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## ECONOMICS AND POLICY

At Canberra University College, Heinz continued to teach macroeconomics. At first, he took responsibility for the Economics B course, which covered in the first term the theory of income determination and trade-cycle theory. The second term included money and banking, while the third term included international trade and international finance (some lectures on economic development were added later). But as the college gained greater autonomy from Melbourne for the courses it taught, Economics B became Economics 111; by this time, Heinz was also giving lectures in Economics 1 (the first-year economics course). He lectured as well on public finance, took some honours classes, did more than his fair share of supervising candidates for the Master of Commerce degree and taught the economics component of Manning Clark's course on Australian affairs for diplomatic cadets working in the Department of External Affairs. He was scarcely exaggerating when he told Ron Barback that he had 'rather a lot' of teaching to do during his early years at CUC.

This heavy teaching load did not, however, diminish his publication record. On the contrary, between 1951 and 1963, he wrote one book and edited another, contributed three book chapters, published 34 articles and gave three high-profile public lectures. In all, this amounted to some 42 publications, at an average of 3.5 publications a year. And that total excludes various *ad hoc* lectures and talks, regular contributions to weekly and monthly publications, commentaries for ABC radio and the unpublished work he undertook while on leave in India and Geneva.

It also omits the articles he prepared in the early 1950s for a popular Australian encyclopaedia. The publishers of the *Melbourne Herald* had purchased from the London *Daily Mail* the rights to a British encyclopaedia that had been published in the 1930s. It had to be updated and a considerable number of entries on Australia were to be added. Heinz was commissioned to write entries on economics and finance. While he subcontracted some of the work, he did the bulk of it himself and it absorbed much of the 1952–53 summer vacation. He estimated that he had revised some 40,000 words and had written from scratch 47,000 words on 120 different topics. For his pains, he duly received, as he put it, 'a fat cheque'. When he completed the work, however, he wondered

whether it had been worthwhile. To Geoffrey Serle, he lamented that he felt 'like a row of exhausted volcanoes'.

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When Heinz had arrived in Canberra he was disappointed that the Workers' Educational Association did not operate in the national capital. With others, he helped to arrange adult education classes at CUC; later the classes were to become part of the ANU's Centre for Continuing Education.

In 1953, as a result of his interest in adult education, he arranged a short series of lectures on 'The economic background to life in Australia today'. Several of his colleagues agreed to participate, with Heinz delivering lectures on banking, full employment, inflation and the balance of payments. Three years later, he organised a public seminar on 'Australia's external trade', for which he engaged several prominent speakers, among them James Meade (who was visiting the ANU from London) and Trevor Swan; Heinz summed up. In 1958, he organised a conference on Australia's import policy and the next year he arranged a public seminar on 'The developing Australian money market', to which he presented a paper with the title 'Some questions about an Australian money market'. Also in 1959, he was invited to give the prestigious ES&A Bank Lecture at the University of Queensland. His subject was 'The banks and the capital market', in which he examined the recent diversification of the Australian capital market, including the emergence of hire-purchase companies, finance companies and investment banks. Meanwhile, he continued to contribute to Allan Fraser's *Australian Observer* and, when that ceased publication, he wrote for *Voice*.

In addition to teaching, research and various outreach activities, Heinz proved a diligent administrator. Now, as the head of an academic department, he was responsible for its academic programs and staff recruitment. His colleagues in the Department of Economics included at various times throughout the 1950s Burge Cameron (who was eventually to succeed him as head of department and Dean of the Faculty of Economics), Roy Cameron, Ron Barback, Hugh Hudson, Ron Heiser, John Head, Max Neutze, Ian MacDougall, Keith Sloane, Colin Forster and John Pitchford. Slowly, the number of full-time students at CUC increased. In April 1957, Heinz told Barback, with some pride, that the college that year

had been 'remarkably transformed' by a sudden jump in the number of full-time students to about 50. A buttry, serving meals to students, had been established, the library was 'full of students working during the day' and the place was generally 'a hive of activity'.

Often he was called on to serve on the CUC council. There he made his mark by opposing the council's attempt to suspend study leave for financial reasons. He urged the council to adopt the principle that each application for leave should be treated on its merits. He also resisted an attempt by the council to have general staff sign a time book when they arrived at work, and again when they departed for the day; he thought it should be left entirely to supervisors of individual staff to make rules about such matters.

Offers occasionally came his way to take up positions at other universities, but he never seriously considered leaving CUC. In September 1954, Dick Downing informed him that he was being considered for the Sidney Myer Chair at the University of Melbourne. Heinz thought about it, prompted by the parlous financial state of the college, the uncertainty about its association with the University of Melbourne and the possibility of CUC being absorbed by the ANU. In the end, he told Downing that he had little desire to move to Melbourne.

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Before Heinz went to Canberra, he thought that one of the great benefits of working there would be the opportunity to attend seminars and participate in discussion groups at the ANU. This turned out to be the case. He quickly became a member of a group assembled by Trevor Swan, who had been appointed Professor of Economics at the ANU just a few months before Heinz's appointment at CUC. The group included all the academic economists in Canberra, together with five or six senior economists employed in the public service. In 1951, under Swan's direction, the group decided to focus its discussion on the two-volume *Surveys of Contemporary Economics* (1948) edited by Howard Ellis and Bernard Haley, a collection of essays by various authors aimed at summing up the state of the discipline at the midpoint of the twentieth century.

A member of the group was selected before each meeting to present opening comments based on a chapter from the book. When Heinz's time came to open discussion, he chose as the subject of his talk 'Interest as a

functional share of income'. He thought his introductory remarks were 'a complete flop', claiming that 'Trevor [Swan] and Horrie Brown<sup>20</sup> [had] demolished some of my arguments'. Even so, he welcomed the opportunity to discuss with his ANU colleagues and others contemporary theoretical issues on a more elevated plane than had been possible in Sydney. To Noel Butlin, he wrote that the discussion 'is on a fairly high level, with Trevor cracking the whip, and I am learning a good deal'.

As well as getting to know Swan, Brown and other economists whom Swan was assembling at ANU's Research School of Social Sciences, Heinz was able frequently to meet and talk with D.B. Copland, the ANU's Vice-Chancellor. On one occasion, Copland asked Heinz to prepare for him a paper that Copland had been invited to deliver at a conference in Brussels sponsored by the Economic League for European Cooperation, an organisation that Heinz thought was 'rather absurd'. For Heinz, another benefit of CUC's close proximity to the ANU was the opportunity to meet and talk with distinguished international visitors to Swan's department, including Meade, Balogh, Frank Paish, Donald MacDougall, Arthur Smithies, Eric Lindhal and Eric Lundberg.

Each time a new professor took up his appointment at CUC, he was obliged to present an inaugural lecture, which members of the public could attend. Heinz accepted this responsibility without hesitation. He chose 'The unimportance of money' as the title of his lecture. It highlighted the waxing and waning of monetary policy and drew extensively on the historical literature on the subject. Conforming to the dominant paradigm of the time, Heinz sought to downgrade the effectiveness of monetary policy for the purpose of short-term economic management.

It was unfortunate, however, that the lecture coincided with renewed support for monetary intervention, for on the same day that Heinz delivered his lecture, a general election was held in Britain, which was won by the Conservative Party. The new Chancellor of the Exchequer, R.A. Butler, soon announced a significant rise in interest rates, effectively ending the postwar era of cheap money. That was one embarrassment arising from the inaugural lecture. Another came from the London satirical magazine *Punch*, which, in its Charivaria column, made merry with the lecture's title and with an advertising notice announcing that entrance to the lecture was free. 'As if it mattered,' *Punch* commented (Arndt 1958:23).

Despite *Punch's* mockery, the lecture attracted considerable attention within the economics profession. Some of it was favourable and some

of it was highly critical. Heinz sent copies to a number of the world's leading economists, among them Joan Robinson and Dennis Robertson. Robinson thought it was an 'excellent inaugural lecture', informing Heinz that she agreed 'pretty much with all you say'. Her only criticism was that, while Heinz was right to support the dethroning of interest rates, he had not accorded sufficient importance to the supply of finance, especially 'in connection with problems of development'. Heinz agreed, replying to Robinson that 'the comments of others, too, have convinced me that I failed to redress the balance of my argument, after tipping it unduly one way—chiefly, for the sake of vulgar dramatic effect. That is one of the difficulties of public lectures. Even as it was, two-thirds of my audience gave up the ghost halfway through.'

Dennis Robertson, too, wrote to congratulate him on the choice of his subject, saying that he had 'read the lecture with deep interest, and—as perhaps you will expect—alternating sensations of agreement and disagreement'. He endorsed the emphasis that Heinz had directed to the see-saw importance and unimportance of money—the central theme of the lecture—but he thought Heinz had exaggerated the amplitude of the swings in each direction. A similar criticism came from Frank Mauldon, who was convinced that Heinz had overplayed the twists and turns in intellectual fashion, declaring that he hesitated 'to believe that the downfall of monetary theory and policy is as complete and permanent as you suggest'. Heinz again conceded that he had probably 'overstated the downfall of money—tempted, I fear, by a vulgar craving for dramatic effect'.

Throughout the 1940s, Heinz had strongly supported the retention of cheap money, preferring fiscal policy to monetary policy for managing aggregate demand. After the inaugural lecture, however, he began to express doubts about the efficacy of cheap money, especially as it became clear to him that the fears he had held about the probability of a postwar slump were misplaced. In 1955, he confessed to David Rowan: 'You are probably right in saying that a more active interest policy in 1949/51 would have been a good thing, though I am acutely conscious of having opposed any such policy at the time.'

Even earlier, in his correspondence with Dennis Robertson, he had admitted that while 'I still do not like Bank Rate at 4%...I am prepared to be shown that at bottom my reasons have little to do with economics and they may not, in the last resort, stand up to cool rational dissection.' When,

some years later, Heinz sent Robertson a copy of his Istanbul lectures on monetary policy, Robertson correctly detected a change in Heinz's position since the inaugural lecture. 'I think we are in closer agreement than we should have been some years ago,' Robertson wrote, 'though not perhaps very close, even now.'

Though Heinz might have softened his views somewhat on monetary policy, he was still convinced that fiscal policy should be retained as the dominant policy instrument for the management of aggregate demand. Governments, he felt, should consciously adjust taxation and expenditure policies to maintain full employment and control inflation. This belief drew him into a fierce debate with Colin Clark about the latter's contention that 25 per cent should be regarded as the upper limit of taxation on incomes. Beyond that rate, Clark had contended, incentives to work would plummet and income would consequently diminish. Clark's advocacy of a 25 per cent limit had been a direct response to the Menzies government's 'horror budget' of 1951, which sent taxes climbing, the intention being to reduce inflation and imports. Heinz had supported the tax imposts, asserting that it was better to raise taxes than to cut government expenditure on essential services. He was especially critical of those commentators—and there were many—who called for reductions in public spending without specifying the particular activities that should be cut; to him, this was intellectually irresponsible.

In a letter published in the *Sydney Morning Herald* in August 1951, Heinz challenged Clark's views, arguing that

[The] question of the effects of taxation on the incentive to produce is essentially a matter of judgement. No doubt, beyond a point, taxation of marginal income has such effects but we have no concrete knowledge of their magnitude. It was very doubtful whether taxation has hitherto been a significant contributing factor to low production and whether even substantial increases in personal income taxation would make an appreciable difference to people's willingness to work. In some cases, increases in taxation (particularly indirect taxation), by increasing the effort necessary to secure a customary living standard, may actually increase people's willingness to work (*Sydney Morning Herald*, 6/8/51).

For Heinz, the central issue for government was the impact of taxation on aggregate spending. It was 'unquestionable', he asserted, 'that the

deflationary effects of increases in taxation would far outweigh any inflationary disincentive effects of tax increases’.

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Heinz had thought that being a professor of economics in Canberra would create opportunities for him to advise government agencies and even perhaps the government itself. His interest in contemporary macroeconomic theory and policy, and the relevance of this interest to an academic appointment in economics in the national capital, had been raised during the selection process that led to his appointment. He soon discovered that the new Coalition government had no intention of calling on his expertise. When he expressed his disappointment in a letter to Gerald Firth, he identified three possible reasons for the situation. One was the fact that the Commonwealth Public Service itself now employed some of Australia’s leading economists, among them Roland Wilson, J.G. Crawford and Ronald Walker. Another was that a high proportion of the generation of economists who had graduated from universities in the 1930s—and Heinz was one—were on the left of politics, and were therefore out of tune with the current government. A third possibility was the new expectations of academics: the ‘unwritten code of academic ethics which frowns on participation in public affairs’. This code, as Heinz explained it to Gerald Firth

...is a real difficulty because I have gradually become convinced of the truth (sad as it is) of the view that keen involvement in day-to-day controversy is inimical to the spirit of scholarship and scientific enquiry.

...The fact remains that anybody who does...incurs the displeasure not only of the community which dislikes what he tells them but also of the academic profession which regards all such activities as *infra dig*.

Nevertheless, Heinz refused to obey strictly the new code. Instead, he continued to express his opinions on issues of public policy and contemporary politics, but he was never asked to advise an Australian government until Malcolm Fraser’s accession to The Lodge in 1975.

In his writing and commentaries on economic policy throughout his years at CUC, Heinz continued for the most part to express conventional 'Keynesian' views. For him, excess demand was the outstanding economic problem of these years. An active fiscal policy, assisted in a minor way perhaps by monetary policy, was necessary to reduce inflation. Not only did Australia suffer during the 1950s and early 1960s from internal imbalance, it experienced external imbalance. Again, he thought the principal reason for balance of payments pressures was excess domestic demand, though he conceded that a part of the problem was the slow growth in demand for Australia's traditional export products. Rather than clinging to import controls as a mechanism for shoring up the external accounts, Heinz advocated the replacement of controls by devaluation and supported regular adjustments to the exchange rate. It was important, he stressed, that any devaluation should be accompanied by cuts in domestic demand, otherwise the beneficial effects of devaluation would be dissipated by further inflation, thereby prolonging external imbalance rather than resolving it.

A significant aspect of Australia's problem of external imbalance was the shortage of US dollars. Heinz had devoted a good deal of his time when he was at the University of Sydney to thinking about this problem. He continued to do so in his early years at CUC. It was clearer to him now than it had been in his Sydney days that the dollar shortage derived from excess demand in countries such as Britain and Australia. In an article he sent to *The Argus* in January 1952 (though it appears not to have been published), he explained

[The] remedy to the dollar problem in Britain, Australia and other countries is identical with the well-known remedies to domestic inflation, because fundamentally both are aspects of the same problem: trying to do too much with the resources we have.

We must try to expand production, for export as well as for our own requirements. Meanwhile we must somehow or other cut down money demand (spending). And that means cutting down *either* consumer spending (by taxation or hire purchase restrictions or a brake on wage and profit increases) or civilian (business and government) spending on capital equipment for industrial expansion and development or defence spending—or a combination of all three.

During the late 1940s and early 1950s, he urged the government to adjust the exchange rate on a number of occasions. Not only did he consider that if sterling was devalued in the late 1940s (as it was) the Australian currency should depreciate against the US dollar, he believed that the Australian pound should be revalued against sterling. Among the measures he recommended in 1951, when inflation reached heights never before experienced (nor repeated since), was the revaluation of the Australian pound. In August 1951, he wrote

The reason why I suggest that an appreciation of the Australian pound should contribute to the control of inflation is that it would reduce the incomes of primary producers, on the one hand, and would reduce import prices on the other. The first effect would help in cutting down one source of external demand and the second by counteracting one source of cost inflation...[however] I would not favour appreciation unless it was accompanied by a comprehensive set of anti-inflationary measures, such as all round increases in taxation, and further credit restrictions.

Even so, while he supported an adjustable peg regime for exchange rates, and while he supported exchange-rate adjustments in certain circumstances, he refused to endorse a free market for foreign exchange. This was because governments, he thought, would not be prepared to eliminate excess demand. In these circumstances, a free exchange market would lead to a depreciation of the Australian pound, further inflation would result and soon another devaluation would be necessary.

This interest in the exchange rate led him to consider the question of convertibility of sterling currencies, including the convertibility of the Australian pound. In 1954, Leslie Melville published a controversial article in *Australian Quarterly*, in which he proposed that the Australian pound should be made immediately convertible into other currencies. Dr H.C. Coombs, the central bank governor, asked Heinz to provide him with an independent evaluation of Melville's analysis, perhaps because Melville's protégés continued to dominate the central bank's Economic Department. Heinz was impressed at first with Melville's argument, reporting to Coombs that his initial reaction 'was to wilt under the persuasive power of Melville's style'. On reflection, however, he began to see difficulties with it. Melville had argued that inconvertibility, together with trade and payments

discrimination by the Sterling Area,<sup>21</sup> was inhibiting the growth of the Australian economy. For example, there were difficulties in purchasing machines and materials in the cheapest markets, especially from the United States. Instead, Australia was forced to rely on inefficient, high-cost suppliers in the Sterling Area, particularly in the United Kingdom.

On balance, Heinz agreed that 'we should aim at the earliest practical restoration of full convertibility and elimination of the obviously restrictive forms of discrimination'. Hence, he supported Melville's general conclusion, but he disagreed with Melville's timetable. An immediate return to convertibility at the present exchange rate, he argued, would require a 'savage deflation' to preserve external balance. He agreed that some deflation was certainly warranted, since a state of over-full employment existed; prices were accelerating and there was pressure on the overseas reserves. But the degree of deflation that would be needed to achieve immediate convertibility, he concluded, would induce unacceptable levels of unemployment.

Heinz explained to Coombs that there were three ways by which Australian costs and prices could be reduced in order to achieve convertibility: deflation, devaluation and increased productivity. Melville's timetable, he believed, would require a drastic deflation: Australian industries would be 'hammered' into efficiency by 'the forces of US, German and Japanese competition'. In short, the 'gamble was too risky'. What Heinz preferred was a period of constructive preparation for convertibility. This would involve greater discipline regarding domestic policy, whereby appropriate fiscal and monetary policy would serve to eliminate inflationary pressures. Heinz also favoured promulgating a drive to enhance productivity, with priority given to investment over consumption, and he hoped that special efforts would be made to attract international capital into Australia on reasonable terms. Above all, a suitable date should be chosen for a devaluation of the Australian currency and a program devised for the gradual relaxation of discrimination and inconvertibility.

In the event, there was no immediate convertibility of sterling, or of the Australian pound. Rather, the finance ministers of Sterling Area countries set in place a gradual program aimed at restoring convertibility. This was exactly what Heinz had recommended to Coombs, though the actual timetable for convertibility had nothing to do with Heinz's advice. Full convertibility of the leading Sterling Area currencies was finally achieved by the end of the 1950s.

While it is true that Heinz was never asked to furnish advice to the government or its agencies before the 1970s, he was one of the senior economists from Australian universities who met regularly throughout the 1950s and early 1960s to advise the Governor of the Commonwealth Bank (later the Reserve Bank). The group generally met twice a year, though later the meetings were reduced to once a year. Each meeting initially occupied a day and a half and its purpose was to provide Coombs with independent advice about the state of the Australian economy and an assessment of current policy. Such advice, Coombs believed, would be particularly useful in his battles with the Treasury and its formidable head, Roland Wilson.

On the first day of these meetings, discussion tended to range widely over trends and events, in Australia and overseas. After dinner, it usually fell to Heinz to retire early to his hotel room to write up the major conclusions of the discussion. This task he happily accepted, though it often meant that he had to work into the small hours of the morning. On some occasions he would invite one or more of his colleagues to assist him. His summary would then lead to further discussion during the morning of the second day. In later years, one of the group would usually be invited, before the meeting, to prepare a paper surveying the state of the Australian economy. It would be circulated prior to the meeting and would form the basis of discussion. The paper would then be amended in the light of comments. After further revision and polishing, each paper was published in the *Economic Record*, as part of its famous 'Survey of the Australian economy' series.

These meetings were abandoned in the mid 1960s, when the number of professors of economics in Australian universities began to rise and it thus became invidious to invite some but not others. There was another reason why the meetings were terminated. The Treasury—and in particular Wilson, who was a member of the bank's board—had become increasingly suspicious about the purpose and nature of the meetings. The problem reached its apogee in the early 1960s, when Coombs on several occasions had the temerity to invite senior members of the Department of Trade to participate in the discussions. Why, Wilson wanted to know, was the Department of Trade represented at these meetings, which were meant to involve university economists, when the Treasury was not?

At any rate, the meetings, while they lasted, allowed Heinz to express his views on economic policy to the nation's senior central bankers. They also gave him special access to information about economic conditions in Australia and overseas.

It is unclear whether the views he expressed at the meetings had any long-term impact on government thinking. There was, however, one occasion when, in concert with other university economists, Heinz appears to have had just such an impact. In 1956, he signed the so-called 'Economists' Manifesto', a document drafted largely by Peter Karmel at the University of Adelaide. Published in April 1956 and entitled 'The Outlook for the Australian economy', its aim was to put pressure on the government to introduce measures aimed at curtailing domestic demand at a time of rising prices and imports. The government had tried to do something about these problems during the previous year, though in a rather half-hearted manner. In September 1955, Heinz reported to Balogh in Oxford: 'Economic affairs have suddenly leapt into the headlines here. Menzies is due to report in Parliament tonight on his get-togethers and gentlemen's agreements of the past fortnight and announce his Government's policy which, inadequate as it is, will be attacked for diametrically wrong reasons by Evatt.'

But the government failed to act in a decisive way. As economic conditions deteriorated into 1956, Karmel decided to produce what became the Economists' Manifesto. This called on the government to introduce measures to combat inflation and restore balance-of-payments stability. Karmel secured the signatures of eight of Australia's leading economists: Arndt, Black, Cochran, Downing, Firth, Prest, Swan and himself.

Heinz, and several of the others, had been arguing for some months that the government needed to increase taxation (so as to constrain spending on consumption) and to tighten monetary policy for the purpose of dissuading private investment (which had increased by 25 per cent in the previous two years). Demand had begun to spill over onto imports; import controls had been tightened, but the economists contended that this was dealing with a symptom, rather than with the problem itself. As government investment spending had not been rising rapidly, and because there was a desperate need to implement various infrastructure projects, the document opposed cuts in government spending. It also dismissed direct controls as a solution for excess demand. 'While some of us might favour resort to direct controls as [being] more effective and discriminatory than over-all monetary measures', the manifesto concluded that 'the climate of political opinion and constitutional obstacles make it highly unlikely that direct controls would in fact be introduced. In these circumstances, advocacy of direct controls is, in effect, a do-nothing policy.'

The immediate reaction to the call to reduce aggregate demand, principally by raising taxes and interest rates, was largely negative. Perhaps the best summary of the hostility the manifesto aroused came from the Sydney evening tabloid the *Daily Mirror*, which dismissed the economists' analysis and policy proposals by thundering that the 'theorists are at it again', and recommended that 'no one should take the slightest notice of them' (*Daily Mirror*, 1/2/56). Heinz was disgusted with this response and informed Barback

None of the papers printed it [the manifesto] in full (except the [*Australian*] *Financial Review*) but they did print a spate of virulently or condescendingly hostile editorial comment and columns of solicited attacks by lobbyists, taxpayers' bodies, etc. In the more respectable papers, there ensued quite a lot of correspondence (almost all of it critical of us, except our own contributions to it), a long and vicious article specially written for the Sydney *Daily Mirror* by Colin Clark (saying among other things that all public works in Australia, other than those for agriculture, power and transport, ought to be completely eliminated), cartoons (about the 'woolly-headed' theorists), much comment in *Hansard*, etc.

Despite the unsympathetic public reaction, there was a significant outcome to the manifesto. The Prime Minister appointed a committee to advise the government on what it should do; the committee comprised Wilson, Coombs, Melville and Swan, with four businessmen to balance the four economists. It reported to the economic committee of Cabinet, which in turn reported to the full Cabinet. The result was that all the proposals in the Economists' Manifesto were hurriedly introduced, except, as Heinz put it, 'the not unimportant one that personal income tax has not been raised, so that the taxes actually imposed are, by and large, very regressive, particularly the additional excise duties on beer and tobacco and also petrol'. Evatt's reaction to the government's measures, Heinz was quick to note, 'has been as irresponsible as usual'. In fact, it was Evatt's response, economically illiterate and politically opportunistic, that led Heinz to comment in his Chifley Lecture a few months after the government's supplementary budget: 'It is high time Labor took the problem of inflation as seriously as it has always taken the problems of deflation and unemployment.'

When the next surge in prices and imports began in 1960, Heinz sought once more to persuade the government that it should take appropriate fiscal and monetary measures to deflate aggregate demand. In February, he sent a letter to *The Canberra Times*, in which he asserted that the Commonwealth should seek constitutional powers to control prices. His point was that such controls should be used to restrain monopolies, not to suppress inflation. To control inflation, he argued that the 'all-embracing system of controls that would be needed would involve great administrative difficulties. While price control could be used to squeeze profits, it could not keep the price level stable if the level of wage costs were allowed to rise significantly faster than productivity' (*Canberra Times*, 22/2/60).

Instead of favouring price controls, Heinz remained adamant that the 'answer to price inflation is a budget and monetary policy which prevents the level of spending from outrunning available supplies of goods and services.' And rather than adjusting wages for cost-of-living increases—which would simply increase prices still further—he argued that the growth of wages should be confined to the growth of productivity. He tried to enlist Karmel in another economists' manifesto, but Karmel declined. He then consulted Coombs, Swan and Horrie Brown, telling Karmel that Coombs 'seemed sympathetic to the idea of another economists' manifesto'. Swan had reservations, though he was not opposed to it providing he did not have to do any work, while Brown 'was very abusive indeed'.

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Heinz's most important single publication during the 1950s was his book *The Australian Trading Banks*, which appeared in 1957. He had thought about writing a substantial work on the Australian capital market ever since he began to lecture on money and banking at Sydney University in the mid 1940s. In the event, the book covered only a part of the capital market, but he managed to publish several articles on other aspects of the capital market before and after the book was published. One of these was an article with Philip Shrapnel, one of his postgraduate students, on consumer credit in Australia; another article covered the Australian bond market.

The earliest reference in Heinz's papers to what eventually became *The Australian Trading Banks* was a note of November 1952 headed 'Framework for a study of the capital market'. This was an outline of a proposed investigation of Australian capital markets, the stated objective

being 'to present a national picture of all significant aggregates of lending and borrowing transactions which accompany the process of production, distribution and disposal of national income'.

More specifically, the idea was to start with consumer credit, and since there was very limited information about that, he decided to construct a questionnaire to elicit the information himself. The results, however, were disappointing. He mentioned to Roy Cameron in October 1952 that, as a result of a shortage of data, he would have to rely 'on rather roundabout and precarious procedures. What I will do next, I do not quite know yet.' He thought he might try to obtain a direct estimate of the sources of lendable funds, including personal and other saving. In December 1952, he wrote again to Roy Cameron

I am now contemplating, as a further instalment of the projected long-term study of the Australian capital market, a sort of annual series of aggregate balance sheets for the economy as a whole, as a framework for an estimate of credit transactions. I am interested in working out the principle of the thing even though it will obviously be impossible to fill more than a small proportion of the squares of the matrix.

Heinz made little headway with the project before he left for the United States at the end of 1953, and by the time he returned to Australia in the middle of 1954 he still had not achieved much towards it. By the end of that year he decided that he would have to put his head down and make a strong effort to finish the project. In December, he wrote to Gordon Bruns, at the ANZ Bank: 'I am hoping to get on with the main work now, which is intended to be a fairly comprehensive work on the Australian financial system and capital market.' At much the same time, he was informing Roy Cameron that he had 'made some effort, since my return, to get down to work on the long projected book on the Australian financial system, but the distractions are numerous'. These distractions included a talk he gave to the Canberra branch of the Economic Society on the development of the American South; the preparation of a course of lectures on public finance (which he shared with Burge Cameron); the reply to Melville's article on convertibility; a note on balance-of-payments equilibrium for the *Economic Record*; a paper for the Australian Institute of Political Science Summer School in January 1955; and work on a paper on 'Immigration and the post-war economy', which he hoped to deliver at a conference of

the International Economic Association in August. In February 1955, he announced to Barback: 'I have been going on with my work on the capital market and am now in the throes of bringing together some information on the trading banks. A visit each to Sydney and Melbourne has been very fruitful in that direction.'

In an effort to hasten the work, he successfully applied in 1955 for a Social Science Research Council (SSRC) research grant. Originally, he intended to have another try at working with a research assistant, but he failed to find one with the necessary experience and qualifications; consequently, he decided to return the grant. He had stated in the grant application that his aim was to undertake a 'comprehensive descriptive and analytical study of the present-day financial system of Australia, to serve as a textbook for students and for the interested public'. Despite the research assistant's absence, Alan Hall, Heinz's former pupil at Sydney and now a member of Trevor Swan's department, agreed to collaborate with him in preparing those sections of the book that would deal with the new issues market.

On a Melbourne visit in May 1955, Heinz met Dr Andrew Fabinyi, the head of the publishing firm F.W. Cheshire. During the meeting, Fabinyi asked him whether he had a book in progress that Cheshire might consider publishing. When Heinz returned to Canberra, he considered Fabinyi's question and wondered whether he would ever complete the planned work on the Australian capital market. He had just finished a major section covering the foreign exchange business of the trading banks. The material was so extensive that he came to the conclusion that he could produce a book devoted solely to the trading banks. He wrote to Fabinyi asking whether Cheshire might be interested in publishing such a book. Nothing comprehensive, he pointed out, had been written about the Australian banking system since the Royal Commission of 1936–37. He thought the book he had in mind could be completed in about 12 months and he was confident that it would attract a wide market, including bankers, students and the general public.

In the wake of this proposal, Heinz informed Fabinyi that he had a second book for Cheshire to consider: a book of essays on aspects of Australian economic policy. Some of them had already been published as articles in *Voice* and the *Australian Observer*, but a few were entirely new. Altogether, Heinz listed 13 essays and sent them to Fabinyi, admitting that this volume would probably not attract as large a readership as the book on the banks. Fabinyi was impressed with the essays, thinking that they

constituted 'a more humanistic and more civilized approach to the subject than I have come across in such reading of economics as I have done'. He did not think that such a book would be commercially successful and predicted that if it ever made it into print, it would sell fewer than 1,500 copies. Heinz was disappointed with this response, though it came as 'hardly a surprise'. 'The problem of teaching economics without tears,' he admitted, 'has yet to be solved.'

It was an entirely different matter, however, with the book on the trading banks. Fabinyi was enthusiastic from the start. Once the decision had been made to publish the book, Heinz worked on it at a furious pace. He had the first draft completed by October 1956, telling Barback that he had 'put everything else aside'. The contract was signed on 7 March 1957, with Firth and Karmel writing endorsements and guaranteeing the publisher that they would recommend the book to students as a text for courses at the Universities of Tasmania and Adelaide. Heinz corrected galley proofs at the end of May and the book was published in September 1957. In subsequent editions, Heinz enlisted co-authors, including C.P. Harris, D.W. Stammer and W.J. Blackert.<sup>22</sup>

There were yet other books that Heinz worked on during his years at CUC. A year before the publication of *The Australian Trading Banks*, he had conceived a plan to write a book on Australian economic growth since 1920. The draft of an unaddressed letter, dated 1956, included an outline of the book, which he predicted would take about a year to complete and would be based on existing data, published or unpublished. He sent around Australia, in November 1956, another letter that referred to this book; recipients were asked for assistance with relevant data. There were a number of responses and their authors showed considerable interest, but there is no evidence that anything was actually written.

In 1960, Heinz put together yet another book of essays, entitled *Essays in the Economics of Labor*. He sent the manuscript to Cheshire, informing Fabinyi

You may have noticed Mr Calwell's recent attack [Calwell took over, that year, from Evatt as Federal Opposition Leader] on intellectuals in the Labor Party, and on John Button and me in particular. I confess I am unrepentant. I still believe that there is a need for intellectuals in the Labor Party and more need than ever now for the few Labor intellectuals there are to speak up and try to educate the Party...I have attempted to do so from time to time.

The collection of essays—headed by the Chifley Lecture—was meant to enlighten members and supporters of the ALP, though Heinz aimed also to educate the general public. Fabinyi agreed with Heinz that there was a desperate need to reform the Labor Party, but he considered that what was required was an entirely new basis of attack, not the regurgitation of past criticism. He concluded that the publication of Heinz's essays would attract few sales and would incur a substantial loss to the publishers. 'I am not entirely satisfied that the publication of these essays,' Fabinyi told Heinz, 'while bringing together very valuable material into a handy volume, would really assist in those major problems in which you and most of us at present are concerned.'

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A distraction that faced Heinz and his colleagues at CUC for much of the 1950s was the question of whether the college should become an autonomous University of Canberra, or amalgamate with the ANU. The act that had established the ANU provided for the possibility of some form of incorporation, by the ANU, of CUC. Copland, the ANU's Vice-Chancellor, had refused to contemplate any such thing until the ANU had reached the stage where it could be confident of its own future. The University of Melbourne, however, was pressing to terminate its association with CUC. It informed the Commonwealth government of its intention to do so, but agreed to maintain its links on a short-term basis until CUC became either an independent university or joined the ANU.

These were the two options that faced CUC in the mid 1950s. Opinion in the ANU and CUC was divided on which option to take. Those at the ANU who opposed incorporation seemed to have the upper hand, while those in CUC who wanted an independent University of Canberra appeared to be in the majority. In the event, the Prime Minister (under pressure from members of his government, who saw little sense in having two universities in a city of fewer than 100,000 residents) decided that the two institutions should merge. This meant, in effect, that the ANU should incorporate CUC.

Heinz at first declined to enter the debate, though (as has been noted earlier) he was a member of the CUC council for brief intervals throughout the controversy. He found himself being drawn into it, however, through his friendship with *Sydney Morning Herald* editor, John Douglas Pringle; the two men had been undergraduate students together at Lincoln College in the 1930s. In April 1953, Pringle mentioned to Heinz that the *Herald*

intended to support amalgamation in a leading article. Pringle believed amalgamation would 'meet a very urgent need for more universities and might perhaps save the National University from complete futility'. He urged Heinz to write a draft editorial setting out a case for amalgamation, which Heinz agreed to do. When Pringle read it, however, he thought it was unsuitable to be published on the paper's leader page. He suggested instead that Heinz might write a joint letter signed by those of his CUC colleagues who supported amalgamation, with the *Sydney Morning Herald* endorsing the letter in a small article in the same issue of the paper.

Heinz demurred and informed Pringle: 'It would look too obviously like an attempt by College staff to put pressure on the Government. Besides, it is always difficult to get a group of academics to agree completely on the draft of a joint letter.' He let Pringle know that if the *Sydney Morning Herald* wanted to publish a version of the original article that Heinz had sent him, Joe Burton, the Principal of CUC, would be happy to write it. Pringle opposed this idea and preferred that one of his own reporters do the revision. Burton, however, went ahead and rewrote Heinz's article, sending it instead to the *Age* under his name.

In 1954, while Heinz was in America, Burton wrote informing him of the impending battle over what would happen to CUC. Burton mentioned that a cabinet submission by the Minister for the Interior, whose department literally ran Canberra, had prompted discussion about CUC's future. Some of the details of the submission had been leaked, including a proposal to give CUC the status of an autonomous degree-conferring university. This led the ANU's academic board, the Board of Graduate Studies, to recommend as a matter of urgency that the ANU should consider the incorporation of the college in the near future. The recommendation then went to the ANU council, which decided that it should not make an immediate decision, but which agreed, instead, to accept the recommendation of the Vice-Chancellor (now Leslie Melville) that a working party of four people from each institution should examine the question and report back to a future meeting.

Burton told Heinz that he had 'little doubt that the ANU will be prepared to incorporate us before our present association with Melbourne runs out in 1956', adding: 'The question of the nature, however, is still a thorny one to be overcome.'

The Board of Graduate Studies then decided to vote against incorporation. This decision, together with negative comments about CUC, its staff and students by a number of leading ANU academics,

including Sir Mark Oliphant and two economists, Trevor Swan and Noel Butlin, led Heinz to change his mind about incorporation. He wrote to Roy Cameron in December 1955: 'there is nothing but trouble on the "ANU Incorporation" front; at the ANU there is much opposition to any association with the College, numerous different factions each having its megalomaniac reasons, and there is some danger that we shall be pushed into another renewal of the association with Melbourne—till 1960!'

In March 1956, he wrote to Barback: 'No progress at all on the ANU amalgamation front. The ANU Council was to have considered the matter at its March meeting, but never put it on its agenda; it will now have to wait till the May meeting. Meanwhile our Council will probably have to ask Melbourne for a further extension. It is a frightful mess.'

As a CUC council member (having replaced Manning Clark, who was on leave in Oxford), Heinz wrote to Clark in April 1956: 'The whole business is so exasperating that one cannot sustain the same degree of anger month after month...I am finding my membership of the Council quite the most disagreeable job I have had to take on in my ten years in Australia.'

He decided to switch sides. Henceforth, he supported those in CUC who wanted to see it become an independent University of Canberra, catering to the needs of an expanding city and its surrounding region. Nonetheless, he never became a vociferous campaigner for this view.

The CUC council recommended to the government that the college be granted independent status as the University of Canberra, but the request was held over, pending the report by a committee chaired by Sir Keith Murray,<sup>23</sup> which the government had established to review the Australian universities. Heinz knew Murray well because Murray, like Pringle, had been at Lincoln College. Heinz was appointed to the team that drafted CUC's submission to the Murray Committee.

This submission set out the case for the college becoming an autonomous University of Canberra. Heinz appears to have been confident that Murray would support autonomy, since he wrote to E.F. Penrose,<sup>24</sup> mentioning

...the endless committee meetings and other activities connected with the impending grant of autonomy to our College. The Murray Committee looked into the matter and there is to be another meeting next week, chaired by the Prime Minister, to decide whether the College is to be given independent university status or in some way associated with the National University. After all that has happened, we now all favour the former course.

The Murray Committee, however, saw merit in the argument that Canberra should have only one university, though it did not go as far as to recommend incorporation. In any case, the government decided that Canberra could not justify two independent universities.

When Menzies forced the issue—the so-called shotgun marriage between the two institutions<sup>25</sup>—and demanded that the ANU and CUC come up with a plan for an ANU–CUC ‘association’ over the summer of 1959–60, several CUC staff members publicly opposed the government’s decision, but Heinz was not among them. When the association took place in September 1960, he was on leave in Geneva and took no part in the administrative procedures for the ANU’s takeover. After he returned to Canberra 12 months later, he expressed disquiet about some aspects of the association with the ANU, though his general irritability probably owed more to the difficulties he faced in coming to grips with life in Australia after the excitement of working with the United Nations Economic Commission for Europe than to the new university that had been created while he was away.

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The seemingly interminable rows over association were not the only problems that Heinz had to endure when he was at CUC. Another was the poor quality of its students. Though the number of full-time students direct from school was slowly increasing, most students continued to be part-timers, who worked in the public service during the day and attended classes after work. Many of Heinz’s friends had predicted that he would not find the students at CUC to be of the same calibre as those whom he had taught in Sydney, yet there were exceptions. One was Chris Higgins, who was to become the head of the Commonwealth Treasury. There were also the diplomatic cadets. Most of them had taken first-class honours degrees at Australian universities and some had been Rhodes Scholars. Heinz found teaching them a bonus, compensating to some degree for the difficulties he experienced with most of the undergraduates.

One student, not his own, to whom Heinz provided considerable advice and assistance, and who later received the Nobel Prize in economics (with John Nash, whose life was featured in the Academy Award winning film *A Beautiful Mind*), was John C. Harsanyi. When Heinz first met him, Harsanyi, a refugee from Hungary, was embarking on a master’s degree at the University of Sydney. Hermann Black had encouraged him to contact Heinz for advice about his research. Harsanyi explained to Heinz the rudiments

of game theory and Heinz in turn suggested that Harsanyi might consider applying game theory to the Australian arbitration system as a case study. Harsanyi agreed, making it the topic of his master's degree, which was the first empirical application of game theory in Australia. Harsanyi later asked Heinz to support his application for a Rockefeller Fellowship, to undertake doctoral studies at Stanford under Kenneth Arrow's supervision. Heinz wrote that Harsanyi 'shows as much promise as any of the younger economists in this country of making original contributions to this field of economic theory', highlighting the fact that he was the only person in Australia taking serious interest in the theory of games and its application to economics. He was particularly happy that Harsanyi had chosen to undertake his doctorate at Stanford because, as Heinz wrote, 'I do not think that any other American University I saw [in 1954] appealed to me so much.'

Harsanyi first met Heinz when visiting Canberra in 1955, not long before leaving for Stanford. Once in the United States, Harsanyi sent Heinz copies of his papers that had been accepted for publication in the *Journal of Political Economy* and *Econometrica*, including his classic article on 'The bargaining problem'. Of these papers, Heinz commented

I am like a new-born lamb in the Theory of Games...any inexpert comments of mine, therefore, are unlikely to be of much use to you... The points you make seem to me valid and useful, though I can never resist the feeling that, in this present state of development, the theory of games employs an enormous opportunity for the solution of the problem which common sense can handle without much difficulty.

The two men continued their correspondence after Harsanyi returned from America to join the Department of External Studies at the University of Queensland. Heinz wrote to him in 1957 to congratulate him on having successfully finished his doctorate

I am having a messy year, doing all sorts of odd jobs I have let myself in for. My book on the Australian Trading Banks is coming out this week. But my next project, a similar book on the Finance of Public Investment in Australia, on which I worked during the past vacation, has had to be put aside ever since. A paper on overseas post-war investment in Australia is coming out in the next *Record*, one on 'The Dangers of Big Business'...[and] the Consumption Function which you have seen; it is my turn to write the next survey article for the *Record*; and so on. A good deal of time has also been taken up by preparations for and meetings with the  
192 Murray Committee on the Australian Universities.

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When he completed his book on the trading banks, Heinz began to direct his attention to the Australian public sector. He commenced a major project on the financing of public investment, informing E.F. Penrose in January 1958 that he had started work 'on the next instalment of my studies of the Australian capital market. It is to cover all those aspects concerned with the public authority sector as a borrower, the finance of public investment, national debt management, etc.' In August 1957, he read a paper to the NSW branch of the Economic Society; this was the 'Dangers of big business' lecture, which he had cited in his letter to Harsanyi. 'If big business has come to stay,' he observed in this paper, 'I prefer it to be publicly controlled and in some though not all cases publicly owned. The experience of TAA and ANA shows that public enterprise need not be less efficient [than private sector enterprises].'

In 1959, he opposed the government's plan to create a separate central bank—the Reserve Bank—by separating the Commonwealth Bank's commercial activities from its central banking functions. He was 'convinced that the case for reform is not strong enough to warrant arousing political controversy, and diverting attention from more important aspects of monetary and economic policy'. The experience since the war of dealing with inflation had demonstrated to him how the Commonwealth Bank could apply its policy of curtailing inflation by leaning on its commercial activities, thereby limiting the process of credit creation. Although '[t]here is a case for [bank] separation', he said

...there is also a case for the present system. It is very doubtful whether the proposed reform would, on balance, be in the national interest, even if it could be effected quickly without legislation. The case against arousing new political controversy over banking, taking up parliamentary time, and diverting the time of ministers and their expert advisers from more important matters for so doubtful a gain seems to me overwhelming.

This was a reasonable point for Heinz to make. Australian economists, including the Governor of the Commonwealth Bank (H.C. Coombs), generally did not support the creation of a separate central bank. Rather, the support came for the most part from private bankers, who believed that as a competitor to the private banks, the Commonwealth Bank possessed an unfair advantage by being both a commercial bank and the central bank.

While Heinz opposed the separation of the central banking functions from the commercial trading and savings bank activities of the Commonwealth Bank, he did support the creation of a new Commonwealth Development Bank. He urged Arthur Calwell to include the idea in Labor's program for the 1961 election. Such a government-owned bank, Heinz thought, would be useful as a means of channelling private savings into strategic areas of the economy. He cautioned, however, that such a proposal should be expressed in a form that would not 'arouse the wrath of financiers and others'.

By the end of the 1950s, Heinz was starting to re-examine some of his long-held beliefs on economic theory. One was the question of free trade and protection. He had never been an advocate of free trade. In fact, he thought it eminently possible to justify protection on various grounds, particularly as a means of creating and preserving employment. He was sceptical of theoretical arguments for free trade, believing the assumptions on which such arguments were based were unrealistic.

Nevertheless, he began to rethink his position after reading a paper that Max Corden (his eventual successor as head of the Department of Economics in the Research School of Pacific Studies at ANU) had presented to the ANZAAS conference in 1958. He contacted Corden to congratulate him on his paper, judging it to be 'one of the best applications of theoretical reasoning to an important policy problem I have ever seen'. 'As you know,' Heinz wrote

...my prejudices make me less partial to reliance on the price mechanism than your paper suggests I should be. I have always felt uncomfortable about the smug assumption of free trade theorists that, if all the rest of the world is protectionist, it must be that all the rest of the world consists of fools and knaves. Yet I am not sure that I can really pick any substantial holes in your argument. I am almost entirely carried away by the persuasiveness of your concluding recommendations.

Heinz was about to embark on an extended visit to India, a country where the ideology of protection was rampant. Helped by Corden's theoretical analysis, and witnessing with his own eyes the ill effects of protection on the Indian economy, Heinz was now ready to bring into greater alignment his long-established antagonism to controls and his revisionism towards protection and trade policy.