Korean War-induced inflation during 1950 and early 1951.¹² Wilson had little sympathy for Coombs’ attempts in 1952 to inhibit the automatic

¹⁰ Such criticisms, both at the time and later, upon reflection, were typically couched in oblique terms—see Coombs (1959; 1981, Ch. 6) and Rowse (2002, p. 231ff).

¹¹ Sections 9(3) and 9(4) of the Commonwealth Bank Act read: ‘If the Treasurer and the Bank are unable to reach agreement, the Treasurer may inform the Bank that the Government accepts responsibility for the adoption by the Bank of a policy in accordance with the opinion of the Government and will take such action (if any) within its powers as the Government considers to be necessary by reason of the adoption of that policy. The Bank shall then give effect to that policy.’

¹² This was reflected in their censoring of the Commonwealth Bank’s 1950 Annual Report, and Wilson’s resistance to an early Commonwealth Bank review of credit policy. See Reserve Bank of Australia Archives, Minutes of Meeting of Advisory Council, June 1950, April 1951; also Advance Policy, RBA S-a-66.

financing of Treasury bills (and thus their expansionary effect). Treasury resisted the Commonwealth Bank's attempt to tighten monetary policy in 1955. Treasury resisted the Commonwealth Bank's attempt to tighten credit in late 1960 (during a boom and balance of payments crisis) and to loosen credit in 1961 (when there was a sharp rise in unemployment).¹³ And so on. Schedvin claims that 'for years, the Secretary [Wilson] had been attempting to restrict the Bank's influence and render it an obedient arm of Treasury' (Schedvin 1992, p. 296). The Treasury Secretaries presumed to represent government priorities, but they also created a new form of unaccountable autonomy that inhibited effective macroeconomic policy.¹⁴ Coombs declined to argue publicly for his cause, adopting a long and decorous silence he thought appropriate to his role. He finally spoke out in October 1953 (Rowse 2002, p. 218).¹⁵

A significant result of this line of authority was that interest rates on government securities (and the rate structure in general) were held at a relatively low level. This served numerous objectives: the continued raising of cheaper loan money for developmental purposes; the support of existing bond prices; Treasurer Arthur Fadden's support of his rural sector constituency; and leverage in fighting elections (as in May 1954 and December 1955) (Coombs 1981, p. 149ff.). The Coalition had implemented a 'cheap money' policy that had previously been part of a Labor Party platform, and that had also been supported by the Commonwealth Bank before Coombs became its Governor (Robinson 1986). Cheap money made it hard for the Commonwealth Bank to contain inflation, and put significant pressure on the other mechanisms of demand management. A minor breakthrough was achieved with the raising of bond rates by half a per cent in July 1951 (the first increase in twenty years), but this was the response of a government under pressure to raise more capital in a flagging bond market. The government and Treasury did not relent sufficiently on interest rates until March 1956 (Schedvin 1992, p. 229ff.).

Finally, Coombs faced an uphill battle against a self-interested banking sector relentlessly trying to wind back regulation imposed by Labor. Coombs believed that a successful monetary policy apparatus required the banks to internalise central banking prescriptions as appropriate norms for private banking practice. But the major trading banks remembered their prewar power, and were emboldened by the Coalition's *laissez-faire* rhetoric when in Opposition, rhetoric that was given a

¹³ See Schedvin (1992, pp. 185, 198, 220, 246, 250, 296, 311, 322).

¹⁴ The extremely circumspect Leslie Melville, when asked by a confidant about Wilson's values, is reputed to have said that Roland Wilson 'always followed a departmental line; the interests of his department were paramount'.

¹⁵ Coombs' 1958 public lecture (Coombs 1958) is representative of his public campaign for greater understanding of his position. The lecture is a model of clarity, but couched so diplomatically that the conflicts that raged over monetary policy are glossed over.

paranoid twist by Chifley's (failed) bank nationalisation attempt in 1947. Coombs had implicit support from both Menzies and Fadden, but nobody was prepared to speak assertively for his views in parliament. The government was constantly harassed by Liberal Party backbenchers and by a virulently anti-Commonwealth Bank press, and it succumbed, little by little, to trading bank lobbying. A succession of amending Acts culminated in the 1959 legislation separating central banking (through the creation of the Reserve Bank) from the commercial activities of the Commonwealth Bank.

Coombs' defence of a composite central bank may appear quaint today, but we have merely fallen victim to a later conventional wisdom. Coombs was trying to build a central bank that was not unthinkingly modelled on the Bank of England or beholden to its values. Rather, he aimed to build a central bank appropriate to Australian conditions. He saw the central banking and commercial arms of the Commonwealth Bank as symbiotic (Schedvin 1992, pp. 160, 281). The commercial arms could also be used for regulatory purposes, including for aggregate demand management, and the central banking personnel could learn from the hands-on experience of the commercial arms. The trading banks saw only the government hiding behind regulation that privileged the earnings of the various commercial arms of the Commonwealth Bank (see fn.7). Coombs argued that the Commonwealth Bank's commercial institutions were simply out-competing a sluggish private banking sector that was indifferent to innovation.¹⁶ However, might is right, and the banks ultimately prevailed.

The above story is a record of frustrated achievement. If Coombs was 'one of the country's most influential men', at least with respect to economic policy, perhaps the idea of influence has to be reinterpreted to acknowledge the structural constraints on any individual (other than tyrants in a despotic milieu) exercising power. What about the claim of being one of the 'key architects of Australia's economic growth'? Coombs did help create the atmosphere and renovate the institutions that underpinned postwar growth, but there is much myth-making implicit in even this claim.¹⁷

¹⁶ Coombs did not have total control over the commercial dimensions of the Commonwealth Bank. The Trading Bank had, since 1953, been under the command of Alfred Armstrong, something of a 'loose cannon'. Armstrong had entrepreneurial flair, and had been instrumental (with Coombs) in changing the Commonwealth Bank's culture. However, he was not immune to testing the regulatory boundaries. Coombs would have been grateful for Armstrong's capacity for building commercial profits, but there must have been tensions in their relationship, as Armstrong was a potential embarrassment regarding relationships with the trading banks. It is not surprising that Armstrong has iconic status among the current leadership of the privatised Commonwealth Bank of Australia.

¹⁷ At the other extreme of unwarranted neglect, the Macquarie Library dictionary, *Government in Australia* (Fraser 1998), mentions Coombs only once, and manages to spell his name incorrectly.

Who won the war and built the boom?

Economists seem to think that economists ran the war machine and built the boom; they have devoted much attention to the Finance and Economic Advisory Committee, which was certainly a novel development (compare Whitwell 1986, p. 65ff.). But the committee was a small cog in a large machine. Is it not appropriate to acknowledge the crucial role of the physical planners, centred in the Departments of Munitions, War Organisation of Industry and Defence? Businessmen (Essington Lewis, Laurence Hartnett, John Storey, etcetera) worked with career public servants to transform the system for war needs. The economists of the day served these people rather than vice versa.

One can never prove causation in history. However, it is probable that the postwar boom in Australia was driven by consumers using pent-up savings; by household formation making use of new mortgage finance and consumer credit; by spending from new cash-benefit social services and war veteran services; and by governments pursuing developmental projects, in conjunction with a massive migration program. Bipartisan developmentalism was not driven by economists and its motivation transcended a purely 'full employment' objective. Domestic factors were complemented by American-driven international expansion, centred on the post-1947 Marshall Plan, military spending and private investment (belatedly complemented by World Bank lending).

The postwar boom would have happened pretty much as it happened with or without the existence of Keynes and his General Theory (Jones 1988). In the English-speaking world (other than the United States), Keynes inspired some activities and honed the conceptualisation and language of some activists, contributing legitimacy to processes already in train. But the essential contributions of governments to the boom were their developmentalist ethos and various discriminatory support mechanisms instituted at the structural level. Macroeconomic demand management, embodying the instruments of dominant interest to economists, was just the icing on the cake (Jones 1989; 1993). In Australia, macroeconomic managers such as Coombs spent most of their time trying to dampen demand, not boosting it.¹⁸ Moreover, the occasional recessions (1952–3 and 1961–2) were partly a product of inadequate private demand, but also bore the stamp of heavy-handedness from the macroeconomic managers.

¹⁸ The macroeconomics of deflation was hardly a Keynesian invention, the techniques having been used since the early 19th century.

Coombs and his environment revisited

Coombs' finest hour in the economic domain was the period 1942–48. Hugh Stretton claimed in 1984 that Coombs' generation of 'social democratic intellectuals' were a product of their enlightened education, which included exposure to 'economic theory as a reformist instrument' (Rowse 2002, p. 356). Rowse disagrees with this, and I concur with him. Most of the key people in Coombs' formal training were Classical Liberals (Shann, Lionel Robbins, Friedrich von Hayek); his key mentor, Leslie Melville, although not rigidly orthodox, was caution personified. Coombs was effectively self-taught. His mettle was forged in the fire of the depression and the war. As Rowse notes, 'there has been no equivalent professional socialising environment, within Australia, to the governmental challenges of 1930–45' (2002, p. 357). This was indeed a 'golden age' for the development of perspective and capacity, but one would hardly want to replicate the adversity.

When Coombs became Governor of the Commonwealth Bank in 1949 he effectively stepped into a backwater. There were sound reasons for his choice at the time: a highly placed position in an international agency (which he merited) would have given him much prominence but limited power, and the Sydney-based Commonwealth Bank position did allow him to salve his conscience over neglected family life. Coombs claimed that his choice reflected his key expertise and interests, but he could not have foreseen the range of difficulties that would be placed in his path.

Coombs rose to prominence in environments favourable to his talents (the Depression, the war and postwar reconstruction) and lost prominence in environments not favourable to his talents (an inadequately reconstructed peacetime bureaucracy).¹⁹

There is no doubting Coombs' commitment to progressive outcomes, symbolised by the 'full employment' objective. But how and to what extent was this commitment effected? The workings of the postwar Investment and Employment Committee (IEC) provide some insight here.²⁰ When other committee members were concerned with putting the lid on boom conditions, Coombs was fretting about the establishment of a sophisticated list of potential public works (by obtaining detailed information on large company investment plans) in case economic conditions suddenly turned sour.²¹ However, Chifley (with prompting from Treasury's Fred

¹⁹ One is reminded of the highly talented Laurence Hartnett, the automotive engineer and entrepreneur, whose persona was incongruous with the culture of post-1945 peacetime Australia (Rich 1996).

²⁰ The Investment and Employment Committee of Cabinet brought key ministers and senior bureaucrats together for exploration of the constraints on development associated with major bottlenecks—the transition to a peacetime economy, scarce commodities, etc. The IEC met until Labor lost office in December 1949. See Robinson (1986) and Jones (2003).

²¹ Coombs to Chifley, 16.1.1947. National Australia Archives (NAA), A571/150: 1946/1361.

Wheeler) was cautious in pursuing this 'dirigiste' approach. Coombs' motives are again evident during the 1961 recession, after Treasury had repressed boom conditions. Treasury preferred to maintain spending restraint to combat inflationary tendencies; its officials saw Coombs as wanting to boost the economy because employment was his first priority.²² Coombs' capacity for positive influence on the government was thus mediated by an antagonistic Treasury.

It is important to cut through the myth of Coombs' presumed pre-eminence and successful carriage of progressive values, and inquire into the context in which Coombs' influence waxed and waned. The details of an evolving economy and of the balance of forces matter. Similarly, it is important to transcend simple notions that the world experienced an intellectual and ideological conversion in 1945, with economic thought and policy transformed overnight from ignorance and vested interests to enlightenment. As vehicles for this supposed transformation, Coombs and other enlightened brethren are unduly credited with delivering an unprecedented period of economic prosperity and social harmony.

The complicated man

Understanding Coombs' influence also requires an appreciation of Coombs' persona. For example, how tough was the man? This issue matters because it may illuminate the ability of driven individuals to combat opposition. Coombs evidently had a sufficiently thick skin and enough resolve to stand up to American self-interest and to resist the belligerence of prima donnas in the cultural sector in his role as arts czar (Rowse 2002, p. 192ff.; Part 8). Later, he surmounted the labyrinthine tensions of Aboriginal politics. In his late 1960s' initiation into Aboriginal affairs, opposition to change from the State bureaucracies (the embodiment of colonial paternalism) and the federal Department of the Interior was formidable.

Yet in domestic economic policy Coombs appeared to tolerate opposition, indignities, and defeat from his bureaucratic contemporaries. Treasury officials (especially Wheeler, Watt, and Wilson) defeated his plans for bureaucratic restructuring. They inhibited his innovative ambitions to enhance the interaction between economist public servants and the academic community (Coombs 1981, p. 178). More generally, they walled in his job as central banker, as discussed above.

In particular, Wilson's behaviour towards Coombs was adversarial and often offensive rather than cooperative. Schedvin notes that 'Wilson's standard tactic was to scrutinise every proposal in the minutest detail and attack furiously if the slightest error or weakness in the argument was found. It was a thoroughly negative

²² Treasury Memo, Maurice O'Donnell to Wilson, 9.5.61. NAA, A571/138: 1960/146 Part 2.

approach ...' (Schedvin 1992, p. 296). Coombs, although dogged on principles, appears to have taken all this on the chin.²³ Accounts of bureaucratic conflict in Coombs' *Trial Balance* are absent or oblique.²⁴ Perhaps Coombs preferred to play the diplomat, rising above criticising those who thwarted his ambitions. But excessive modesty in an autobiography contributes to the distortion of events.

Intellectually, Coombs was also a contrarian. Much of Rowse's *A Reforming Life* is devoted to the tension between Coombs the technocrat (the expert who tells people how it ought to be and how it will be) and Coombs the democrat (the man who worries about his constituents and endeavours to incorporate their views into his deliberations). This is a significant dichotomy in Coombs' persona.

The democrat/technocrat dichotomy is well reflected in Coombs' shifting interest in regional planning. He was at first a supporter of 'regionalism'—decentralised socioeconomic structures nurtured by bottom-up community administration—a movement championed by John Curtin and NSW Premier William McKell. But by the end of the war, Coombs favoured the centralised technocratic structures embodied in the Commonwealth's ambitions for the Snowy Mountains Scheme (Byrne 2000, p. 85ff.).²⁵ Coombs later defended this shift, claiming that regional planning was naïve, because it 'flew in the face of the logic of the developing world economic system' (Coombs 1981, p. 65). This evaluation is overly determinist, and it gave Coombs an excuse to omit from *Trial Balance* an examination of the politics of regional development through the important transition period of the early 1950s.²⁶ The democrat in Coombs returned when, retired from the centralised system of political and bureaucratic power, he immersed himself in the cultures of Australian Aboriginal communities.

²³ Schedvin claims that Coombs was 'a conciliator rather than a protagonist', and always conscious that 'ultimately monetary policy was the government's responsibility' (Schedvin 1992, p. 311). Nethercote's claim that Coombs was not just the innocent abroad, but also an assertive politician, might indicate that Coombs was essentially out-manoeuvred by Wilson (Nethercote 2002).

²⁴ The one exception is the recounting of Wheeler's attack on Coombs' 'interference' with matters of 'exclusive Treasury concern'—in 1974, when Wheeler was Treasury Secretary (Coombs 1981, p. 318).

²⁵ Coombs' account of the politics of the Snowy Scheme is exceedingly glib, implying enthusiastic Commonwealth/State co-operation (Coombs 1981, p. 68), whereas conflict was bitter; the Commonwealth's ultimate victory over terms of development was achieved by ruthless means (Byrne 2000).

²⁶ Ironically, a regional development program (defying the 'logic' of the economic system) was being successfully administered by the Industry Division of Coombs' own department. This program involved the sale or lease of munitions and arms factories in regional or outer urban centres, contributing to sustainable industrial development outside the major metropolises.

With respect to the economic expertise of the technocrat, there are soft and hard dimensions to Coombs. Rowse argues that these dimensions add up to a coherent vision—Coombs as ‘Keynesian (or Social Democratic) economic rationalist’ (Rowse 2002, p. 3ff.). This is probably an apt characterisation. Rowse is at pains to highlight the ‘rationalist’ dimension of Coombs’ thinking, which has hitherto been neglected. This dimension was concerned with securing from the ‘political elite’ and other powerful blocs an ‘economic rationality that was socially integrative’ (Rowse 2002, p. 3ff.). In particular, this meant mutual sacrifices to ensure sustainable economic growth with minimal inflation.

The hard dimension of the technocrat in Coombs extended to a judgment on the lifestyle of others. Coombs expressed disappointment at the community’s failure to live up to his expectations. From 1950 onwards he unfailingly lamented the ‘low’ savings propensity in Australia; he was especially disappointed by consumerism as reflected in the love of the car (Coombs 1963, p. 6). He reasoned that consumerism brought low savings, which brought dependence on foreign capital inflow, which was ultimately unsustainable. After all the good work that Coombs’ generation had put in on fostering full employment, the community had responded ungratefully, by wallowing in material affluence!

The hard dimension also had wage labour in its sights. In 1944, Coombs and other authors of the 1945 White Paper, *Full Employment in Australia*,²⁷ confronted the problem of how wages could be restrained in an economy tending to full employment (Rowse 2000a). Their speculations tended to the abstract, no formal consultation occurred with the unions, and the sensitive Labor government swept the issue under the rug. Labour duly engaged in a wages push in the late 1940s, a push brought to heel primarily by the repressive conditions of the Cold War.

The rationalist technocrat was again present in Coombs’ response to the wages breakout facing Whitlam (Rowse 2002, p. 302). Coombs could sympathise with the demands of wage labour for an equitable share of the economic ‘pie’; indeed his 1974 model (with Fred Gruen) of plateau indexation was a sophisticated attempt to balance competing demands (including the repressive stance of Treasury). The 1975 wage indexation package found Coombs disappointed with both the government’s weakness and the selfishness of the Australian Council of Trade Unions.

These dilemmas may be thought endemic in a social democratic vision that wants formulaic solutions to what are probably insoluble problems. Coombs’ antennae were not very receptive to the dysfunctional class polarisations that infuse the capitalist economy. Some capitalist countries deal with the problems through

²⁷ The White Paper is reproduced in Coombs (1994).

elaborate packages of industrial restructuring and compensation, preferably deeply rooted, which facilitate broad agreement on otherwise destabilising changes. No such structures existed in Australia; this country had a history of adversarial capital-labour relations and elaborate intra-labour divisions. The arbitration system was Australia's imperfect substitute for such packages.

In general, Coombs struggled to grasp how much capitalist economies can differ from each other. He dabbled in Sweden, showing interest in the Swedish recovery from Depression and, especially, in Swedish economic thinking. His most systematic conceptualisation of difference (seen in his doctoral thesis) concerned the peculiar character of the white-settler British dominions—Australia, Canada, New Zealand, and South Africa. These countries' dependence on commodities made their export income chronically unstable, with profound implications for the robustness of their international reserves and their robustness in the face of global economic instability (Rowse 2002, p. 59ff.). Such countries needed, he believed, special macroeconomic policies, policies not derived from those considered appropriate in Britain. This perspective was important, but it dealt with reflections rather than deeper causes of national differences and the global structures that ensured their reproduction. Coombs was an innovative thinker among macroeconomists, but a problem lay in the parameters of macroeconomic thinking *per se* (Jones, 1993). In general, he was weak on the structural dimensions of capitalist economies, on the range of governmental activities at this level, and on the forces underpinning those dimensions and activities.²⁸ At international forums in the 1940s, Coombs pushed for structures that would facilitate national industrial development and refashioning of trading patterns, but it is not clear that he comprehended how these demanding processes would be effected.

Further, Coombs probably never fully appreciated the breadth and depth of the talents of his subordinates/colleagues in the Department of Post-War Reconstruction over which he presided, and on which he drew lavishly in pursuing—at higher levels—the agendas that built his reputation. He was acutely conscious of the mentality of his macroeconomist friends in the Division of Economic Policy, but he was less protective of and only intermittently attentive to the talents residing in other divisions. He probably never fully appreciated the loss of these talents when the Department of Post-War Reconstruction was abolished.²⁹ After becoming

²⁸ This weakness is reflected in Coombs' striking inability to grasp the processes by which so-called free enterprise countries such as France and Japan had achieved superior economic growth in the 1950s (Coombs 1963).

²⁹ One qualification to this claim is Coombs' acknowledgment of the atrophy of physical and regional planning after 1949 (Coombs 1981, p. 72). More generally, a significant number of the Department of Post-War Reconstruction staff were promoted to senior positions in a wide range of departments in the early 1950s. These promotions meant that their talents continued to be utilised, but the critical mass of talent focused on strategic ends was dissipated in the process.

Commonwealth Bank Governor, Coombs was exemplary in pursuing the further education of himself and his senior and research staff, but the parameters of this education narrowed. Coombs recognised the provinciality of bankers, but neglected the provinciality of macroeconomists. He would never again have access to the scope of intelligence he had had available in the Department of Post-War Reconstruction.

An example of the change in his perspective can be found in the field of specialist finance. Coombs was instrumental in nurturing the creation of a family farm lender, the Mortgage Bank Department (MBD) in 1943, and a small business lender, the Industrial Finance Department (IFD) in 1945, both as subsidiaries of the central banking arm of the Commonwealth Bank (Jones 2001). The IFD aimed to remedy one of the structural deficiencies of private banking (failure to cater to small business), and its creation was a revolutionary development in Australian finance. Yet, as Governor, Coombs abandoned his specialist ‘children’ to marginal status, in spite of the fact that the Canadian Industrial Development Bank, on which the IFD was modelled, grew dramatically while supporting massive expansion of the small business sector in Canada (Clark 1985).³⁰ This neglect involved more than the change of priorities that came as a result of his new responsibilities. The IFD had been opportunistically grown with overdraft lending and hire purchase lending. But by 1950 overdraft lending was deemed to be in competition with the trading bank³¹ and hire purchase lending was subjected to restraint for central banking policy reasons. The IFD’s intended emphasis on term loans and hands-on management assistance had been neglected. The way Coombs explains the development of the IFD in *Trial Balance* (Coombs 1981, p. 127) is oblivious to the IFD charter which Coombs himself underwrote in 1945 (Jones, 2001).

The relationship between macroeconomic aggregates and sectoral structure was of deep concern to those involved in postwar reconstruction. The awareness that post-1945 boom conditions were accompanied by severe structural imbalance consumed the attention of the Investment and Employment Committee. Committee members recognised that strictly undifferentiated macroeconomic restraint mechanisms were a dangerous option. Coombs was conscious of the structural dimension. For example, he found the notion of using a simple aggregate reserve of public works to counteract an economic downturn unsatisfactory. Coombs thought it necessary that the reserve contain ‘a sufficient balance of industrial projects’ to cater for a range of

³⁰ This neglect was belatedly rectified with the establishment of the Commonwealth Development Bank in 1960 (merging and liberating the MBD and IFD), but Coombs had no role in this development—it was a product of farmer lobbying and Country Party initiatives in government.

³¹ Alfred Armstrong, previously General Manager of the IFD, became General Manager of the Trading Bank in 1953, and proceeded to grow the latter business at the expense of the former.

types of employment.³² But he left it to others to contemplate the complexities of this idea and the idea was not pursued.

Moreover, the Commonwealth Bank had, independently, developed an attraction to qualitative controls, because of both structural imbalance and the political difficulty of flexibly applying certain macroeconomic instruments such as the bond rate and the exchange rate (Robinson 1986, Ch. 6). When Coombs became Governor of the Commonwealth Bank he continued selective advance policies, under which the banks were pressed to be selective in their support of or restraint on particular forms of lending or particular borrowers. Such selectivity was pursued intermittently into the 1960s, with specific reference to hire purchase credit and to the housing and rural sectors, but its overall effect was never subject to evaluation. Unfortunately, public comment on selective advance policy was minimal (compare Coombs 1958, p. 171), and official comment (as in Annual Reports of the Commonwealth Bank) nonexistent. Remarkably, Coombs later denied the qualitative character of advance policy, claiming that his objective was to 'develop techniques whereby the central bank worked to influence only the *total* capacity of the banks to lend and invest ...' (Coombs 1981, p. 155).

Labor's Investment and Employment Committee (IEC) never tackled the problem of macroeconomic/structural interaction adequately (Jones 2003). Coombs, being an only intermittent attendee, apparently did not absorb the technical or ideological/political reasons for that failure. Coombs was also detached, when Director General, from the detailed administration of the many controls put in place after the war (import and export controls, capital issues control, dollar budgeting, etcetera); these would have provided excellent lessons in the possibilities and difficulties of channelling resources in a capitalist market economy suffused with a liberalist ethos.

Coombs was thus conscious of structural imbalance (and of the inevitability of elected governments having structural priorities), but appeared generally both naïve regarding its treatment and indifferent to details. The structural dimension of the economy, and the need to incorporate it into an adequate conceptualisation of a macroeconomic framework, was in the 'too-hard basket', even though a variety of structural interventions and discriminatory controls that acted in concert with the macroeconomic policy apparatus were established and utilised. This conceptual weakness, on the sources of effective industrial restructuring and higher productivity, is crucial, because the capacity to implement and sustain a social democratic agenda depends upon it.

³² Coombs to Chifley, 16.1.1947. See n. 22.

This hole in Coombs' intellectual map would come home to roost when Gough Whitlam hired Coombs as adviser in 1972. Coombs' rationalism would find him a willing ally in Tariff Board Chairman Alf Rattigan's push against the reigning tariff protection apparatus. Coombs was brought into the battle with Whitlam and Rattigan against Trade and Industry Minister Jim Cairns (Rowse 2002, p. 293) and anti-Rattigan bureaucrats, and he contributed to the replacement of the Tariff Board by the Industries Assistance Commission (IAC) on Rattigan's terms. Coombs told Whitlam that Coalition governments had failed to develop a 'coherent and principled' international economic policy, making 'ad hoc choices ... in a context of conflicting economic interests and ministerial and departmental rivalries' (Rowse 2002, p. 293).

Yet Coalition policies partly reflected the failure of the international trade and financial structures to deliver the egalitarian outcomes that Coombs himself had fought for since 1943. They also partly reflected Treasury's territorial imperative, which had hampered more constructive approaches to industry development than that offered by tariff protection and rural subsidies (Jones 2002b). Moreover, 'ad hockery' is a perennial feature of the political landscape. Coombs' summary judgment of the Coalition years is that of a man detached from the political process; indeed, even detached from his own contribution to it. It is the statement of a technocrat, and one with an imperfect vision of how economic systems work.

Of course there was always the humanist struggling with the rationalist technocrat. During his years with the Commonwealth Bank, Coombs' essential humanity had to be cloaked—it was part of the price of operating in an elitist and antisocial world.³³ Coombs found Treasury's 'short sharp shock' approach to Whitlam-era problems brutal. His humanism and his rationalism are well reflected in his consummately diplomatic management of the 'razor gang' (initiated by the Treasury's ultra-rationalist John Stone), which was established to review program expenditure of previous Coalition governments (Task Force 1973). He also had humility, which led him to refuse honours.

When Coombs was in his 80s, the humanist prevailed over the technocrat. He found the economic orthodoxy of the Hawke/Keating era unappetising (Coombs 1994). Yet his moral views lacked an appropriate conceptual structure to give them authority. His formal training and his long experience were not sufficient for the problems of the 1980s and 1990s. His later writings on economic policy have a tinge of naïveté about them—this seems remarkable for a man of his experience in the corridors of power.

³³ Ted Wheelright has vivid memories of this tension in Coombs' professional life.

Lessons for current economic policy capacity from the Coombs' era

Ideally, the nation would have been best served if Coombs had been placed at the head of a peacetime replacement for the Department of Post-War Reconstruction. As early as 1944 Coombs—and staff—in the Department of Post-War Reconstruction had envisaged establishing a central office or department that would transcend Treasury's narrowness and be the home of strategic thinking on economic policy. It didn't come to pass.³⁴

The Labor government's passivity on bureaucratic restructuring after 1945 is another area that has received inadequate attention. A plausible ingredient would have to be Ben Chifley's economic conservatism (which co-existed with his radicalism regarding the banks). Chifley was Treasurer as well as Prime Minister. Chifley had too much respect for Treasury advice and for Treasury's Fred Wheeler (compare Rowse 2002, p. 160). This was a remarkable liaison, given Wheeler's lack of imagination, and dangerous, given Wheeler's dogged sense of the natural right of Treasury to bureaucratic supremacy. In the drafting of the White Paper in 1944, Wheeler led the successful Treasury opposition to the Department of Post-War Reconstruction's 'planning' instincts (Robinson 1986, Ch. 7). Wheeler, as secretary of the IEC, irresponsibly channelled and constrained its agenda (Jones 2003).

The long-term adverse effects of Labor's failure to establish a strategic economic department and to constrain Treasury to responsibilities commensurate with its bean-counting culture are of extraordinary importance to the character of later development of the Australian economy—and responsible for the government's limited nurturing of intellectual capacity regarding economic and industrial options. From the 1950s onwards, economic policy was conceived and developed from a narrower conceptual orientation and from a narrower institutional base than that intended in 1945. The rot had set in long before the end of the boom in the early 1970s.

Keynesians wring their hands about the defeat of Keynesianism and the rise of anti-Keynesian theory and ideology. However, those looking for 'what went wrong' should perhaps pay less attention to economic theory *per se* and more attention to the evolving context and balance of forces. Those seeking an alternative to the reigning 'economic rationalism' in Australia should devote more attention to the institutional structures within which economic and social policy is made and mediated. The life of Coombs as economist provides an exemplary case study in this regard.

³⁴ Coombs reiterated a version of the same vision in the recommendations of the 1974 Royal Commission on Australian Government Administration (Royal Commission 1976). This suggestion, in the form of a 'Department of Industries and the Economy', was also ignored.

Latter days

Coombs had multiple lives—especially after he retired from the Commonwealth Bank, when others might have drifted into the profitable comfort of the corporate boardroom. Coombs' last fling with officialdom was in his chairmanship of Whitlam's 1974 Royal Commission on Australian Government Administration (RCAGA). The commission's workings displayed Coombs' combination of administrative prowess and imagination (in conjunction with those of fellow commissioners and a multitude of staffers). The commission's extensive studies elucidated the workings of the contemporary Australian public service and the various demands on it. They would be the subject of close attention over later years from public servants and academics. As Nethercote notes: 'RCAGA went well beyond the conventional bounds of administrative inquiries ... there can be no doubt that under any other leadership the ambit of inquiry would have been markedly more restricted' (Nethercote 2002, p. 105).

However, the openness of the investigation generated conflicting priorities. In the words of R. N. Spann, commenting on the report's ambiguity: '[t]he administration must become flexible and responsive, as well as responsible and accountable' (Hazelhurst & Nethercote 1977, p. 79). Here is the democrat/technocrat dualism in Coombs' persona, embodied in the commission's report itself. Ultimately, the shifting winds in politics and administrative ideology may have constrained the long-term impact of the report more than did the tensions within the commission. The report possibly contributed to the introduction of forward estimates in budgetary procedures, and sowed the seed for more direct access of the Reserve Bank to the government, and for more effective delivery of some government services. But the recommendation for a new department responsible for economic policy advice was ignored, and Fraser's splitting of Treasury also ran counter to recommendation (no doubt because Fraser did not share the report's naïve optimism about changing Treasury's culture). Ultimately, the new Treasury/Finance duumvirate had the last laugh in ensuring the continuity of Treasury power. Moreover, the managerialism and new financial management style of the Hawke/Keating Labor years (and the subsequent unheralded politicisation of administration) were the product of new ideologies and a rationalist impatience; these diverged from the progressive ambience of the report, behind which was the desire to humanise the public service.

By contrast, Coombs' unusual set of skills was well suited to his late involvement with the Aboriginal community. His bureaucratic skills and political connections were combined with his capacity to inquire into the specifics of a case, and with his listening ability and his humility, to produce unexpected resolutions. The establishment of a Protected Zone in the Torres Strait in 1976 after three years of negotiations, defying the initial interests of both Whitlam and the Queensland government, is a remarkable example of the political process producing a sensible

outcome (Rowse 2002, p. 340). Using his close observation of alternative forms of integrity in Aboriginal communities (and their frailties) and his simultaneous recognition that environmentalism was rational, Coombs confronted honestly the prejudices of the training that had guided his life as a professional economist.³⁵

Coombs' ability to pursue his values had previously been constrained by an unfavourable environment. But Coombs' values as economic technocrat were themselves constraining. How much those values were a product of a conscious personal choice and how much a product of attempting to work effectively in a hostile environment is unknown, but it is plausible to infer that conscious personal choice was not insignificant. However, in the last chapter of Coombs' life, his values evolved and his capacities were powerfully combined to help mould the environment (outside the economic policy domain) for the more successful attainment of policies commensurate with his new values.

Canonisation and its perils

There is an orthodox interpretation of the postwar period: that it was a time of simple causal influences, a time when particular ideas—notably Keynesian macroeconomics—exerted a powerful influence over bureaucrats and politicians, resulting in exceptional policy success along these lines. This interpretation is not warranted, and the professional life of Nugget Coombs has been opportunistically appropriated in the construction of such stories.

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³⁵ Coombs' conception of the alternative rationalities of Aboriginal community and environmentalism is well articulated in Coombs (1989). Coombs first confronted the bias in economists' concept of 'development' in the tensions over what structures should be fostered in Papua New Guinea (Rowse 2002, p. 178).

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