

Sir Leslie Melville: His Contribution to Central Banking in Australia¹

The following is the text of the Inaugural Sir Leslie Melville Lecture delivered by the Governor, Mr IJ Macfarlane, at the Australian National University, Canberra on 22 March 2002.

I would like to start by thanking the Vice-Chancellor – Ian Chubb – for inviting me to give this address. We at the Reserve Bank were wondering what we could do to commemorate Sir Leslie Melville's centenary, so the invitation now gives the two institutions – the Reserve Bank and the Australian National University – the opportunity to pay tribute jointly to Sir Leslie in his home city, and most importantly in his presence.

My address today will not be a biography of Sir Leslie because there are already several excellent biographical essays available and, I am pleased to say, a full-length book is currently being written.² Instead, I hope this address will be seen as a general celebration of Sir Leslie Melville's contribution to public life in Australia and a vote of thanks from his successors for his outstanding and under-appreciated achievements. But, notwithstanding this intention, a very brief biographical sketch should help to set the scene.

Sir Leslie Melville was born on 26 March 1902, studied economics at Sydney University (while also studying as an actuary), and obtained his first job in 1924 as Public Actuary for South Australia. In 1929, aged twenty-seven, he was appointed Inaugural Professor of Economics at Adelaide University. In March 1931, he was appointed as the Economist to the Commonwealth Bank, a position he held until 1950 when he became Australia's Executive Director at the International Monetary Fund and World Bank. During his central banking years he was a prolific writer on economic matters, both academic and practical, and contributed significantly to economic debate in Australia and overseas. In 1953, he left the Commonwealth Bank to take up an appointment as Vice-Chancellor of the Australian National University. In 1960, he was appointed Chairman of the Tariff Board, but resigned after two years due to disagreements with the Minister for Trade, John McEwen. He subsequently served as Chairman of the Commonwealth Grants Commission for eight years until the early 1980's. In the 1950's, 60's and 70's he also served three different terms as a Board Member of the Commonwealth, and later Reserve Bank.

1. I would like to thank Guy Debelles for his assistance with the speech, Virginia Macdonald and Allan Seymour for archival material (all of the Reserve Bank) and Selwyn Cornish of the Australian National University for his writings and his advice.
2. See Cornish (1993) and (1999) for essays. Cornish is also writing the biography.

In assessing Sir Leslie's contribution to Australian public life, pride of place must inevitably be given to his contribution to central banking. He was wholly occupied with this from the age of twenty-nine till his early fifties, and if we add in his years as a board member, he has an association with central banking stretching over forty-five years. I think the Vice-Chancellor recognised the centrality of this aspect of Sir Leslie's life by choosing me to be the speaker here today, so it will figure prominently in the remainder of my address. I have another motive for doing so because I want to use Sir Leslie's career to help answer a difficult question – how old is central banking in Australia? This is something that has perplexed us at the Reserve Bank, and has not been definitively answered by the several economic historians that have covered the field.

In a strictly formal sense, the present Reserve Bank is the continuing legal entity that survives from the old Commonwealth Bank set up in 1912. It would be tempting, then, to claim that central banking started at that time and the central bank is ninety years old. Unfortunately, the original Commonwealth Bank was a savings and trading bank with no central banking responsibilities, and so this legal continuity argument will not lead us to the right answer. At the other extreme we could say that, since the Reserve Bank as a separate organisation only dates from 1960, at the time of the separation of the Commonwealth Bank, central banking is only forty-two years old. Clearly this is also false – the start of central banking clearly pre-dates separation as is evidenced by, among many other things, Professor Giblin's book *The Growth of a Central Bank*, which was published in 1951.³

So at what date between 1912 and 1960 did the old Commonwealth Bank start to engage in what we would clearly define as central banking functions? There are two candidates that can be put forward as the correct date. The first is 1924, when the Commonwealth

Bank took over the note issue function (clearly a central banking activity) from the Notes Board, who had in turn taken it over from Treasury. The second is around 1930, when the Commonwealth Bank became an important player in economic policy debates (in this case debates about the exchange rate). If we are to rely on Professor Giblin, who wrote the definitive history of the subject which I cited above, it is this latter date which marks the start of true central banking in Australia. And, of course, it was at about this date that a twenty-nine year old Leslie Melville joined the Commonwealth Bank. The history of central banking in Australia and the history of Sir Leslie Melville are therefore largely coterminous. If you read through the correspondence files in the archives of the Reserve Bank in the thirties and forties you could be forgiven for thinking that Melville *was* the central bank. I will say more of that later.

The world was very different when Melville joined the Commonwealth Bank. To the best of my knowledge, he was the first economist that they had ever employed, and I believe the first economist to be employed full-time anywhere in the Australian public sector. In those days the central bank was composed entirely of bankers, and the Treasury entirely of accountants. There were good economists in Australia at the time – Giblin, Copland, Shann, Mills etc but they were largely confined to the universities. The exception was when Sir Alfred Davidson appointed Shann to advise the Bank of New South Wales in 1930, a few months before Melville was appointed to the Commonwealth Bank.⁴ The Commonwealth Bank had resisted appointing an economist for several years despite the urgings of the Bank of England to do so. The fact that it finally felt the need to do so, and to such an important position, adds weight to the view that this point in time, or somewhere near it, should be viewed as the start of professional central banking in Australia.

3. Giblin (1951).

4. Appleyard and Schedvin (1988).

And what a time for Melville to be thrown into the fray. The depression had started, the Australian pound had depreciated against sterling and there was intense public debate on economic matters. Melville had already played an important and public role in these debates in the two years before his appointment, but henceforth he would be a policy-maker with responsibility rather than a critic without responsibility. It is interesting that Melville, who publicly supported the devaluation and hence was considered as an expansionist, was appointed by an institution whose Chairman – Sir Robert Gibson – was the leading deflationist of the day (and opponent of devaluation).

At the Commonwealth Bank, Melville created and led the Economist's Department, which advised the Board on monetary policy, just as the present day Economic Group of the Reserve Bank does seventy years later. As he built up his team he looked out for young economists to add to his staff – one was HC Coombs, whom Melville recruited in 1935. Virtually from the beginning Melville's position was an extremely senior one despite his relative youth. Much of what he did would more appropriately be done by a Governor or Deputy Governor today. The correspondence files reveal that he was dealing directly with Prime Ministers and Treasurers. He was the principal economic advisor to the Australian Government at the Imperial Economic Conference in Ottawa in 1932 and at the World Economic Conference in London in 1933. On the eve of the Second World War, Melville was appointed – together with Giblin and Roland Wilson – to the Advisory Committee on Financial and Economic Policy, a body whose job was to plan Australia's war economy during its early stages.

During the twenty or so years that Melville headed the Economist's Department, he must have been conscious of the fact that, while central banking was undoubtedly important, it was dwarfed in size by the commercial banking activities of the Commonwealth

Bank. It is doubtful how much time the Governor and Deputy Governor of the day had left over for central banking matters, given the huge number of commercial bank branches and staff they had to oversee. In these circumstances, it must have been comforting to be able to turn to someone of Melville's knowledge and experience.

The next aspect of Sir Leslie's career that I would like to look at is his association with the setting up of the Bretton Woods institutions – the IMF and the World Bank (and, but with a long delay, the World Trade Organisation). It is hard for recent generations to understand, but this whole venture was undertaken for the most idealistic and public-spirited of reasons. It was an exercise in international cooperation designed to ensure that the post-war world did not degenerate into the isolationism and 'beggar-thy-neighbour' policy-making that had characterised the previous twenty years and had contributed so much to the depression and the Second World War.

Australia was an enthusiastic participant in these negotiations at first and it is no surprise that Prime Minister Curtin chose Melville to lead the Australian delegation. Melville had already been in correspondence with Keynes and others about international monetary reform from about 1942. This gave him the necessary background to lead the Australian delegation to preliminary meetings in London in 1944 and then to the United Nations Monetary and Financial Conference at Bretton Woods, New Hampshire, later in that year. Melville threw himself into the task and was extremely effective. The towering intellectual presence behind these meetings was Keynes, and there is a letter⁵ from him attesting to Melville's effectiveness. Keynes said of Melville's performance at the Commonwealth Conference that 'he upheld the dignity and integrity of Australia with the most marked success ... He handled himself most impressively, was clear cogent and never unreasonable, put his point forcibly yet moderately, and achieved in my judgement,

5. Keynes to Giblin, 24 March 1944, Keynes Papers, Library of Kings College, Cambridge.

as much as was humanly possible to move matters in the direction he desired. He had quite a difficult task and accomplished it supremely well'. Despite some later backsliding on Australia's part, we became important members of these institutions and it was fitting that in 1950, Melville was appointed Australia's Executive Director at the IMF and World Bank in Washington.

In view of my earlier comment that in the 1930's and 1940's you could be forgiven for thinking Melville *was* the central bank, it comes as a surprise that he was not appointed Governor in 1948. Instead the position went to his central banking protégé, Coombs. A number of good judges, such as Giblin, thought the best man had been passed over.⁶ Even Coombs thought so too. In a letter to Giblin after being appointed Governor, Coombs said 'Many thanks for your letter of congratulations. As you know, I, too, have always thought that Melville should have had this job and have given that advice in the appropriate quarter'.⁷ Coombs retained the highest regard for Melville and wrote effusively, but no doubt honestly, to him on his retirement saying 'in the years you were with the Bank, you made a contribution to the theory and practice of central banking which is without equal in the world'.⁸

Sir Leslie succeeded another economist – Sir Douglas Copland – in becoming the second Vice-Chancellor of the Australian National University. He was ideally suited to this role as he was both a genuine intellectual and an experienced administrator and negotiator. He was also devoted to the ideal of the Australian National University as a world-class centre of research. It is interesting that, without any conscious direction, a close relationship seems to have been formed between the Bank and the University. The former has provided a Vice-Chancellor

(Melville) and a Chancellor (Coombs), while the latter has provided virtually all of the university economists who have been appointed to the Reserve Bank Board (Professors Swan, Gregory, Pagan and now McKibbin).⁹

I have commented on a number of aspects of Sir Leslie Melville's life, but not on the aspect which explains why we are meeting here today. I refer, of course, to his remarkable longevity. It is not just that he has lived for such a long time – it is that he was prominent in public life from such an early age. He was already a well-known and influential economist in his twenties. When you read the early correspondence in our archives that I consulted in preparation for this talk – the yellowing foolscap pages with their uneven typewritten contents and the annotations in immaculate copperplate handwriting – you are transported back to a different era. It is hard for me to imagine that Sir Leslie actually talked to and corresponded with Keynes, who was already a long-dead historical figure when I was a student. And there are many more – Sir Ralph Hawtrey, Sir Josiah Stamp, Sir Dennis Robertson and Harry Dexter White. Not only did he meet these people, he still remembers them and can talk lucidly about them and their times.

I think Sir Leslie has made a remarkable contribution to public life in Australia. It is hard to believe that one man could have done so many things in the general areas of economics, education and public policy-making. I could not see it happening today. I also find it hard to see how someone who has achieved so much is not better known. This I attribute to his natural modesty, and to the fact that he was so busy doing things that he didn't have any time left over to push himself forward.

6. Giblin to Coombs, 23 November 1948, Reserve Bank of Australia Archives.

7. Coombs to Giblin, 3 December 1948, Reserve Bank of Australia Archives.

8. Coombs to Melville, 13 January 1954, Reserve Bank of Australia Archives.

9. The exception was Bruce Williams (1969–81), an economist who was appointed to the Board while Vice-Chancellor of Sydney University.

But it seems to me that any objective assessment of achievements would place Sir Leslie among the most distinguished Australians of the past century. If this were Japan, and we had a serious practice of

declaring our most distinguished citizens as national treasures, I have no doubt that Sir Leslie should be one of the first people chosen.

References

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