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## PART A

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## INTRODUCTION

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CHAPTER I

THE CONDITIONS OF  
AUSTRALIAN ECONOMIC GROWTH

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1. THE CONTOURS OF AUSTRALIAN  
ECONOMIC GROWTH

Australian economic growth followed the classic pattern of successful development through the establishment of a highly productive rural economy and the progressive re-orientation towards industrial activity. The process was achieved, formally, by the transfer of predominantly British factors, labour and capital, from an ‘old’ area of relatively high rents, low wage and low interest rates, their combination with the expanding local workforce, locally accumulated capital and new resources and the subsequent development of social and productive assets to enter into world trade and increasingly to meet local demands. In the middle of the nineteenth century, the critical problem facing the Australian colonies was an intense shortage of both social and productive capital equipment. The study of Australian investment and its implications for economic growth provides an opportunity to explore, with some possible application to more general cases, the conditions of transition from an undeveloped economy to a wealthy, if still immature, society. Indeed, in these circumstances, the identification of the special conditions of Australian success may be as important, for more general understanding, as the elucidation of familiar general processes.

In 1860, the Australian colonies made up a loosely connected group of economies. No stable society, no effective social order, no established pattern of settlement, no sustained utilisation of available new resources, no definite composition of economic activity or of foreign trade, no substantial capital equipment and no continuing national capital accumulation had been achieved. The original gaol, the pastoral expansion of the eighteen-thirties and the gold discoveries each had special contributions to make to later economic history of the nineteenth century. But it was not until 1860, approximately, that a process of economic growth, sustained, large-scale, and complex, was begun to bring the vast new resources of the Australian continent effectively under European control. Thirty years later, the foundations of an

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enduring western society had been established and the social and productive assets of a coherent, efficient economy and of a wealthy society installed. This transformation was a prodigious effort. It was the product of a rate of expansion paralleled only by the United States; and it depended on the allocation of an exceptional fraction of gross domestic product to capital formation. Three decades of growth were followed by collapse and prolonged depression from which the economy had not fully recovered by the turn of the century.

The story which emerges during 1860 to 1900 is one of growth and collapse. It is essential to bear in mind that this is part of a longer 'success' story, not an account of eventual failure. The period chosen represents a 'completed phase' of growth, leading to a subsequent re-orientation, adjustment to experience and further phase of development. This study must, necessarily, be directed towards the conditions of expansion and the circumstances which led to the reversal of growth and to depression.

Clearly, this can provide only a partial evaluation of this experience. Social and productive assets<sup>1</sup> established by 1890 appeared, in the 'nineties, to be redundant. But after 1900, many of the physical assets were turned to account and yielded handsome dividends for later Australians. It was not merely that unemployed productive equipment was re-employed. Far-reaching technological change and increase in total output were made possible after 1900, without corresponding outlays on new capital equipment, because of the productive capacity established during the thirty years before 1890. Dramatic changes in production functions could be contemplated, fundamentally affecting efficiency, saving rates and, most particularly, the rate of industrial development. Whether these changes in the twentieth century could have been achieved at this stage and speed without the prior miscalculations of the nineteenth is a fascinating question which must await longer-run investigation. The reservation is important that I am not concerned, in this book, with these long-term issues.

Inevitably, an important part of the story of Australian economic growth, dealing with a 'new' area, covers the utilisation of newly available natural resources and the development of highly productive rural activity. The production of raw materials and foodstuffs on a large scale, minerals, pastoral products and grains, gave Australia its special role in relation to the maturing British economy of the second half of the nineteenth century, along with similarly expanding 'new' areas, particularly in the Americas. Pastoral expansion, in particular, depended on heavy outlays on capital equipment to increase carrying capacity of occupied land and to secure access to unused areas. Capital

<sup>1</sup> The distinction is discussed at pp. 50ff.

formation and technical change in the major rural industry gave Australia two critical advantages. A form of pastoral activity emerged with an extraordinarily high labour productivity. And, as land was brought into productive use, the conditions existed for a massive natural capital accumulation through the multiplication of livestock across the face of eastern Australia.

But Australian economic history was not a footnote to the Industrial Revolution nor was Australia a sheep-walk for the benefit of British imperialism. A number of contrasts with other new countries emerged, contrasts which give Australian nineteenth-century problems a peculiarly modern flavour. More than any other growing new country of the time, Australia depended on the transfer of British resources, particularly to supplement local Australian savings. British funds dominated financing of pastoral assets and were a major part of the finances required for communications development. This transfer, the disposal of the greater part of exports to Britain and the purchase of most commodity imports in Britain, all suggest a special dependent relationship of a relatively simple and rigid sort. In fact, however, there appears to have been far less similarity between British and Australian economic growth than there was between Canadian, American or New Zealand growth, on the one hand, and British, on the other. Australian living standards appear to have been considerably above those of Britain; the rate of growth in Australia was far higher than that in Britain; the course of Australian economic activity was rather steadier than that of Britain, despite quite violent economic fluctuations in the rest of the trading world; the rate of Australian growth was not intimately dependent on export receipts; and the composition of output and the rate of growth appear to have been determined predominantly by local Australian considerations.

Britain had an important role in sustaining general expansion. But specifically, the critical decisions in capital formation and in the orientation of the economy were taken in Australia, by Australians and in the light of Australian criteria. Indeed, one of the implications of Australian experience appears to be that too little regard was paid to external factors and that parochial, long-term and non-market criteria led to eventual major miscalculation.

The absence of restraint may have contributed to two other special characteristics of the Australian economy at this stage. One was in the appearance of a 'mixed' economic system, a brand of capitalism in which public authorities had important parts to play in the detailed mechanisms of the economy, in the organisation of immigration and overseas borrowing and in large-scale capital outlays. The scale of government intervention prompted the contemporary description of

‘colonial socialism’. Throughout the whole period, government capital outlays, mainly in the provision of communications, accounted for one-third to one-half total capital outlays. This was a fraction far above that reached in any other capitalist country except for Japan and possibly also South Africa. Similarly, government borrowing overseas vied, in amount, with private borrowing from Britain, and government-assisted immigration was only a little less important than unassisted immigration. Finally, the major construction planning was carried out by public authorities and, as communications grew, the biggest single employers of labour and the leading ‘entrepreneurs’ were government officials. But most clearly at the level of capital formation, two distinct and roughly equal sectors, public and private, appeared, due primarily to the need for large-scale communications.

The outstanding characteristic of Australian economic history was, however, the exceptional rate of urbanisation of the local population and the extraordinarily early orientation of economic activity towards commercial-industrial specialisation and the tertiary services of urban society. By 1891, two-thirds of the Australian population lived in cities and towns, a fraction matched by the United States only by 1920 and by Canada not until 1950. Most of Australian capital equipment went into growing towns, most of the expanding workforce was employed in urban occupations and the greater part of gross product came from urban activity. Most important, manufacturing and commercial activity were two of the largest and most rapidly growing sectors of gross product, indicative of the increasing emphasis on the production of goods for domestic purposes and the scale on which import replacement contributed to the growth of the Australian economy at this stage. The process of urbanisation is the central feature of Australian history, overshadowing rural economic development and creating a fundamental contrast with the economic development of other ‘new’ countries.

Australian investment falls, conveniently, into three general themes: investment in urbanisation, investment in rural development and investment in communications. These form the three major parts of this book. There is, inevitably, some impressionism in this arrangement; nevertheless, it appears to be the most revealing approach to Australian economic growth. I have not attempted to deal exhaustively with the detailed components, especially in discussing urbanisation. This is partly due to lack of information; but there is little merit in exploring minor elements merely for the sake of completeness. In addition, the study of investment should not obscure the fact that some parts of Australian economic activity were not intimately dependent on the level of investment. This is not merely due to the fact that technological

change occurred irrespective of new capital equipment; on the contrary, it was in this period that the Australian economy relied for expansion on massive capital formation. But there were sectors of gross product which were highly labour-intensive. Some commodity production required little capital equipment; and most services other than transport services grew quite quickly without much capital formation. The significance of these labour-intensive sectors can be seen in the components of domestic product and the following discussion of the conditions of Australian economic growth.

In the sections to follow, it is not intended to offer a proper analytical appraisal of economic growth (a task I hope to undertake in the future). The remainder of this chapter is merely a brief descriptive sketch to set some of the context for the historical discussion in the main chapters of the book and to define rather than to explain a general pattern. *The sketch can be presented only with a great many reservations.* The summary statistical information that follows is designed to suggest orders of magnitude, not to invite detailed and precise comparisons in time and place. I have tried to avoid dependence on any great accuracy in the quantitative data which are, after all, only one form, sometimes the least satisfactory form, of economic and historical information. Nevertheless, it does seem worth while to attempt to convey the broad pattern and process of change implied in these data. Part of an explanation is suggested in the remainder of the book; I hope in a future analytical essay to attempt a more technical economic interpretation.

## 2. THE SCALE AND RATE OF ECONOMIC GROWTH

No sharp break followed the decline of gold production after 1856 or of the alluvial diggings in 1858. Unemployment on the goldfields themselves had, according to the Victorian Census returns, risen substantially. But this depended on the re-deployment of available manpower in the course of an economic expansion and a re-orientation away from the gold which had dominated the economy during the 'fifties. Expansion and re-orientation were proceeding smoothly and readily in the beginning of the 'sixties. Although gold production had fallen, it quickly stabilised and the level of economic activity as a whole did not fall. Gross domestic product, in constant prices, remained more or less stationary during 1861–62 and then moved upwards. At approximately one-eighth of gross domestic product, the level of capital formation was already respectably high, a foretaste of the expansive pressures to come. The New Zealand goldfields were tapping some of the gold-mining labour force, reducing the supply of labour. The increase in population which occurred in the early 'sixties did not represent a corresponding rise in the workforce; rather, the inflow of dependent migrants and the sharp increase in births helped to sustain effective demand and to accelerate the re-orientation of the economy as this motley collection of humanity settled down in its primeval isolation.

Achievements of economic growth are too often counted only in *per capita* terms. In the Australian scene, a basic part of the development to achieve an increase in output per head or in consumption per head was 'mere expansion' of scale through the increase and interlocking of areas utilised, a growth of total capital stock and an increase in population. This was, perhaps, inevitably the case because of the need to establish capital equipment and labour in largely unoccupied territory. But it was also due to a special Australian element: in so far as judgment is possible, Australian standards of living appear, around the mid-century, to have been considerably above those of any other western country, with the possible exception of New Zealand. Relatively to the rest of the world, standards had fallen greatly by the end of the century, primarily due to the catastrophe of depression and drought (though output per head still exceeded British income per head). But until 1890, in Australia, although the margin in standards appears to have narrowed, there was little scope for dramatic increases in *per capita* consumption or output. Some quite considerable increase per head occurred. But it is important to attempt to distinguish over-all increase in scale and change in *per capita* performance. Both are essential,



but different, ingredients of the process of economic development as a whole.

Gross domestic product<sup>1</sup> rose very rapidly after 1860. In current prices, the nineteenth-century peak was reached in 1889 when gross domestic product had risen as high as £221 m., or to some 300 % of the 1861 figure. This understates the achievement in real terms. Measured in constant prices, gross domestic product rose from £53 m. in 1861 to £203 m. in 1889, a rise to approximately 390 % of the 1861 level. Growth took place in a context of gradually declining prices which obscure the real movement. Moreover, price movements may conceal the nineteenth-century peak in real terms since the estimates suggest that gross domestic product, in constant prices, actually rose to £212 m. in 1891.

From most points of view, the year 1889 appears to be critical. Certainly, from that date, most current indicators of economic activity suggest the onset of a severe depression. Moreover, the exceptional real peak of 1891 appears to have been due to time-lag effects of the Maritime Strike which had little long-run bearing on the continuation of expansion. The level of activity fell heavily to a minimum point in 1895, when gross domestic product stood at 80 % of the 1891 peak. This was an abrupt and decisive end to expansion. Even though recovery had begun by the end of the century, the economy had not regained the earlier boom level.

Expansion over the three decades after 1860 was extremely rapid. Domestic product, in constant prices, rose to 1889 at a compound rate of 5.0 % p.a. If we take the later real peak of 1891, the compound rate of growth is reduced slightly, to 4.9 % p.a. This was an exceptionally high rate of increase even in the rapidly expanding trading world of the time. For what comparisons of available rates of growth are worth, the United States and Japan expanded faster, somewhat in excess of 5 % p.a. Australia occupied the next place, followed at a considerably slower rate by Sweden and Germany. In the light of the British connection, this comparison is, perhaps, more interesting. Despite the problems of deflating the series given in table 1, it is unlikely that the rate of increase of British national income was much more than half the rate of growth of Australian output.

Growth was not merely rapid. It was a complex development, resting on a fast increase of several important components; and, in the aggregate, it was highly stable and well sustained. Only very slight and brief fluctuations occurred in the long period between 1861 and 1889. The

<sup>1</sup> See my *Australian Domestic Product, Investment and Foreign Borrowing, 1861-1938/39*. The discussion in this chapter is based largely on that volume and footnote references are, therefore, reduced to a minimum. Constant prices are based on 1911.

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estimates of gross domestic product, in current prices, suggest that there were five very slight recessions in 1863, 1871, 1876, 1884 and 1886. These are based on a series of gross product including a component, the imputed value of changes in livestock numbers, which may not have affected the level of activity in the same way as other components. Excluding this item, we have the more familiar dating at 1863, 1871, 1879 and 1886.

Both sets of data are useful for different purposes. But both agree on the absence of significant fluctuations in output. All were single-year incidents; gross product did not fall in any 'recession' by as much, even, as 5 %; and recovery was usually very quick. Moreover, both agree that there was no *abrupt* decline in the rate of increase. The smooth expansion after the decade of high gold production continued rapidly throughout most of the very long period of 28 years (though, as we shall see, the rate of growth slackened somewhat in the latter part of the 'seventies). The smoothness of this path was remarkable in terms of behaviour in the rest of the world. However, it should not be taken to imply that there were no periods of significant unemployment, as distinct from declining output, before 1889. In fact, the rate of growth of population and of the workforce was so high after 1870 that there appear to have been occasions, particularly in 1879 and 1886, when very short but quite sharp bouts of unemployment occurred. These incidents arose more because the workforce continued to grow rapidly and the demand for labour did not keep pace; but in both cases recovery followed quickly.

This high stability of output over such a long period is, perhaps, even more striking than the speed of growth of the Australian economy. Major fluctuations, with turning-points at approximately decade intervals, occurred in the rest of the trading world. Here, too, the contrast with Britain is most illuminating and is shown in table 1.<sup>1</sup> Available estimates of British national income suggest that major fluctuations occurred in Britain, growth slackening particularly in 1874-79 and 1883-85. Similarly, estimates of British home investment point to major fluctuations, with troughs at 1869, 1879 (or 1881?) and in 1887, while drastic swings in foreign investment appear to have occurred, most importantly with low points at 1877 and 1883. Australian investment conformed to these movements rather more closely as can be seen in table 1. There is some sign of this British experience in the slight recession in Australia (a brief balance of payments crisis) in the late 'seventies and again (a planned reduction in

<sup>1</sup> British gross fixed home investment has a relatively small allowance, as estimated, for depreciation and it is necessary to be very cautious about the relative magnitudes of British and Australian capital formation. It is most probable, however, that the differences of treatment do not affect the fluctuations in the two series. It is possible that the British series of G.N.P. obscures a more serious downturn in 1867-68.