A.W.H. Phillips and Australia

by

Selwyn Cornish and Alex Millmow

1. Introduction

This article explores the connection between A. W. H. ‘Bill’ Phillips and Australia. Phillips spent three periods in Australia during his lifetime. The first, was as a young man before the Second World War when he worked for two years in a variety of casual but adventurous jobs before travelling to Britain via China and Russia. He wanted to travel to these lands ‘to see what those places looked like’ (Blyth, 1975, 303). The second and the third episodes, when Phillips was a front-rank economist, are of greater interest to economists and historians. In 1959, just months after his article on the relationship between changing wage rates and unemployment was published, Phillips spent a sabbatical in Melbourne and Sydney. There he devoted his time applying Australian data to the relationship he had posited earlier. He did so because his hosts at Australia’s central bank and the University of Melbourne were keenly interested in that line of research. The last sojourn in Australia was the result of an appointment to a research professorship at the Australian National University, where he embarked upon a new research project involving the economy of modern China. But his appointment at ANU was interrupted by serious illness, leading ultimately to his early retirement.

2. When Australia found itself ahead of the curve

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Wilfred Prest, occupant of the Truby Williams Chair of Economics at the University of Melbourne, had his eye on Phillips for some time. He was interested in attracting overseas talent. Prest had met Phillips when taking sabbatical leave in England in 1952. His visit to the London School of Economics allowed Prest to see a demonstration of Phillips’s ‘machine’. Much has been written about how this intrepid New Zealander stumbled on economic celebrity when he was undertaking a sociology course at LSE. Phillips, drawing upon his knowledge of electrical engineering, built with his colleague Walter Newlyn, a hydraulic machine made from perspex and pipes showing monetary circulation in the economy. It displayed the two predominant theories of the determination of the rate of interest.

At a LSE seminar in 1949 he demonstrated his machine. It worked beautifully. Economists had seen nothing like it. It so excited the interest of James Meade that he suggested the idea of a fellowship or grant that would enable Phillips to build a second improved machine; Lionel Robbins helped Meade to persuade their colleagues at the LSE of the importance of Phillips’s machine for teaching purposes. Phillips then enrolled in a doctorate under the supervision of Meade. At the same time he published an article in *Economica* on his hydraulic machine. The firm of aircraft engineers that constructed the machines called them the National Income Monetary Flow Demonstrator; they would serve as a visual aid for teaching macroeconomic dynamics theories in terms of stocks and flows of money. Abba Lerner coined a catchier name - MONIAC, the Money and National Income Analogue Computer. One wit put it better: the name was suggestive of money, maniacs and the ENIAC calculating machine.

Meade and Robbins insisted that Phillips be immediately made a junior lecturer not on the basis of his machine, but his work on economic stabilization. Robbins, in fact, felt Phillips’s work was the most important work done on macroeconomics since Keynes’s *General Theory* (Sleeman, 2011).

Prest, too, was impressed and ordered a MONIAC machine for his faculty. Funding came from savings the faculty made by not filling permanently the Ritchie Research Chair in Economics (Isaac, 2009, 94-95). He also had the audacity to offer Phillips a professorship at Melbourne in 1954, some four years before the LSE would shoehorn him into a chair. Phillips thanked Prest for the offer but added that, apart from loyalty
to the LSE, he had too many continuing and exciting projects underway to leave London (Phillips to Prest 17/11/1954, Prest Papers, UMA). The year before, Prest had invited Phillips to come out to Australia on a sabbatical. He persisted with a missive to Phillips in 1958, ‘wondering about his plans for visiting this part of the world’ (Prest to Phillips 11/4/58, Prest Papers, UMA). The mooted cost then was a modest 150 pounds Australian with Prest thinking of a visit of two months duration with no allowance for travelling expenses (Prest to Phillips 11/4/1958, Prest Papers, UMA).

Phillips had to cancel his plans because his wife was ill but he expressed an intention to come to Australia for a longer period in 1959. He would need, however, considerable financial assistance for the airfare and living expenses and he felt it would be unreasonable to expect Melbourne to fund this expenditure. Philips was by now no mere assistant lecturer, but the LSE’s Tooke Professor of Economics and Statistics, successor to F.A. Hayek. He came up with a suggestion: perhaps the ANU, CSIRO or the Commonwealth Bank (then Australia’s central bank), could help with the funding: ‘I spent some time with Dr. Coombs [Governor of the Commonwealth Bank, later the Reserve Bank] when he was here a year or two ago showing what we were doing with electronic simulation of systems of economic control and he seemed very interested in the work. I have taken things quite a bit further and some of the results might be of use to the Bank. It would also help me at the present stage of my work if I could get into close contact with the actual problems of a Central Bank’ (Phillips to Prest 7/8/58, Prest Papers, UMA).

Prest moved to arrange logistics and funding for Phillips’s sabbatical. Melbourne was to invest a 1000 Australian pounds in the venture and Prest approached Coombs for more assistance. He reminded Coombs about Phillips whom he described as an ‘engineer-turned-economist’, and of his pioneering work on economic stabilisation (Prest to Coombs 15/8/1958, Prest Papers, UMA). He also sent J.M. Garland, the chief research economist at the Bank, some of Phillips’s earlier work on macroeconomic stabilization, including a draft paper entitled ‘The relationship between unemployment and the rate of change of money wage rates in the United Kingdom, 1861-1957’. It was this paper (Phillips, 1958) that, after a lightning review, appeared in the November 1958 issue of *Economica.*
Prest informed Philips that the Commonwealth Bank was interested in donating 1000 Australian pounds to underwrite travel costs provided that he undertook some work in the Bank’s research department. There was a special request, however: ‘They express considerable interest in your paper on ‘Unemployment and the change in money wages’ which I had passed on to them. If you could do a similar job for Australia, I am sure they would be very enthusiastic’ (Prest to Phillips 19/8/1958, Prest Papers, UMA). Prest had now arranged things such that Phillips would come to Australia for the princely sum of 2,000 Australian pounds, which represented almost two-thirds of the annual salary for an Australian professor. Phillips readily signalled his assent to the proposal. Prest reported verbatim to Garland what Phillips had written: ‘I should be very glad indeed to do empirical work of the sort described in my paper on unemployment and wage rates while at the Bank’ (Phillips to Prest 7/10/1958, Prest Papers, UMA). The rest of the letter concerned details about Phillips’s accommodation needs and the purchase of tickets for himself and family, a sum estimated to be around 1,500 Australian pounds. Melbourne would arrange accommodation for him at one of the university colleges while the Bank would supply him with the use of its flat in Sydney. Phillips agreed to give lectures in Melbourne on dynamic process analysis and the statistical estimation of economic relationships. Having put the plan into operation, Prest informed the university authorities, pointing out that the cost would be borne in part by the savings from the secondment of a staff member to government service. (Joe Isaac had been seconded by the Department of Labour).

While these negotiations were being finalised the draft paper that had interested the Bank materialised into a journal article. There are several accounts about how this occurred. Phillips described the original article as ‘a weekend’s work’ (Forder, 2014, 13). He offered the paper to *Economica* (Phillips to Meade 5/8/1958, Meade Papers, LSE). Phillips told Conrad Blyth (1975, 306) that the paper was ‘a rushed job’ in the sense that he was heading off on sabbatical and wanted it finished beforehand.

While Phillips might not been too enthusiastic about the paper he was prepared to make it his primary task at the Commonwealth Bank. Phillips left London on 20 March 1959 and apparently spent a week at Harvard before arriving in New Zealand for a two week vacation at his old home. He arrived in Melbourne on 16 April. Prest
should have not been worried whether this investment would pay off; indeed the timing was impeccable, for Melbourne had, within its midst, an economist whose paper would soon excite the international economics community. In time it would become the most cited paper in macroeconomics.

3. An Australian Phillips curve

The curve which Phillips had depicted in the 1958 *Economica* article showed that a stable relationship between changes in money wages and unemployment had persisted for almost a century in Britain. Price stabilisation, he concluded, could be secured if unemployment was kept around 2.5%. This claim was subsequently challenged but Phillips had, as he found when he returned to London, almost unwittingly minted his curve. He had been working on the relation between changing money wage rates and unemployment from as early as 1956; Henry Phelps Brown, professor of labour economics at the LSE, had published work in this field which Phillips drew upon. Before he went on sabbatical Phillips decided to put something down on paper before someone got in ahead of him.

Soon after he arrived in Australia, Phillips presented a new version of the 1958 article at a seminar given at the University of Melbourne but this time using Australian data. It was, though, something of an advance on the 1958 paper (Pitchford, 2000, 263). For one thing, he took into account the different institutional framework underpinning Australian wage determination. Australian minimum or award wages were determined by the Arbitration Court taking into account the prior level of inflation fed by domestic and imported sources and, just as importantly, movements in Australian export prices. Demand forces, too, played a part but only in deciding over-award wages. Secondly, these alterations now meant that Phillips related real wage changes to unemployment.

After the seminar a young graduate student, Bob Gregory, asked Phillips how to write a research paper. Phillips admitted, again, that this paper had been a hasty ‘weekend job’. For his part, Gregory recalls that he was not greatly moved by Phillips’s actual
style of presentation, or by the finding that wages increase when there is an excess
demand for labour and increase less when there is an excess supply.²

Geoff Harcourt recalls that Phillips gave the same paper presented in Melbourne at a
seminar in the Department of Economics at Adelaide University, then reputedly the
finest in Australia. According to Harcourt, Phillips’s paper was heavily criticised by
Eric Russell. Harcourt felt that Phillips’s engineering background was his principal
weakness: he was too ‘inclined to take economic statistics as gospel, that is that they
actually meant something really precise’. Russell, who knew all about the Australian
data on wages, employment and prices, was able to show that the data was non
homogenous, making it quite unsound to fit a curve to them (Harcourt, 2000, 304). In
short, there was no stable relationship to be found between changes in wage rates and
unemployment.

In August Phillips gave a lecture in Sydney to the NSW Branch of the Economic
Society of Australia entitled ‘Wage changes and unemployment in Australia 1947-
1958’. It appears to be the same paper that he had given at Melbourne, Adelaide and
again in Canberra, though it may have undergone some revision after the criticism by
Russell. It was also written in a less technical manner to suit the audience. Phillips
began the lecture saying that the central problem of western economies was whether it
was possible to prevent continually rising prices of consumer goods while
maintaining buoyant levels of activity. Specifically, he asked whether it was possible
to prevent money wages from rising at 2% a year while maintaining high levels of
economic activity and employment. He deduced that there was a long run inflation
unemployment trade-off. Assuming productivity growth of 2% and steady exchange
rates, he concluded that inflation would hover at 1.5% with unemployment at 1.7%.
Any attempt to reduce unemployment below that figure would lead to considerably
higher rates of inflation.

As to policy conclusions, Phillips spoke candidly about the asymmetric realpolitik
facing workers. He posited that if they pushed for pay rises greater than productivity
growth they would end up net losers, since employers always held the upper hand

² Communication with Alex Millmow October 2014
because they could adjust prices for non-traded goods. Equally, if the authorities dealt with rising inflation by curbing demand it would affect employment levels more than profit margins. He went even further, emphasizing how rising productivity was the only sustainable way to increase real wages arising from profit-induced innovation and capital. He believed the tradition of comparative wage justice played a part in the rate at which wages rose and therefore in increasing the level of unemployment compatible with stable prices.

A month after the lecture he presented a more highly technical account of the paper - minus policy conclusions – to staff at the Commonwealth Bank’s head office in Sydney, where he was now located. Neither version of the paper was submitted to the *Economic Record* for publication. But it was not for want of trying. Heinz Arndt first raised the possibility of publishing the paper with Richard Downing, the editor of the *Economic Record*, Arndt asking: ‘Can we get an article on this subject out of him?’ (Arndt to Downing 2/9/1959 Arndt Papers, NLA). After Downing approached Phillips the latter promised a revised version of the paper before he left Australia (Downing to Arndt 7/9/1959 Arndt Papers, NLA). It seems, however, that Phillips kept Downing waiting and waiting. Both he - and Arndt – expressed regret that they did not have the promised article for the 1959 December issue of the *Record*. No doubt Phillips felt the paper was too lightweight for submission and still had unresolved data problems (Pitchford, 2000, 263). Another reason for Phillips’s reluctance to publish the Australian version was that the whole idea of a ‘Phillips curve’ was beginning to bore him and was not integral to what he considered to be his most important work

Be that as it may, it is of interest to note that, while Phillips was visiting the Commonwealth Bank, Coombs gave a major address, entitled ‘A Matter of Prices’, at the August 1959 ANZAAS Conference in Perth. It was on the topic of creeping inflation and was subsequently published in the December 1959 issue of the *Economic Record*. Coombs warned that economic conditions were beginning to generate a policy dilemma for central bankers. If they choose, for example, to expand aggregate demand to reduce unemployment there was the strong possibility that such action would trigger more inflation. Coombs brought into the equation the power of inflationary expectations; this could induce greater wage demands which, in turn, would push prices higher (Cornish, 2010, 57-8). It is possible that Coombs’s address
was influenced by discussions he had with Phillips when the latter was visiting the Commonwealth Bank.

4. An Australian Appointment

In the 1960s Phillips had made it known to colleagues that he found life in London uncongenial. He was particularly worried about bringing up his daughters there and looked to Australasia as an alternative (Schwier, 2000, 24). He knew and liked Australia, having spent nearly two years working there as a young man before the war. On his visit in 1959 he had met many of the country’s leading economists. A post at an Australian university would enable him to visit his family in New Zealand more often. Besides, he wanted to embark upon a new research project embracing the Asia-Pacific region, especially China.

When Sir John Crawford, Director of the ANU’s Research School of Pacific Studies (RSPacS), was announced as the university’s next Vice-Chancellor in 1967, a replacement for him as Director of RSPacS was required. Before taking up his new position at the beginning of 1968, Crawford visited London and contacted Phillips. Perhaps he had been informed by Coombs, the ANU’s Chancellor, that Phillips wanted to be closer to New Zealand and considered Australia to be close enough. Phillips, of course, knew Coombs and would also have been aware of the latter’s connection with the ANU. He may have told Coombs that he was about to begin a new research project covering the contemporary Chinese economy. Putting this information together, and having been instrumental as Chancellor in appointing Crawford to the Vice-Chancellorship, it is possible that Coombs advised Crawford to speak with Phillips when he was in London and to sound him out about an appointment at the ANU.

Phillips informed Crawford when they spoke by telephone in London in April 1967 that he had completed an important stage in a long-term research program and it was appropriate now for him to consider the next step in his academic career (Phillips to Crawford, 23/4/1967, ANUA). Crawford mentioned that he would soon be vacating the Directorship of RSPacS, to which Phillips responded by saying that he had been
preparing himself for a new research project on modern China. For this work, the ANU seemed to him to be a perfect fit.

On 23 April 1967, the day after their telephone conversation, Phillips wrote to Crawford saying that he wanted ‘to confirm that I should like to be considered for the post of Director of the School of Pacific Studies’. He mentioned that he and his wife ‘had been considering a return to that part of the world for some time’. He added that he had ‘hesitated to return earlier, since a fair proportion of my research work here to date has been concerned with developing new econometric methods, and there were some advantages in doing that part of the work here’. His last four publications, he told Crawford, ‘complete the methodological part of my research, and I intend now to proceed to the use of the methods in empirical investigation. In this applied work I could concentrate on countries in the Pacific area, and the work could well be carried on in Australia’. He was convinced that there was ‘an immense amount of work to be done in this area. I could only carry out a small part of it myself, but would hope also to help in stimulating and guiding the research of younger people’.

He went on to say that the Directorship of the RSPacS ‘has a particular appeal to me, since I have always been interested in Pacific and Far Eastern affairs. I have a fair working knowledge of the Chinese language (as well as Russian) and would be able to make use of this, together with my knowledge of engineering and economics, in studying developments in China’. As a prisoner of war in Java between 1942 and 1945 he had learnt Chinese and Russian from fellow prisoners, and in 1948 he had undertaken a six months intensive course in Chinese in London. When preparing to undertake research on China, Phillips told Crawford that he had been participating for some years in seminars conducted by Dr Walker at the University of London’s School of Oriental and African Studies on agricultural organization and development in China. These seminars were based largely on the study of Chinese documents. He added that he was quite aware that the main issues ‘are political and social rather than narrowly economic and technical’. It was largely for this reason that he would ‘value highly the opportunity which one would have as Director of the School of working closely with colleagues specializing in these wider fields of study’.
While he made it clear that his ‘strong preference’ was for the post of Director of RSPacS, Phillips let Crawford know that he would consider an appointment to a ‘normal chair in the Department of Economics provided this did not restrict me to the study of narrowly economic problems’. He gave no indication which of the two ANU departments of economics in the ANU’s Institute of Advanced Studies he would prefer, Trevor Swan’s department in the Research School of Social Sciences (RSSS) or Heinz Arndt’s department in RSPacS. He mentioned that the only people he knew in Canberra were Swan and Ted Hannan, Head of the Department of Statistics in the Faculty of Economics, whom he planned to meet shortly in London when Hannan gave a seminar at the LSE. He added that Coombs at the Reserve Bank ‘knows me a little, and Cliff McPherson and Austin Holmes [similarly at the Reserve Bank] rather better’.

Crawford evidently had some misgivings from the outset about Phillips’s suitability for the Directorship of RSPacS because he appeared to have had little administrative experience. On 3 May David Hodgkin, the ANU’s registrar, wrote to Coombs attaching a copy of Phillips’s letter to Crawford of 23 April. Hodgkin said that Crawford ‘has no doubt about his [Phillips’s] academic quality and would be pleased to have him in the School [RSPacS], but does have some doubt about his suitability as a Director’ (Hodgkin to Coombs, 3/5/1967, RBAA). Coombs’s attention was drawn especially to Phillips’s mention of his acquaintance with Coombs and others at the Reserve Bank. Hodgkin told Coombs that Crawford would be returning to Australia in the following week and would ‘be glad to have any comments from you on Professor Phillips.’ He added that he had sent ‘an expurgated copy (omitting reference to Directorship)’ of Phillips’s letter to Arndt and Swan for their comments. Unfortunately, no record appears to exist of any response to Hodgkin’s letter.

When he was asked to supply the names of persons who might support his appointment to a position at ANU, Phillips nominated James Meade (now Professor of Political Economy at Cambridge, the successor to three great English economists, Alfred Marshall, Arthur Pigou and Dennis Robertson), and Professor Lionel Robbins, who was Head of the Department of Economics at LSE throughout much of Phillips’s time there. Both Meade and Robbins sent the ANU highly favourable reports about the quality of Phillips’s work. Meade, in fact, wrote three letters of support for
Phillips. He had spent six months in 1956 in Swan’s department at ANU and so he knew the ANU in general and the situation there relating to economics in particular. In the first of his reports, dated 29 April 1967, Meade reminded Crawford that he had recently sought Meade’s advice on possible appointments to the ANU (Meade to Crawford, 29/4/1967, ANUA). He had not included Phillips’s name because he was unaware at the time that Phillips might be interested in the ANU. But he now informed Crawford that he had received a telephone call that morning from Phillips asking him whether he could use Meade’s name in an application for the Directorship of RSPacS. Meade told Crawford that he should treat Phillips’s ‘application very seriously. I know him well and am certain that he is really of the very top class, a high flyer intellectually. I really mean this; it is not just a manner of speaking’.

Meade noted that Phillips’s main work had been in the application of mathematical control systems to economic phenomena. But he advised Crawford ‘not [to] let this put you off. He [Phillips] always astonished us and the LSE by the fact that he had a good ready command of Japanese, Chinese and Russian; and he was able to tell us from his own first-hand reading what was going on in those parts of the world. He has very wide interests in human societies and institutions, and is full of straightforward commonsense. He is not to be regarded simply as a mathematical economic theorist.’ According to Meade, Phillips had stressed to him that he wanted ‘to apply his experience in mathematical and econometric work to thinking about quantitative data that comes from these countries in the Pacific area. I know that if he did this, he would do it not only in a highly professional way but also in a sensible, down-to-earth, straightforward way’. Were Phillips to leave the LSE and join the ANU, Meade thought that economists in the UK ‘would greatly regret his loss; but I wanted to write at once to tell you that in Phillips I think you would have an alpha++ person who, in spite of first appearances, is really well qualified for the job. He makes a first rate academic colleague’.

Meade wrote again to the ANU on 9 May in response to a letter from Hodgkin dated 4 May (Hodgkin to Meade, 4/5/1967, and Meade to Hodgkin, 9/5/1967, ANUA). He referred to his longer and more personal letter to Crawford, saying that he wanted that to be regarded as his principal referee’s report; the letter to Hodgkin was to be regarded as a small addendum to his earlier letter. Meade thought ‘the ANU had in
Phillips the chance of a lifetime which should not be missed’. In short, Meade judged Phillips as ‘absolutely first-class and right for the post’.

Writing again to Hodgkin 10 days later, following a specific request for information about Phillips’s ability as an administrator, Meade said that he ‘felt sure’ that Phillips ‘is a very level-headed, sensible, business-like person, who would run a department sensibly and efficiently and without excessive fuss’ (Hodgkin to Meade, 10/5/1967, and Meade to Hodgkin, 19/5/1967, ANUA). He admitted that he had never seen Phillips in charge of a large department, ‘so I make these statements merely from my close knowledge of him personally’. But ‘on that evidence of personality’, Meade said he was ‘pretty sure that he [Phillips] would turn out to be a very satisfactory administrator’.

Robbins also wrote to Hodgkin on 9 May (Robbins to Hodgkin, 9/5/1967, ANUA). He began his letter by admitting that he did so ‘with a heavy heart, since I can conceive few greater losses to the London School of Economics, at which Professor Phillips is at present one of the most outstanding members, than his departure for another post’. That said, Robbins thought ‘the National University would be exceedingly fortunate to recruit him on any terms. You would be recruiting an economist of international fame still at the height of his powers; you would be securing the services of one whose interests are not focused only on that branch of technical economics of which he is a master, but which range far and wide over general economics and sociology’. Like Meade, Robbins stressed Phillips’s ‘many sidedness’, which Robbins said, ‘has always been a matter of astonishment to his colleagues who have noticed that when he is bored in a committee, he is either solving differential equations or reading Chinese publications.’ Robbins concluded by expressing the hope that ‘even at this late hour, the authorities of LSE might be able to persuade him to stay. But I have no doubt at all that if he is recruited, you will have got the best man available for the job’.

Another person who submitted a report on Phillips was Ted Hannan, the eminent ANU mathematical statistician and econometrician. It is unclear whether Hannan’s opinion was solicited by the University or whether he wrote on his own initiative. Whatever the circumstances that led him to send a letter to Hodgkin about Phillips,
Hannan wrote from Michigan State University, where he was taking study leave (Hannan to Hodgkin, 22/5/1967, ANUA). He advised Hodgkin that Swan was probably in a better position to assess the quality of Phillips’s work than he was. This was because most of Phillips’s work was in the area of economic theory. Phillips’s only purely statistical work, according to Hannan, was the paper published in 1959 [sic.], which Hannan considered to be ‘of minor importance’.

These comments, however, did not stop Hannan from offering an opinion about Phillips’s suitability for a professorial position at the ANU. In fact, he made it clear that he would not recommend the appointment of Phillips, informing Hodgkin that the ANU ‘might be unwise, now, to appoint Professor Phillips to a senior position in a purely research institution’. The nub of Hannan’s criticism was that Phillips had a very poor publications record. In fact, he had published only two papers since 1960 and had published nothing since 1962. He raised the possibility that Phillips’s creativity had dried up and wondered what benefit Phillips might bring to a research-intensive institution such as the ANU. In his letter to Crawford in April, Phillips had supplied a publications list containing nine articles, seven in the 1950s, one in 1961 and one in 1962. ‘Unless convincing evidence of a new activity or line of research is produced’, Hannan said that ‘one is left with an impression that he has “dried up”’. He went further to say that ‘I do not [italics in original] feel that here is a man, full of ideas, who has not set them down. For example, he does not compare, academically, to my mind, with his colleague Professor J. Durbin’. But again, having expressed these forthright views, Hannan acknowledged that Phillips was ‘basically a mathematical economic theorist and should be judged as such by people who can judge his work, which is something I do not feel I can do’.

Another internal assessment of Phillips’s abilities and possible contributions to the ANU came from Dr Conrad Blyth, a New Zealand-born economist with a doctorate from Cambridge and who was now a member of Arndt’s department in RSPacS. He wrote to the Director of RSPacS (Crawford) at Arndt’s suggestion (Blyth to Crawford, 15/5/1967, ANUA). Blyth raised the possibility of Phillips being appointed to a department of economics, rather than to the Directorship of of RSPacS. It was his opinion that Phillips was ‘a mathematical economist and econometrician of the top rank with an international reputation. His works range over economic theory,
theoretical statistics and empirical econometrics, all with a strong slant towards the intellectual problems of managing modern economies. He is a good expositor of his subjects, and altogether a very live wire, and a powerful influence upon his colleagues and students’. Blyth was convinced that the ANU would ‘undoubtedly benefit from having him here: from the prestige of his presence, from the stimulus he would give to study in his important fields, and from his ability to attract pre- and post-doctoral students. All the economics and statistics departments would benefit from having him as a colleague’.

If Phillips were to devote a substantial amount of his time to work on Chinese studies, Blyth thought it would be appropriate for him to be a member of Arndt’s department rather than a member of Swan’s department. He said he was ‘wholly in favour of a powerful and disciplined mind like his being encouraged to work on the messy problems of China and South East Asia’. There were, to be sure, ‘obvious risks and traps in theorists and others “stepping down” in this way’. But Blyth thought they were likely to be much ‘less than the risks of staffing a department with less rigorous area specialists’. As well, he thought Phillips would be a good replacement in Arndt’s department for Max Corden, who was about to leave the ANU for Oxford where he was to fill a university post hitherto occupied by Sir Roy Harrod. Their ‘areas of theoretical interest do not coincide’, Blyth conceded, but ‘their roles as theorists give spine to empiricists’. As an alternative, Blyth thought Phillips might consider joining Swan’s department for a provisional period, with the understanding that, in two or three years’ time, he could move across to Arndt’s department.

Professor Joe Gani, an ANU graduate and now the occupant of a chair in the Department of Probability and Statistics at the University of Sheffield, also wrote to the ANU, perhaps at Hannan’s prompting after Gani was told that Phillips was being considered for a chair in economics (Gani to Hodgkin, 25/5/1967, ANUA). Gani said that he held Phillips’s technical ability in high esteem and thought his appointment would enhance the reputation of the ANU. Yet he was not altogether convinced that Phillips’s statistical approach to economics would yield outstanding results. He explained, however, that he had met Phillips recently in London. Until then he had known nothing of Phillips but he ‘realise[d] now that he is a man who has done at least [italics in original] one important piece of work in theoretical economics which
is, moreover, practically useful (which is a difficult thing to do!).’ He reported that
Durbin had described Phillips to him as ‘a scholar’, a comment that evidently
impressed Gani.

He then came to what was evidently his main point, namely, his concern that the ANU
was considering an appointment to a research chair without calling for applications by
public advertisement. ‘The situation’, Gani wrote, ‘is a complicated one but in some
ways the procedure in relation to his appointment seems a little strange for a chair
(apparently) being filled in a very technical subject (the quantitative side of
economics) without advertisement and after an initial approach to one man by a
person, so far as I know, is not really familiar with the subject. It seems possible that
such a procedure will not always produce the best results’. Presumably, the person
Gani was alluding to was Crawford.

Phillips himself by the middle of May had come around to thinking that he might be
better suited to a chair in economics rather than the Director’s position in RSPacS. It
seems that the ANU had come to a similar conclusion, prompted perhaps by Phillips’s
lack of administrative experience. For Crawford wrote to Phillips on 17 May
suggesting that he give serious consideration to taking a chair in Swan’s department.
Phillips replied to Crawford on 23 May 1967 to thank him for ‘the speed with which
you have acted.’ He said he would ‘be happy to accept the chair of economics in
Trevor Swan’s department if it was offered to me’. He added that, ‘[a]fter some
reflection, I feel that I may have been wrong to place too much emphasis on the post
of Director of the School of Pacific Studies, and that the Chair of Economics may
after all suit me better. My main interest is still in doing research and if the
administrative duties of the Directorship were to hinder the research work in any way
it would be better for me to give up the idea of that post and keep to the Research
Chair’ (Crawford to Phillips, 17/5/1967, and Phillips to Crawford, 23/5/1967,
ANUA).

On 30 May Crawford wrote to Phillips to let him know that the committee of the
ANU Council responsible for selecting a new Director for RSPacS had noted the
‘strong interest in continuing your research work’. He took the opportunity to repeat
what he had told Phillips in London, namely, that while the Directorship was ‘not cut
off from research’, he could say from his own experience that ‘the duties of the Office are in fact quite heavy. I could not pretend that time for research is always adequate, and perhaps more important, it is not so readily under control as to timing as the Director might wish’ (Crawford to Phillips, 30/5/1967, ANUA).

In the event, Phillips was appointed to a second chair of economics in Swan’s department. A joint electoral committee for a chair in economics in either RSSS or RSPacS met towards the end of June 1967. Its membership was the Director of RSSS (Professor Mick Borrie) (chair), the Vice-Chancellor (Sir Leonard Huxley), the Director of RSPacS (Crawford), the Acting Dean of the John Curtin School of Medical Research, and Professors Arndt, Cameron, Moran, Stanner and Swan. In its decision to offer Phillips the chair in RSSS, the committee noted in particular the strong support that had come from Meade (Minutes of the Board of the Institute of Advanced Studies, 30/6/1967, ANUA). It noted also that Professor Moran, the head of the Department of Statistics in RSSS, had written favourably in support of Phillips’s appointment, stressing as he did Phillips’s ability as a mathematical statistician. The committee concluded that it ‘was satisfied that the appointment of Professor Phillips to a chair, even though this had not been advertised, would be greatly to the University’s advantage and the opportunity should not be missed’. It emphasized that the ‘work he has done in his special field was outstanding and was internationally recognised’. His work to date had been in a field appropriate to the Department of Economics in RSSS, but it was also noted that Phillips ‘hoped to apply the techniques he had developed to empirical problems in the Pacific and the Far East and had the advantage of knowing Chinese and Russian’, though it was stressed that he had yet to commence work in this area.

When notifying Phillips of the decision to appoint him to the chair in RSSS, Hodgkin made it clear that that the offer was ‘on the understanding that you would be free to develop work in Far Eastern problems and that if this became your predominant interest consideration would be given in due course to your transfer to a chair in the Research School of Pacific Studies’ (Hodgkin to Phillips, 14/8/1967, ANUA). In the ANU’s press release of 14 August 1967 announcing Phillips’s appointment, it was stated that he was ‘internationally known for his work as a mathematical economist and for his study of the intellectual problems with managing modern economies’. It
also noted that he would ‘study economic developments in the Pacific and the Far East, using techniques of mathematical statistics where these are appropriate.’

5. ‘Economic Policy and Development’

After arriving in Canberra and settling in at the ANU Phillips resumed research on the application of time series analysis and began the supervision of two Ph.D scholars, Adrian Pagan and Alan Preston. Pagan was to go on to an illustrious career as an academic, succeeding in due course to the chair that Phillips himself had occupied; later he became a member of the Board of the Reserve Bank of Australia. Preston, after spending a short time in the Faculty of Economics at ANU, joined the Australian Treasury, rising to the position of Deputy Secretary. Phillips also began to work on China, engaging a research assistant, A. B. Ikonnikov, a Russian by birth, who spoke Chinese. Phillips set him to work on investigating Chinese agriculture since the communist take-over. He quickly completed a number of monographs on this and other subjects to do with the modern Chinese economy and in time became something of an international expert on China.

Although Phillips did not publish any further work after leaving the LSE he presented a paper to a seminar at ANU in April 1968. Entitled ‘Economic Policy and Development’, it was later published by Robert Lesson in A.W.H. Phillips: Collected Works in Contemporary Perspective (Leeson, 2000). The paper appears to have been drafted as a belated response to the report of the Vernon Committee – the Committee of Economic Enquiry – which had been commissioned by the Menzies government in 1963 and tabled in the parliament in 1965. The paper is of some interest because of comments made by Phillips on issues of economic policy. He doubted that economists ‘really know very much about economic development’, claiming that ‘their willingness to engage in debate and advocacy in this field reflects more a desire to do good and a yearning to play a role in public affairs rather than a usefulness of any expert knowledge they may have on the subject.’

Of short-term stabilization policy – in contrast to economic growth and development - Phillips agreed that economists were able to make important contributions to policy debate. Here, there were likely to be a number of competing objectives. For the
maintenance of employment, the aim should be to stabilize aggregate demand. Fiscal policy was likely to be more effective than monetary policy, with the emphasis on adjusting taxes rather than public expenditure, which would take too long to be effective. Governments, he argued, should be permitted some discretion to alter taxes without having to obtain the authority of parliament. While monetary policy could provide useful support for controlling fluctuations, its major function was ‘to set the longer-term trend of availability and price of credit in order to obtain a balance of savings and investment demand, with given tax and spending policies.’ Regarding price stability, there were likely to be a number of determining factors, including ‘rates of change of external prices and internal productivity, the relative strengths of trade unions and employers organisations, the judgements of the Conciliation and Arbitration Commission, and the level of aggregate demand or employment.’ Of these factors, it was only the latter that the government was able to influence.

A particular problem to which Phillips directs attention was the ‘likelihood of inconsistency or conflict between the objectives of full employment and price stability, with a resulting compromise in which neither objective is fully attained.’ As he elaborated:

This conflict of objectives could be avoided only if the government could control or influence one or more of the other factors affecting the rate of change of prices, and since external prices are beyond its control and there is not an obvious way for it to induce a major increase in the rate of change of productivity the natural candidate is the complex of institutional arrangements consisting of trade unions, employers federations and the Arbitration Commission. And since the trade unions are not likely to cooperate in efforts to reduce the rate of increase of money wage rates unless firms are willing to act similarly with respect to prices, we end up among the thorny political problems of wage and price policies, which are engaging much of the time and energy of administrations throughout the world.

‘I do not know’, Phillips wrote, ‘of any simple solutions in this field, which is so full of politics and passion.’ His advice was threefold. First, there needed to be a clear
understanding among individuals, organisations and government that ‘organised attempts to force up money wages and prices accentuate the conflict between the objectives of full employment and price stability, and leave the government with no alternative but to operate the economy with a higher level of unemployment than would otherwise be possible, to the general detriment of the country and the people, and especially the weaker and poorer members of the community.’ Second, he believed that the ‘welfare of the workers in Australia would be enhanced if the Conciliation and Arbitration Commission ceased altogether to make basic and general awards, and confined its activities to arbitration cases of industrial dispute.’ Third, if the changes he was proposing to the system of conciliation and arbitration were to reduce the relative bargaining power of trade unions, he would support the strengthening of ‘legal and administrative sanctions against possible abuse of monopoly power and restrictive trade practices.’

In the case of external imbalance, Phillips supported the use of greater exchange rate flexibility. Adjustments to the exchange rate should be regarded as ‘the appropriate method of dealing with persistent balance of payments difficulties’ and not ‘something to be used only as a last resort.’ Even where there was no clear case for a major variation in the exchange rate, he thought that countries should be permitted to vary the rate of exchange up to a maximum of 2.5 per cent a year in either direction. Three years later the Group of 10, meeting at the Smithsonian Institution in Washington to reset exchange rates after President Nixon had closed the gold window, endorsed this proposal.

Arguing against what he thought was the view of the Vernon Committee, Phillips dismissed the idea that ‘the higher the level of demand at which an economy is operated the higher would be the rate of development or growth.’ This might be the case when there was unused capacity. But for an economy at or near full employment, a policy of boosting demand still further seemed to him to be a very doubtful proposition. Indeed, he thought that if ‘demand is raised too far the rate of growth may be retarded rather than increased, as a result of general shortages and inefficient operation.’
In another handwritten paper drafted when he was at the ANU - entitled ‘Economic Policies and Development, and Comments on Trade and Protection Policy’ - Phillips argued against the adoption of growth targets, which had become fashionable in some European countries (Leeson, 2000). While he regarded long-term projections of the kind undertaken by Vernon Committee as ‘desirable exercises’, he stressed that care needed to be exercised since they were likely to be ‘treacherous guides to policy.’ More intriguing was his assertion that workers ‘real interests [are] best served by preventing any general increase in money wages’. Regrettably, he provided no explanation in the paper as to why he thought that would be the case, though he had given some hints in the papers that he prepared during his 1959 visit.

6. Illness and Retirement

When Henry Phelps Brown arrived at the ANU early in March 1969 at the start of a six-month visit to Australia he was pleased to see Phillips, whom he knew as a former colleague at LSE. Writing to Meade some weeks later from Melbourne, Phelps Brown mentioned that he thought Phillips was having second thoughts about his decision to settle in Australia (Phelps Brown to Meade, 14 April 1969, Meade Papers, BLPES). Meade himself had come to the same conclusion, having received a letter from Phillips early in 1969 asking about the possibility of ‘getting a position in Cambridge to work with Dick Stone and myself on macroeconomic dynamics again’. Meade speculated that Phillips ‘must have decided that Chinese economics was not proceeding as he had hoped and that he might have another go at macroeconomic modelling instead’ (Meade 2000: 18).

The idea of moving back to Britain, however, never proceeded very far. For on 17 March 1969, 18 months after arriving in Australia, Phillips suffered a massive stroke (cerebral thrombosis), which paralysed the entire left side of his body. It cannot be discounted that the stroke, especially its severity, had its origins in the harsh treatment he received as a prisoner of war. By September 1969, six months after the stroke, Phillips had started to come into the university for a limited number of hours a week. By March 1970 he was spending 2-3 days a week in the department. But his recovery was slow and far from complete. At first he was unable to walk without the assistance of a tripod walker, which made it difficult for him to negotiate obstacles such as stairs.
Furthermore, his left arm was practically useless, rendering it difficult for him to handle books and other objects. His mind, however, seemed to recover more quickly. He soon resumed the supervision of his doctoral students. Both Pagan and Preston, however, were so outstanding, according to Swan, that neither of them required much supervision. He also recommenced the research that he was pursuing before the stroke, both in mathematical statistics and econometrics, and on the Chinese economy. In addition, he made it clear that he would participate in the teaching of a new Master of Economics by coursework program, to which Bob Gregory, now a member of Swan’s department, had recently been appointed convener.

Phillips had been granted sick leave on full pay from 17 March 1969 (the day of the stroke) to 31 December 1969. On 17 December the ANU Council’s Finance Committee reviewed his medical condition and agreed that he should continue on official sick leave until 31 March 1970. In writing to Phillips to inform him of this decision, Hodgkin said he ‘was glad to know that you were in fact spending significant periods of time in the University and were able to do some useful work’ (Hodgkin to Phillips, 17/12/1969/ANUA). Hodgkin reminded him that his situation would be reviewed again before the end of March 1970.

In early March, Swan wrote a detailed and supportive letter to Mick Borrie, Director of RSSS, proposing that Phillips should no longer be on sick leave but regarded ‘instead as an active member of the University’ (Swan to Borrie, 9/3/1970, ANUA). Swan’s recommendation was based on a number of considerations. There was, to begin with, the marked improvement in Phillips’s condition, the general expectation being that the next medical report, due the following week, would show continued improvement. Phillips was able to get around sufficiently to perform his duties and was contemplating the purchase of a car with automatic transmission; this would allow him to drive himself to and from the university without the assistance of his wife. With the use of his own car, Swan expected Phillips ‘to come into the University each day and get on with the job’. He was already moving around the house with the aid of an ordinary walking stick, and with the assistance of an appropriate projector, Swan felt sure that he would be able to conduct lectures and tutorials in the new Master of Economics course without having to use the blackboard.
Moreover, Swan was convinced that Phillips ‘can now, from an intellectual viewpoint, play a part in research and teaching which justifies his restoration to active duty’. In common with others, he had ‘recently noticed a distinct and dramatic improvement in Professor Phillips’s participation in departmental meetings and in his attitude to life generally’. He thought it was ‘especially significant’ that Phillips ‘will now talk freely and without embarrassment about his shortcomings due to the stroke’. Borrie was reminded that he, too, had noticed a marked difference in Phillips’s general demeanor when he and Swan had met Phillips earlier that day.

Swan admitted that he had ‘no means of saying whether Professor Phillips will again, or in the near future, re-gather the ability to make very original contributions to econometrics and related aspects of economics which he has achieved in the past’. But speaking for himself, Swan said he ‘would regard it as sufficient if he can go on developing, and helping others to develop, lines of work with which he is already familiar’. He pointed out that Phillips had ‘not ceased during the past year to take a deep and continuing interest in studies of the Chinese economy, and it may be that a further move in that direction will suit him in due course.’ If he wanted to pursue this work in RSSS or in RSPacS he would have Swan’s support whichever way he wanted to go. If he wanted to transfer to RSPacS at some time in the future, Swan thought that Arndt would welcome the opportunity to develop further the work that was beginning in his department on studies of the Chinese economy under Dr Audrey Donnithorne. At all events, Swan hoped that Phillips would continue with his work in econometrics for at least the next three years.

Borrie endorsed Swan’s recommendation that Phillips was ready to return to full-time work. Writing to Hodgkin on 9 March, he admitted that he had been influenced by Swan’s assessment of Phillips’s ‘capacity to resume his research and teaching in the Department of Economics’ (Borrie to Hodgkin, 9/3/1970, ANUA). But he added that he had already reached the same conclusion himself on the basis of his own assessment of Phillips’s physical and intellectual progress. He understood that there would not be any further marked improvement in his physical condition, but it was clear to him that he was sufficiently mobile to resume his university duties. ‘I have observed him at meetings’, Borrie remarked, ‘at which he has performed with all of his old acumen – and humour – and he has resumed most of his previous academic
responsibilities in the department, including supervision of students’. Therefore, subject to a favourable medical report, he agreed with his colleagues that Phillips could still make an important contribution ‘to the intellectual life of our School’.

Dr Bruce Ford, a consultant at Canberra Community Hospital, submitted a medical report on Phillips to the University shortly before the expiry of his sick leave at the end of March 1970 (Report by Dr Bruce Ford, 11/3/1970, ANUA). The report concluded that Phillips’s physical recovery was now ‘static; he can walk slowly using a tripod walking stick over short distances. His left hand is paralysed and presents no return of function’. Psychological tests showed, however, that his ‘intellectual function is at a very high level (IQ 145), although he has difficulty in grasping similarities in geometrical patterns, and his memory for new learning is impaired’. In summing up, Ford wrote that ‘these physical and intellectual sequelae of his stroke would be of no significance in his particular field of work and would not prevent him from giving valuable service to the University’. Accordingly, Ford recommended that Phillips be permitted to resume normal duties.

Phillips underwent a further medical examination in early November 1970. This was undertaken by Dr Francis Long, who issued his report to the University on 6 November (Report by Dr Francis Long, 6/11/1970, ANUA). He agreed that Phillips had undergone a gradual recovery under the guidance of Drs Ford and Faunce at Canberra Hospital. Even so, Phillips was said to have found ‘his physical disabilities very incapacitating, especially the difficulty of getting about. Stairs are the biggest difficulty and he is always fearful that he may fall. He has great difficulty handling books and papers because his left arm is for all practical purposes useless. His memory for recent events is poor so that he has great trouble absorbing new knowledge. There has also been some slight decrease in his previous memory’. It was Long’s opinion that Phillips’s disabilities were ‘really sufficient to justify his retirement and in addition to this there does not appear to be any doubt that there has been impairment in his ability for recent learning and for abstract reasoning. This being the case, I believe that he should be retired as he is actually incapable of carrying out his work at a satisfactory level’.
On 12 November 1970 the ANU’s Finance Committee recommended that Phillips be retired from the University on the grounds of invalidity. Phillips accepted the University’s recommendation without rancor and retired on 10 December, selling his house rather more quickly than he had expected. Having made up his mind to return to New Zealand, he was determined to leave the country before the onset of a threatened national transport strike (Hodgkin to Crawford, 25/11/1970, ANUA). His chair was eventually filled by Professor Fred Gruen, a former member of Swan’s department, who had accepted a chair at Monash University in Melbourne. Shortly after moving back to Canberra, he became Prime Minister Whitlam’s Economic Adviser on a part-time appointment.

Swan wrote to Meade on 17 November to let him know that Phillips would shortly be retiring from the ANU on medical advice (Swan to Meade, 17/11/1970, LSE). He explained that Phillips’s disability was ‘quite irrevocable, and in one respect has been getting worse. His intellectual capacity, although unimpaired as of things past, is clearly not up to original work’. Swan made it clear that Phillips ‘has not in any way been driven out nor would he have been except at his own request’. In fact, Swan thought that since ‘he made his decision to leave I think he has been looking more cheerful’; he suggested that Meade ‘might encourage him to interest himself in some part-time work in New Zealand’.

After leaving Canberra and settling into a house in Auckland in the new year, Phillips wrote to Borrie to thank him for the letter he had sent expressing the ANU’s appreciation for the contributions he had made to the University (Phillips to Borrie, 7/3/1971, ANUA). Phillips said he hoped that he did ‘achieve a little, but I feel strongly that it was less than I could reasonably have been expected to achieve, and it was certainly much less than I had hoped and intended to do when I came and saw the superb conditions for research at the ANU. I feel now that I let the side down badly; and it is not much consolation to know that I would have done much more if I had not been ill’.

Hodgkin also wrote to Phillips after he left Canberra. He let him know that the ANU Council had recorded its appreciation of his services to the University and had elected him an Emeritus Professor. In reply, Phillips said he was ‘acutely aware of how far
my services fell short of what I had hoped and indeed intended to do when I joined the ANU’ (Phillips to Hodgkin, 22/4/1971, ANUA). He added that he ‘still had some hope that my health may recover sufficiently to enable me to make some further contribution to its [the ANU’s] work, especially in the field of Far Eastern Studies’. As an Emeritus Professor, Phillips assured Hodgkin that he would ‘always value this sign of continuing association with the University’.

Of Phillips’s academic work at ANU there is very little to report beyond the two handwritten papers mentioned earlier. The RSSS Annual Report for 1967 noted, for example, that Phillips had joined the Department of Economics towards the end of the year and that his main interests were in ‘the econometric approach to economic affairs and in studies of the Chinese economy’ (Annual Report 1967, Department of Economics, RSSS, ANUA). The Annual Report for the next year stated that Phillips had ‘further developed his econometric studies, including in particular problems associated with lag structures in systems of simultaneous equations. He also pursued his interest in the Chinese economy’. The Annual Report for 1969 simply reported that Phillips’s famous 1958 article on the relationship between wage changes and unemployment had been reprinted in a volume of readings.

In the 1970 Annual Report it was noted that Phillips had retired in December ‘after a period of illness’, and that the ‘retirement of Professor Phillips was a grave loss to the Department and to the School, both personally and professionally’ (Annual Report for 1970, Department of Economics, RSSS, ANUA). It noted also that while Phillips’s departure might have led to some questions being asked about the future of econometric and statistical work in the department - ‘upon which we had embarked in a field in which Professor Phillips is of international fame’ - the issue had never arisen because the department now contained several members with ‘excellent qualifications’ in these fields. Accordingly, the department ‘intended to press on with the work’. As to the Chinese studies that Phillips had initiated in the department, they were expected to result in 1971 in the publication of ‘a large monograph on Chinese mineral resources’. Further industrial studies relating to China were expected to be published in the near future.
Phillips lived for another four years after leaving the ANU. In early 1975, soon after his sixtieth birthday, he was invited by the University of Auckland to present a series of lectures to a class of undergraduate students. On the day after he gave the first lecture he suffered another stroke and died on 4 March 1975, almost exactly six years after the first stroke.

7. Conclusion

As an economist Phillips spent two periods working in Australia. The first included short-term appointments in Melbourne and Sydney, while the second involved a permanent appointment at the ANU. Both had a tinge of tragedy about them, particularly the second. It had held out the greatest promise but it was never fulfilled because of the stroke he suffered in March 1969. Even his 1959 visit had not been altogether successful. Papers were written and presented to Australian audiences on the relationship between wages growth and employment using local data and incorporating local institutional practices, but nothing was published. Yet his work helped to stimulate a growing interest in the problem of inflation at full employment. And although he did not have the opportunity at ANU to complete work of lasting significance, he was responsible for the recruitment of staff with expertise in econometrics and he encouraged new projects in that field, an area of economics which had been neglected in the Department of Economics, RSSS. He also helped to stimulate an interest at ANU in the economy of China, which continued after his retirement in the Department of Economics, RSPacS (Arndt 1985: 67). Two unpublished papers – one presented to a seminar at ANU – shed some light on his views on macroeconomic policy, an area that Phillips had not written very much about in the past.

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