

A Pioneer Keynesian?

Ross Fitzgerald, *'Red Ted': The Life of E. G. Theodore*, University of Queensland Press, Brisbane, 1994

Reviewed by Tom Valentine

Edward Granville (Ted) Theodore (1884-1950) was a noted premier of Queensland (1919-25) and a treasurer in Australia's federal Labor government in 1929-30. Interest in him persists possibly because he occupied a critical position at a time that has branded itself on the Australian psyche. The Great Depression had a lasting impact on Australian thought, particularly in the form of fears of its recurrence, and Theodore was at the centre of the debate over the appropriate policies to deal with the Depression. Another possible reason for the interest in Theodore is that his career on the national stage was short and terminated in scandal (the Mungana case). Many people (and not only those who would own up to being admirers) feel that he failed to realise his potential to contribute to Australian public life.

Recent interest could also stem from the parallels between Theodore's character and career and those of a contemporary politician, one who has achieved even higher office than did Theodore. Both of them stood for the Labor Party, but had (have) a deeply conservative streak. Theodore may have been called 'Red Ted', but as Ross Fitzgerald's discussion of his career in Queensland politics shows, he was no rabid left-winger. For example, in 1921 he opposed the socialisation plank in the Labor platform. Both politicians were first nominated for federal parliament in controversial circumstances; and both have shown an ability to accumulate wealth both in office and (so far only in the case of Theodore) after losing office.

Fitzgerald's new biography — the most complete one available — reveals many detailed aspects of Theodore's life, including its personal, but mainly its political, aspects. The exposition of the details of Labor and union politics in pre-Depression Queensland is particularly fascinating, although it leaves the lay reader (especially one from New South Wales) wondering what has changed.

As an economist who has written on the economic policies used to combat the Depression, I was very interested in Fitzgerald's discussion of Theodore's role in this process. Theodore sponsored one of the competitors in the 'Battle of the Plans' that was fought over alternative policies for dealing with the Depression. Theodore's plan involved an increase in government expenditure, a reduction in interest rates, and the maintenance of nominal wages. This plan has led to Theodore being regarded as an early Keynesian. However, Clark (1975) argues that this impression is misleading and that Theodore adopted the policy from R. F. Irvine, a defrocked academic with a good claim to be a legitimate precursor of Keynes. Clark argues that there is evidence that Theodore did not understand his own plan. It would not be surprising if this was the case. Theodore would not have been the first (or the last) politician to grab a program that he did not fully understand.

Fitzgerald rejects Clark's view, pointing out that Theodore had access to Keynes's *A Treatise on Money* (1930) and to discussions with many leading economists. He also quotes a letter from Irvine to Theodore that praises Theodore's understanding of financial policy; but this may be nothing more than the flattery that intellectuals often use on politicians in an attempt to get their ideas accepted. But Clark's view that the 'Theodore Plan' was not in line with Theodore's generally conservative approach to economic policy does seem consistent with the evidence provided by Fitzgerald; in the Queensland of 1922 Theodore supported wage reductions and a balanced budget.

The question of wages is crucial to an evaluation of the Theodore Plan. Fitzgerald appears to accept the Keynesian view that wage reductions would reduce aggregate expenditure and, therefore, employment. There are, however, offsetting influences. The econometric results and simulations reported in Valentine (1988) suggest that these influences were dominant in the Depression period, although they also suggest that increases in government expenditure would have reduced unemployment. Whether or not Theodore was a pioneer Keynesian, it appears that the Theodore Plan did not in any case represent the best mix of policies to deal with the Depression.

Fitzgerald is obviously very fond of his subject, referring to him on occasion as 'Ted' or 'EG'. Sometimes this fondness leads him to take an excessively tolerant attitude to Theodore's actions. For example, in dealing with the wealth accumulated by Theodore during his political career, Fitzgerald says:

Ted Theodore certainly knew how to make money, not by using his parliamentary office for personal gain, as the Mungana allegations claimed, but by playing the stock market. Half a world away, John Maynard Keynes had been doing the same thing during the 1920s — making money on the stock market for his Cambridge college. (p.278)

The analogy with Keynes is misleading. He was not a member of a government and his trading on markets was quite public. Fitzgerald has not documented Theodore's stock-market transactions and there remains a question over the sources of his wealth. As Fitzgerald also notes, the real reason for the payments that formed the basis of the Mungana case will probably never be known.

This book is a very good reflection of the times in which Theodore lived and of his impact on them. It is also a good read even for those who are not economic historians.

References

Clark, D. (1975), 'E. G. Theodore: His Economics and His Influence', *Economics* 10: 27-33.

Valentine, T. (1988), 'The Battle of the Plans: A Macroeconometric Model of the Interwar Economy', pp.152-72 in R. Gregory & N. Butlin (eds), *Recovery From The Depression*, Cambridge University Press, Cambridge.

Tom Valentine is Dean of Commerce and Professor of Banking and Finance at the University of Western Sydney (Nepean).