1

Introduction, themes and overview

This book is an introduction to Australia's economic history in the twentieth century, taking as its main theme the integration of the Australian economy in the global economy. It focuses on Australian external trade (imports and exports of goods and services), the inflow and outflow of **capital** (**foreign investment**) and the influx of permanent settlers from abroad (immigration). Each of these flows across Australia's borders formed – and continue to form – part of the nation's international integration. Each can be viewed separately in time, but in reality they interacted closely and together defined Australia's relationship with the global economy. This relationship changed and developed in some ways, and remained constant in others, over the first century of Federation. Each of these international economic connections were subjects, both separately and as they interacted, of public policy. And, of course, international flows of trade, capital and people impacted on the performance and development of the domestic economy and ultimately on Australian living standards.

This chapter introduces the nature of these flows and the themes of this book. It begins by examining two fundamental features of the Australian economy in its international context – its size and openness. It then considers how integration with the international economy contributed to Australia's **economic growth**, both through international **demand** for the products that Australian producers could export to the world and through the international supply of two **factors of production**: **capital** and labour. The third part of this chapter introduces the major contours in the history of public policies that shaped the international economic flows: tariff policy, **wages policy** and immigration policy. The chapter concludes with a brief discussion on the development of government management of the Australian economy with particular emphasis on managing Australia's **balance of payments**. The arrangement of subsequent chapters and their themes is given at the end of this chapter.

Features of the Australian economy

Population growth and urbanisation

Australia at the beginning of the twentieth century was small in population but in an aggregate sense it was not poor. Its **income per head** was below that of the United States, the richest country in the world. But it was above that of Britain, the nation about which more Australians had direct or indirect knowledge than any other foreign country, and the one with which they reasonably compared their standard of living (see Table 1.1). Australia's population did not grow particularly quickly in the twentieth century. Indeed, concerns about its future at the beginning of the century led to the establishment of a Royal Commission into the Decline in the Birth Rate in 1904. The Commissioners reported with alarm that it would take 113 years for Australia to reach 20 million people – a fairly accurate prediction as it turned out (Olds 1993, p. 159).

Although Australia's population grew more quickly than that of Britain from where most nineteenth century settlers had come, it grew noticeably more slowly than some other lands of European settlement – Canada, the United States and Argentina (see Figure 1.1). This outcome was not due to a failure to reduce mortality: death rates in Australia fell significantly over the twentieth century. Rather, it reflected a relatively low birth rate and a restricted inflow of immigration. Table 1.2 shows the contribution of natural increase (the difference between birth rate and death rate) and net immigration (the difference between immigration and emigration) in the growth of Australia's population. Despite the fulmination of the Royal Commission against family planning, significantly raising the birth rate was not a likely outcome: Australia had already achieved the high average material living standards historically associated with smaller family size. Instead, Australia looked to immigration to boost population – at times the phrase 'populate or perish' was used in this connection.

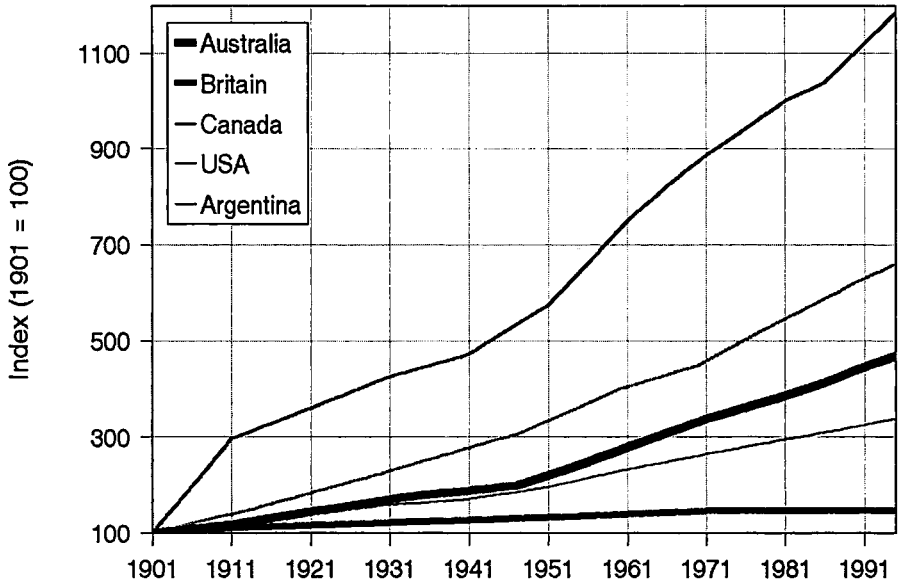
No doubt Australia's population growth would have been faster if immigration had been higher. There were periods when the inflow was relatively large, generally those years of higher economic growth and when Australian governments encouraged immigrants: the half a dozen years before the First World War, the mid-1920s and the 'Long Boom' from the late 1940s to the early 1970s stand out. At other times, net immigration was negligible or negative. In the late 1980s,

Table 1.1 GDP per capita in Australia, Britain and USA, 1905–09

Country	Gross domestic product (average 1905–09) £ millions	Population (average 1905–09) millions	GDP per head £
Australia	257.1	4.115	62.48
United Kingdom	1975.6	34.299	57.60
United States	5979.4	83.984	71.20

Source: Based on Mitchell 1992, pp. 4, 10, 749, 897, 1017.

Figure 1.1 Population growth: Australia, Britain, Canada, USA and Argentina, 1901 to 1995



Sources: Based on Mitchell 1992; UN *Yearbook*.

there was a return to higher intakes, but this faded in the 1990s. These ups and downs had less to do with supply than with demand. Comparatively high living standards 'pulled' people in Australia's direction, guaranteeing a constant supply of potential immigrants. But demand varied according to the country's perceived needs for labour, and for another reason. Before the 1970s, immigration was restricted by racism. The White Australia Policy dictated that most of Australia's immigrants should come from Britain and Ireland. When these were not forthcoming in sufficient numbers after the Second World War, Australia turned (somewhat reluctantly) to continental Europe and the Mediterranean. However, it did not turn to Asia or the Pacific until the late 1970s. The White Australia Policy was abandoned in a period when immigration levels were low. When the total intake rose in the 1980s, the proportion coming from Asia certainly increased, but the overall intake did not return to the higher levels of the 1950s and 1960s. Thus the adoption of a non-discriminatory immigration policy did not have much effect on total population growth.

Whether Australia would have been better off had it matched the more rapid population growth of America is uncertain. With more people there would have been more consumers and more labour. The size of the economy would have been larger. This might have attracted more capital **investment** and led to more **land** being released, the two other important factors in the production equation. But even if capital and land were increased in proportion to labour, it is unclear whether this would have translated into a higher *per capita* level of income. Economic growth *per head* requires **productivity** gains. Productivity rises when

Table 1.2 Contribution of net migration to Australia's population growth, 1881–1993

Period (calendar years)	Population at start of period	Population increase during period	Proportion of population increase due to net migration
1881–1890	2 231 531	919 824	41.6
1891–1900	3 151 355	613 984	4.1
1901–1910	3 765 339	659 744	17.9
1911–1920	4 425 083	986 214	22.5
1921–1930	5 411 297	1 089 454	27.9
1931–1940	6 500 751	576 385	5.3
1941–1945	7 077 586	352 611	2.2
1946–1950	7 430 197	877 284	40.3
1951–1955	8 307 481	1 004 344	41.2
1956–1960	9 311 825	1 080 095	37.5
1961–1965	10 391 920	1 072 437	37.3
1966–1970	11 505 408	1 158 061	47.0
1971–1975	12 799 600	1 169 300	31.5
1976–1980	13 968 900	838 500	38.0
1981–1985	14 807 400	1 093 200	39.3
1986–1990	15 900 600	1 269 200	50.3
1991–1993	17 169 800	576 000	29.0

Source: Based on Bureau of Immigration 1984–95, nos 13–18.

work practices improve or, more typically, when firms purchase new equipment that increases the output of their existing **labour force**. It was quite feasible that faster population growth in the twentieth century may have led to *lower* per capita incomes than were actually achieved, if extra labour was substituted for investment in the new labour-saving technologies. If this were true, it would imply that Australia's immigration program (the element in population growth more easily controlled by the government) was not unduly inadequate. Otherwise, the limits placed on immigration were also limits placed on economic growth.

Despite its geographic size and the importance of the rural economy, Australia was not a rural society. Its degree of urbanisation at the beginning of the century was remarkable, and remarked on by foreign visitors (for example, the American writer Mark Twain). Australia was more urban than the United States or Canada, though less so than Britain which was at that time the most industrialised society in the world (see Table 1.3). Australia's two largest cities, Melbourne and Sydney, between them accounted for 26 per cent of the total population in 1901 and 28 per cent 10 years later. The reasons for this high level of urbanisation lay in the nature of the rural economy and the preferences of Australia's nineteenth-century immigrants. Rural production was land intensive, but it did not absorb the bulk of either capital investment or population increases. As a result, most people lived in the coastal cities and earned their living by working in the

Table 1.3 Urbanisation in Australia and USA, 1891–1947

Year		Population (persons, 000)		Percentage of population living in urban centres	
Australia	USA	Australia	USA	Australia	USA
1891	1890	3152	62 948	56.4	35.1
1901	1900	3744	75 995	57.1	39.7
1921	1920	5406	105 711	62.5	51.2
1933	1930	6613	122 775	64.0	56.2
1947	1940	7561	131 669	68.9	56.5

Sources: Based on Vamplew 1987, p. 41; United States, Bureau of the Census, 1960, p. 14.

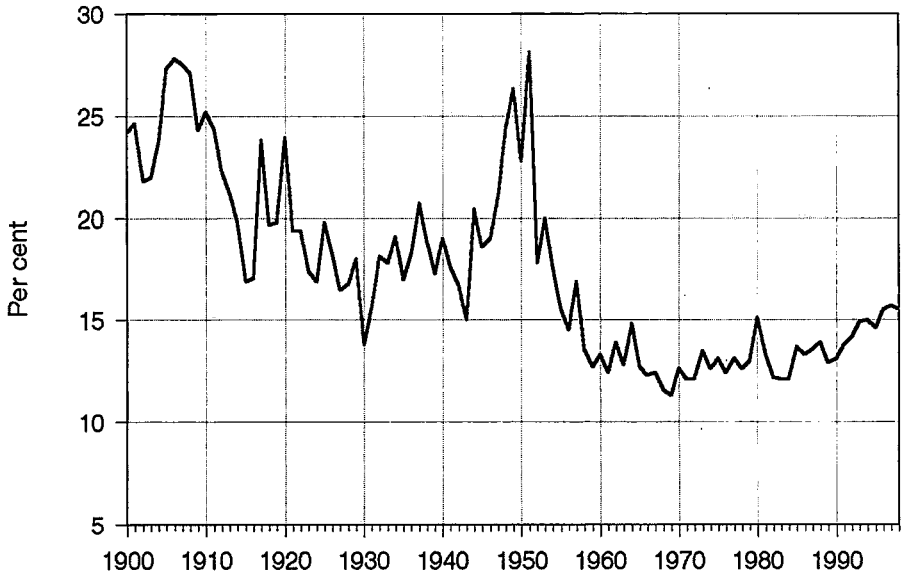
services sector (including construction and transport) and manufacturing. A great deal of Australia's nineteenth-century population growth was due to immigration from Britain and Ireland, and whatever the background of these migrants in their homeland, most showed a clear preference for city life over rural living once they arrived in Australia. As a consequence, Australia developed a vibrant and relatively prosperous urban economy, linked only partly to the rural economy that supplied the nation's export earnings. Competition between these two economies for resources and tension between them for power formed a permanent theme in Australian domestic politics during the twentieth century.

Reliance on the world economy

Australia was an open economy at the beginning of the twentieth century in the sense that it depended on the outside world for imports, capital, and, as discussed already, people. It was also open in the sense that there were few restrictions on imports and none on capital. Immigration was open to UK citizens, who could enter Australia at will, though not to other nationalities. Australia was open to ideas and new technology – and sometimes the rest of the world was interested in Australian social experiments. The share of exports in the Australian economy is shown in Figure 1.2. With a very limited manufacturing sector, Australians' high per capita incomes could only be converted to high material living standards through importing **consumer goods** as well as **capital goods** and equipment. Exports were the main means of paying for these, although international lending enabled Australia to live beyond its means for most periods during the twentieth century. The nature of exports was well established by 1900: wool and gold, the staples of the nineteenth century, still predominated, though they were now joined by a limited range of other primary products (wheat, meat, dairy produce and some base metal ores). The **primary products** that were exported were not usually processed in Australia, but entered the global economy as raw foodstuffs and raw materials.

Thus a dual economy had developed by the beginning of the twentieth century. One economy was rural and export orientated; the other was urban and,

Figure 1.2 Australia's export ratio, 1900 to 1997–98 (exports of goods as a percentage of GDP)



Sources: Based on Pinkstone 1992, p. 393; RBA 1996 p. 4; ABS 1998, pp. 15, 23.

as the century wore on, increasingly protected. Linkages between the two economies existed but were limited. Imports were essential, both to production and consumption. But some at least were also competitive, and seemed to undermine the urban economy. Since this was where the majority lived and worked, and Australia was at least partially democratic, **protection** from imports was a politically popular policy and one that lasted for nearly all of the century. It took the new Commonwealth less than a decade to embark on a protectionist stance that raised barriers to imports constantly for the next 60 years. This encouraged and sustained the growth of the manufacturing industry for most of these years and was an important element in Australia's industrialisation. Protectionism was the major factor that qualified Australia's openness.

Exports not only paid for imports, they also underwrote Australia's ability to attract foreign investment. Ultimately, foreigners who lent to Australian businesses or governments, or directly invested in the Australian economy, expected to be repaid with **interest** and to repatriate their profits. Some of the foreign capital that Australia was able to attract flowed into export industries. Most did not. Rather it consisted of loans to Australian governments (Commonwealth and State) and private investment (of loans or equity) in the manufacturing and services sectors of the economy. Foreign investor confidence in Australia was damaged by the economic crisis in the 1890s (see Chapter 3) but foreign capital inflow returned in the early years of Federation. State governments found that they could once again borrow on the London capital market and private businesses (especially those in the 'new' export industries and in nascent manufacturing) were also recipients of

British funds. State government expended their funds on building **infrastructure**, particularly railways.

The outbreak of the Great War in 1914 produced a series of foreign loans from Britain to the Commonwealth government and the return to peace and expansion of the domestic economy in the 1920s led to a further large capital influx. By the end of the 1920s, Australia had a **foreign debt** problem. Since most of this debt was publicly owed (and therefore could not easily be written off) the international economic **crash** at the beginning of the 1930s exposed Australia's vulnerability. Foreign capital dried up so the foreign debt stabilised, but interest and repayments continued, imposing a heavy burden on Australian living standards in the years before the outbreak of the Second World War.

The Second World War was a watershed in Australia's dependence on foreign capital. Sales of goods and services to the United States during the war enabled most of the existing foreign debt to be repaid. After the war, Australian governments raised the majority of their capital requirements at home, and private foreign borrowing was heavily regulated. Foreign investment flowed into Australia, but now it consisted almost entirely of direct investment by foreign firms, mainly in manufacturing industry. American investment edged ahead of flows from Britain for the first time. Post-war industrialisation depended on foreign investment, foreign technology and foreign workers – a feature that stimulated economic nationalism in the 1960s and led to the imposition of curbs on **direct foreign investment** in the early 1970s. Foreign capital also flowed strongly into the mining sector once the minerals boom of the 1960s was under way, a development that further heightened criticisms of foreign ownership. Financial deregulation in the early 1980s permitted a return to private foreign borrowing. By the end of the decade Australia once again was faced with a high foreign debt, stabilisation of which in the last decade of the century was one of the challenges of 'globalisation'.

Over the twentieth century, then, Australia's openness to **international trade** was qualified by its commitment to protectionist policies, while its dependence on export earnings to pay for both imports and foreign investment remained in place. Its openness to foreign capital was qualified by periods of **slump** when investors

SUMMARY BOX

In the twentieth century, Australia could be described as a small, open, export-dependent economy that relied on primary production for export earnings to pay for imports and foreign capital. Foreign investment and immigration augmented domestic sources of capital and labour. A dual economy developed between the rural export sector and the urban manufacturing and service sectors, where most Australians lived and worked. These features were qualified by restrictions placed on immigration, import barriers and regulation of capital flows. In the last two decades of the century, globalisation recreated some of the openness lost in the middle part of the century.

lost confidence (for example, the 1890s and 1930s) and by restrictions placed on foreign borrowing in the 1950s and 1960s, and foreign direct investment in the 1970s. Only with deregulation in the early 1980s did Australia return to the openness of international capital markets of the earlier part of the century.

International economy and economic growth

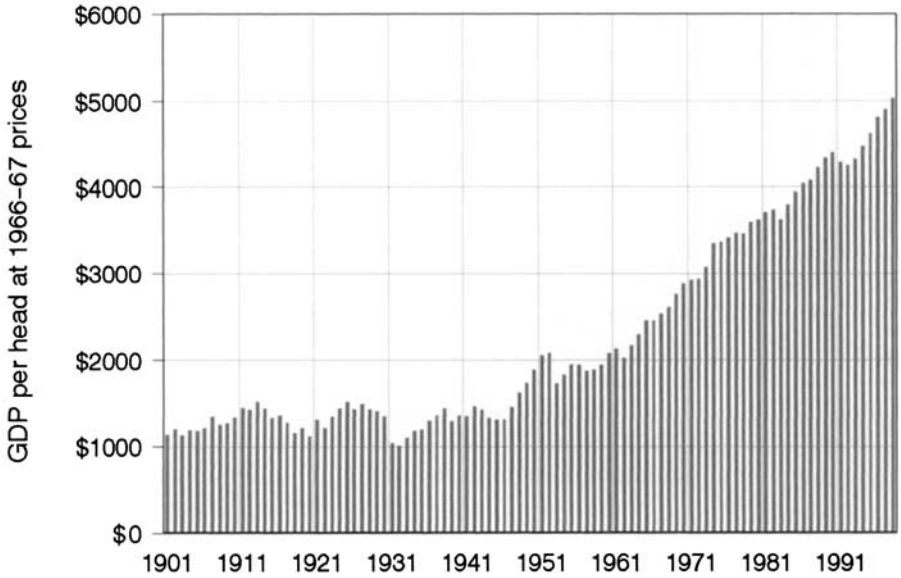
Australia's economic growth is depicted in Figure 1.3, which shows real output per head rising substantially over the twentieth century (this is the increase in per capita income mentioned earlier). Output per head increased in most years, though faster at some times than others. In a general sense, this increase represents the extent to which material living standards rose during the century. Australia's integration with the international economy played a major role in causing economic growth and shaping its contours. Periods of faster or slower economic growth in Australia coincided with similar patterns in the global economy leading to a close correlation between the pace of expansion internationally and domestically. Australia grew fastest when the world economy grew fastest, and when the world economy was stagnant, Australia's growth rate slowed as well. From this it might be concluded that Australia could not prosper unless the world economy was prosperous and that when this was the case, Australia was usually able to seize the opportunities for growth that the international economy offered. The global economy was Australia's pacemaker.

Local demand and the international economy

The linkages between the international economy and Australia's economy lay on both the demand and supply sides. Growth of the international economy consisted of expansion of world trade, capital flows and migration of people. Australia was affected by each of these. Faster growth of world trade implied rising demand for Australia's exports of primary products. In some periods of expansion, international demand for primary products was the most dynamic element (for example, before the First World War and just after the Second). The main driving force behind this demand was the rate at which industrialisation occurred.

As discussed in more detail in Chapter 2, industrialisation was fundamental to the growth of the international economy. By the start of the twentieth century, industrialisation was no longer a new phenomenon, having spread in the second half of the nineteenth century from Britain to Western Europe, North America and Japan. As industrialisation spread, and as industrialised economies continued to grow, demand for raw materials needed for the manufacturing industry expanded. Some countries (especially Canada, the United States and Australia later in the twentieth century) were able to supply much of what was required from their own resources, but even they increased their imports of raw materials to some extent. Other countries relied on imports even more, especially those, like Britain and Japan, that were poorly endowed with natural resources for large-scale industry. International demand for raw materials fluctuated with the rate and pattern of

Figure 1.3 Australia's real GDP per head, 1901 to 1998



Sources: Based on Butlin 1962, pp. 440–61; RBA 1996; ABS 1998.

these industrial countries' growth. Moreover, in Europe industrialisation had the effect of reducing national self-sufficiency in foodstuffs. Agriculture in industrial countries did not contract absolutely, but in the face of a rapidly rising population, food imports became vital. Industrialisation also led to the solution of the technical problems of developing international trade in perishable foodstuffs through the application of mechanised power to shipping and the invention of refrigeration. By 1900, international demand for raw materials was joined by international demand for food – both resulting from the spread of industrialisation – to produce expansive world demand for primary products.

Australia was hardly the only country able to supply these demands. In fact, some of the supply came from the industrialising countries themselves: Britain was the world's leading exporter of coal, for example, and Japan of raw silk. Moreover, industrialisation in North America did not mean an end to primary exports from the United States and Canada. Indeed, North America was the dominant source of internationally traded temperate foodstuffs. Other countries, yet to be industrialised, entered the world market as suppliers of temperate primary products. All of these suppliers were competitors to Australian farmers and miners. Australia was disadvantaged by its 'tyranny of distance' from Europe, a disability only partly mitigated by improvements in international transport. On the other hand, Australia's **comparative advantage** in certain primary products ensured that if world demand was buoyant, export sales would be made, though prices received fluctuated considerably.

Over the twentieth century, the opportunities for exporting primary products varied. Before the First World War, demand expanded because industrial growth

was strong. In the 1920s, however, the growth of industrial nations slowed and the competition to supply primary products increased, leading to weak prices and sluggish world trade. Many industrial countries decided to protect their farming communities from international trade. Population growth in the food-importing countries also slowed. Substitutes for raw materials increased in number and there were significant advances in the efficiency with which raw materials were used. Export-led growth in Australia became less robust as a result. In the 1930s, however, international demand for primary products collapsed completely as the industrial nations went into their worst economic slump – the Great Depression. Australia followed the industrial economies into the **depression** and was unable to recover until they did. Since their recovery was incomplete and had limited impact on the revival of world trade, Australia ended the fourth decade of the century in considerable economic distress.

After the Second World War, the situation changed dramatically. Economic growth in the industrial countries was again strong and temperate foodstuffs in high demand. Some of the highest prices ever paid for Australian primary exports were recorded in the decade following the end of the war. From the mid-1950s, international demand for primary products steadied, but three developments combined to reinforce Australia's dependence on primary exports. First, Japan's economic recovery and industrial expansion. Second, the onset of a minerals and energy resources boom in Australia. Third, the further spread of industrialisation, particularly in East and South-East Asia.

Japan emerged as a significant customer for Australian primary exports in the late 1950s and by the mid-1960s it had replaced Britain as Australia's major export market. The Australian minerals boom began in the 1960s and continued into the 1970s on the back of an extraordinary rise in international energy prices. Industrialisation in Asia, outside of Japan, began in the 1960s in Korea, Singapore, Hong Kong and Taiwan; and in the following decade in China, Malaysia, Indonesia and Thailand. These countries added significantly to world demand for primary products. Australia's own industrialisation after the Second World War eventually led to the growth of exports of manufactured goods, so that primary exports were not so overwhelmingly dominant at the end of the century as they had been for the first six decades. By the late 1990s, services exports also developed and some primary products were exported in a semi-processed form, including those that were genetically engineered. Nevertheless, international demand for primary products remained a fundamental element in Australia's ability to earn export revenue.

Local supply and the international economy

On the supply side, the expansion of the international economy produced capital and migration flows. Again, it was industrialisation that was the driving force. As industrialisation proceeded, accumulated capital found an outlet in international investment flows. The impact of nineteenth century industrialisation on population growth in the countries undergoing it was complex, but the net effect was to produce the world's first sustained population explosion, part of which became outflows of migration. Australia participated as a recipient in both of these international flows.