How Necessary Was the State in Australia's Economic Development?

H. M. Boot

Not as necessary as we once thought ...

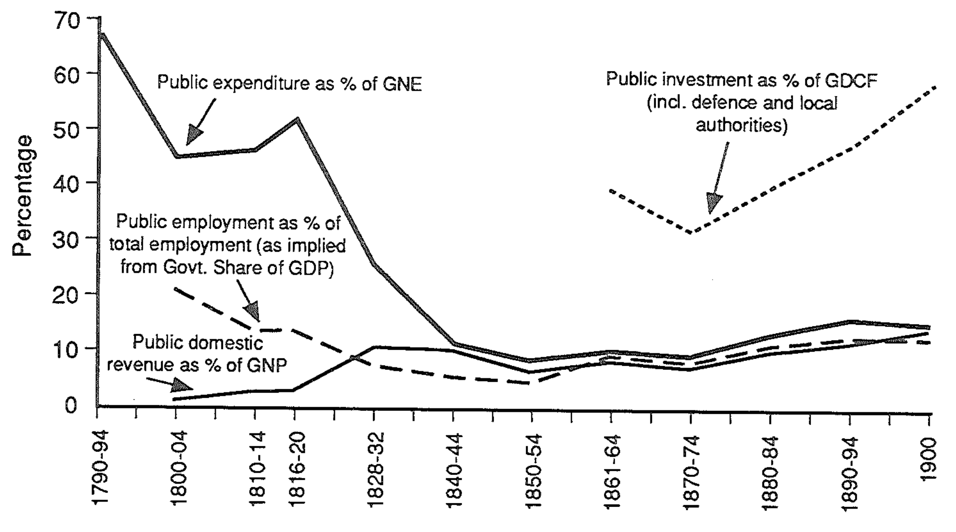
The conventional view of Australian colonial development is that the willingness of governments to intervene actively in the colony's economic affairs benefited economic development (Jackson 1977: 150). In recent years, however, doubts have surfaced about the benign role of government in the economy of colonial Australia. This article highlights some of those doubts. While excessive expenditure restraint applied indiscriminately to government may inhibit economic efficiency, nineteenth century experience provides little comfort to late twentieth century adherents of large scale government expenditure and economic intervention.

A conventional way of assessing the economic role of government is through the share of total income, expenditure and employment directly or indirectly controlled by government. Though the shortcomings of this approach are well known, it provides a useful first approximation of the main changes in the direction of government intervention. **Figure 1** indicates how government's role as a revenue raiser, spender and employer of labour in the colonial economy naturally divided into three phases.

- 1788-1828: when government shares of expenditure and employment dominate the economy.
- 1828-1856: when government's role as a revenue raiser, spender and employer was at its lowest.
- 1856-1900: the period of 'colonial socialism'.

These periods conform more or less to conventional phases of colonial development, and to the main constitutional changes affecting the Commonwealth. They also provide a useful structure for examining the changing impact of government on colonial economic activity.

Figure 1
Government as a revenue raiser, spender and employer



Source: Vamplew (1987), chs 7 and 8.

1788-1828

As the trends in Figure 1 indicate, the first forty years of settlement were dominated by large and continuing outlays by Britain in the transfer of people, goods and equipment to fund and sustain the settlement until it became established. To see these outlays as the cost of running a prison economy, or as related somehow to a judgment about the likely costs of, and returns to, establishing the colony is mistaken, however. As Butlin has recently shown, British expenditures were large because the Crown and its colonial representatives were unwilling or unable to monitor or to resist colonial

Dr H.M. Boot is Senior Lecturer in Economic History at the Australian National University and Principal of HMB Training and Research. As well as the role of government in Australian economic development, his main areas of interest include human capital theory and the history of training and skill formation in Britain and Australia.

claims on British resources, and because they were unable to prevent the resources so acquired being diverted to the private use of colonists (Butlin 1985a and 1985b). This arose in part because fiscal decision making in Britain during the early years of settlement was poorly controlled and incoherent, and fiscal reforms introduced into Britain at the end of the eighteenth century were shielded from the Australian colonies by rivalries between government departments. In part it was also because the Crown's representatives in the colony – the Governor and the commissariat – were themselves willing to comply with, or not to resist, local pressures to pass costs onto Britain and divert government resources to private uses.

At an early stage colonial governors learned that colonial food production met prison needs more effectively by granting land and convict labour services to private citizens than by attempting to produce food on prison farms using convict labour.

Colonists used a variety of ways to achieve these ends. The most important was the deployment of land and convict labour to the service of private citizens. At an early stage colonial governors learned that colonial food production met prison needs more effectively by granting land and convict labour services to private citizens than by attempting to produce food on prison farms using convict labour. Governors and officials also frequently made grants to themselves or to private citizens in payment for services rendered to the colony. In each case convicts working for private employers were usually supplied with rations paid for by the government. Output produced by the convicts was then sold to the government at prices set by those engaged in, or associated with the production of the goods. Another way of passing costs on to Britain was through the Governor's power to requisition goods and equipment from Britain, and to issue bills chargeable against London. The British authorities rarely queried such expenditures, but in any case it had no way of checking them since few records of value were kept by the colonial commissariat.

Governors found it equally hard to resist colonial demands. Some found it easier to comply because of official unwillingness to support a Governor when well-connected colonists appealed over his head to high-placed friends in England. Others, like Bligh, simply used government resources for their own purposes. Even when Governors did attempt to control public expenditures, or to prevent the 'privatisation' of public resources, lack of adequate monitoring procedures meant there was no sure way of checking that instructions were carried out, particularly after Governor King had passed authority to issue bills on London over to the Commissary. Finally, during the years between the departure of Governor Phillip and arrival of Hunter, and between the arrest of Bligh and arrival of Macquarie, British control over colonial affairs was extremely tenuous. At these times, the private interests of those left in charge of local administration left them more than ready to disperse public resources among local settlers.

Rather than blunt incentives or effort among the colonists, opportunities to privatise public resources encouraged local activity. Convicts found opportunities to earn money, while the prospect of making considerable fortunes from farming or trade induced many in the military, who would otherwise have contributed little to output, to engage in productive activities. In these ways productivity in the largest sectors of the workforce was raised significantly. The early concentration of colonial wealth which these processes also encouraged created opportunities for economies of scale and for greater application of capital and entrepreneurial effort to colonial production. Only in those areas where initiative was retained by the British government (for example, in the supply of convicts to the colony) or where government successfully limited private access to public resources (for example, during Macquarie's administration) was the growth process threatened or restrained.

The new perspective provided by emphasising these features shows early colonial society not, as it appears on modern television screens, a prison colony characterised by drunkenness and depravity, but one that was expanding vigorously, with high and rising living standards and driven by private incentives. Government in this picture is certainly benign, but largely because it was either unable to inhibit private enterprise, or because local administrators recognised at an early stage the value of using private rather than government initiative to achieve economic success.

1828-1856

The middle years of the 1820s mark a turning point in the relationship between government and the colonial economy. From then on the British government began actively disengaging from its expenditure commitments in Australia. This change was the product of greater determination by the British Parliament and Treasury to monitor and to economise fiscal commitments in general after 1815. It is in this context that Commissioner Bigge's examination of the New South Wales Colony between 1819 and 1823 should be seen, rather than as the product of conflict between Macquarie and his colonial critics. For their part the colonists faced rapid adjustment. British withdrawal passed the burden of local administration onto the colonists themselves. Tax and other revenue raised in the colony increased from 3 to 11 per cent of GNP in the 1820s. In absolute terms it increased by ten times in the 1820s and a further four times in the 1830s to exceed £1 million by 1840. Set against the otherwise rapid growth of the economy however, even these increases could not prevent the 'presence' of government declining from 33-40 per cent of GDP in 1822 to 20 per cent by 1840, and to less than 10 per cent on the eve of self- government in 1856.

The relative decline in British expenditures probably slowed the rate of economic expansion in the middle and later 1820s, and was an important element helping to depress the economy in the early 1840s (Butlin, S.J. 1968: 319). Another consequence was to force the colonial administration to begin the urgent task of reforming its public sector establishment, and financial and administrative procedures (McMartin 1983: chs 8-10). The reforms were substantially carried out in the late 1820s by Governor Darling, and resulted in regularity being imposed on public financial transactions, and the laying of foundations for a modern budgetary cycle. So effective were the reforms that, in spite of the breakneck speed of population growth after 1828, the enormous expansion in the area of land settled, the onset of serious depression in the 1840s, and the discovery of gold in 1851, no major changes in public administration took place in the 25 years preceding the introduction of self-government in 1856.

The reforms permitted active financial disengagement without too much disruption, and made it possible for British authorities to monitor and direct colonial policy more easily to the requirements of British interests. During the ten years to 1841, land alienation in

The prospect of making considerable fortunes from farming or trade induced many in the military who would otherwise have contributed little to output, to engage in productive activities.

Australia, migration policy, and the expenditure of the greater part of colonial revenues were directed by ideas of colonial development formed in Britain by Wakefield and his followers, rather than by the interests of the colonists. Although population tripled in ten years under these policies and convict transportation to New South Wales was brought to an end, they also ushered in a period of severe restraint in government expenditure which was reinforced by the local Legislative Assembly during the depressed years of the 1840s. The combination of closer British scrutiny and demands for economy, with growing demands for more local control and even more economy was to end during the 1840s in a destructive attack on government spending and searing conflict between the local Colonial Council and Governor Gipps. In the 1830s British policy reduced expenditure in the Colonial Surveyor's office and the Engineer's Department and prevented almost any increase in public capital formation in spite of the enormous growth of population and spread of settlement. Further attacks on government spending in the 1840s led by the local Colonial Council emasculated the Surveyor's and Engineer's departments leaving them incapable of performing their functions. Police and education services were also seriously neglected, as was staffing of the public service generally. Later public servants were to look back on the early 1850s as the period when the service was at a lower ebb in terms of quality and adequacy than at any time in its history.

1856-1890

Following self-government in 1856 the direction of government policy changed from one of fiscal withdrawal to one of increasing engagement in the economy. Over the next forty years numbers employed by government increased by over ten times, a rate of growth well above that of the total workforce. Government revenues rose fiftyfold, while total expenditure increased more than sixtyfold. Traditional functions like education, health, policing and justice grew in scale and complexity; more and larger public buildings, harbours, and defence works were constructed; tariff and land policy became more complex, and towards the end of the century increasing concern with labour markets and economic stability brought the government into contact with the private economy at an ever-increasing number of points. It is this growth in scale, as much as the increasing share of the economy in government hands, which makes government intervention such a striking feature of colonial history in the second half of the century, and which has led to these years being characterised as the era of 'colonial socialism' (Butlin 1959: 27).

Quantitatively, and in terms of its impact on the economy, the change attracting most attention from historians is the role of government in domestic capital formation. Public sector capital formation grew to 60 per cent of gross domestic capital formation by 1900, making government by far the largest investor and employer in the colonies. The dominant expenditure item was railway construction where annual expenditure absorbed 64 per cent of government expenditure on capital formation in the 1880s, making railways second only to private residential construction as the largest single item of investment in the economy.

Colonial governments initially undertook railway construction cautiously and with fairly strict attention to profitability. Once committed, however, concern for profitability soon gave way to emphasis on unquantifiable political, social and developmental considerations, leaving the likelihood of foreseeable economic returns playing little or no part in decisions to enter into larger expenditure programs. These commitments naturally brought colonial governments and private interests into competition for capital and labour resources. Public sector employment increased from five to fourteen per cent of total employment between 1850 and 1890, giving governments an increasingly strong influence on labour markets. A similar influence was felt in local capital markets where a large share of available savings ended up in government coffers. When colonial governments entered the London capital market in the 1880s, the strong preference among British investors for safe government securities ensured they received preference over private colonial borrowers.

How far this competition 'crowded-out' private sector activity is not certain. According to Butlin's highly authoritative account, government competition raised labour and capital prices, particularly after 1877, when they acted to depress the growth of Australia's manufacturing sector. It is difficult to know how far Butlin's hypothesis holds, however. Abundant evidence of overinvestment exists in several areas of private activity in the 1880s and the fact that interest rates were lower in the 1880s than in the 1850s suggests capital shortages may have been less limiting to growth in some private sectors than historians have supposed. It is equally difficult to judge the effect on wages because governments moved to relieve pressure on labour markets through assisted immigration. According to Butlin assisted migration made little impression on the trend of wage costs even during the migration peaks of 1877 and 1883, but it is difficult to accept this entirely. Assisted migrants accounted for 45 per cent of all arrivals between 1871 and 1890, and though a reduction in assisted migrant intake would have been offset to some extent by a greater unassisted intake, it is very likely that numbers arriving in Australia would have been lower and consequent labour shortages and wage costs higher in the absence of assisted migration.

Government competition for capital and labour may also have been less limiting to manufacturing growth after 1877 than Butlin supposed. Though that competition reached a peak in these years, so did world competition in manufactured goods. The fact that colonial manufacturing grew faster after 1877 than the economy as a whole in spite of its relative inefficiency, suggests labour and capital supplies were less of a problem than Butlin supposed.

Less certainty surrounds other consequences of government commitment to railway construction. Land and tariff legislation, among other things, were both subverted to the needs of government commitments to railway investment (Butlin 1964: 377). Land legislation is a clear case in point. The series of land acts passed in the 1860s were designed to make land available to small farmers on relatively easy terms (Roberts 1924). In the event the acts failed in their intention, but when they were reformed in the 1870s, it was clear the main effect of the revisions was to encourage existing leaseholders to commit funds on a large scale to strategic land purchases as a means of preventing encroachment by smaller farmers. The result was a large increase in revenue from land sales and improvement in budgetary surpluses. When, in the early 1880s, the New South Wales government came to realise its land sales were prejudicing its ability to raise funds in London it revised the laws to favour large leaseholds and produced a sharp fall in land sales.

Tariff policy has usually been discussed in terms of the different responses of the Victorian and New South Wales governments to radical demands of unemployed gold miners at the end of the 1850s, but it is much more useful to see it in terms of the revenue needs of the two governments.

Tariff policy has usually been discussed in terms of the different responses of the Victorian and New South Wales governments to radical demands of unemployed gold miners at the end of the 1850s, but it is much more useful to see it in terms of the revenue needs of the two governments. Both governments relied on tariff revenues when income from other sources declined, but it was only in the late 1860s, when budgetary needs increased, that protectionist interests became ascendant in Victoria and tariffs there took on a distinctly protective character (Coghlan 1918: ch.8). In New South Wales, land revenues were large, allowing mercantile lobby groups with interests in cheaper imports to remain in the ascendancy. Had the budgetary positions of the two colonies been reversed the outcome of the tariff debate, and subsequent developments in manufacturing might have been significantly different.

Adding together the pluses and minuses of nearly 40 years of railway building, we find 20,000 miles of track were opened by 1901 at a total cost of £167 million. This item accounts for the greater part of Australia's public debt of £211 million (101 per cent of GDP) in 1901, most of which was accumulated abroad. In financial terms the returns to this investment were meagre and slow to emerge, and it is impossible not to conclude that much of the building undertaken was a waste of resources. Aggregate net revenues from railway services (after deducting wage costs) amounted to only £73 million by 1901, well below the amount required for depreciation and maintenance, and to cover interest on money borrowed. Many lines need never have existed. They rarely did more than duplicate existing transport routes, and drive private carriers out of business. They made no serious reductions in transport times or costs, and were of little value in times of drought. They created a government monopoly of land transport which, though not used to extract monopoly rents, stultified the potential value of railways and allowed much irrationality in railway pricing policies.

At a larger level it is questionable how far government railway building improved economic growth. Most expenditures on railway capital formation leaked out as imports, providing little direct stimulus to local manufacturing except for some small aspects of repair and locally supplied building materials. Had fewer resources been directed to railway construction, or had the private sector been more free to respond to a pattern of factor prices undistorted by government demand for labour and capital and by its land and tariff policies, the manufacturing and agricultural sectors might have grown faster and aggregate net returns to investment might have been higher. In which case aggregate income would have been higher. There is also no doubt that government willingness to borrow large capital sums from London helped to maintain domestic consumption at extraordinary levels in the 1880s. At the same time, by investing those funds into projects which made little or no contribution to the stock of tradeable goods in the short-run, the economy was left with a current account deficit and foreign debt burden which eventually brought the economy to crisis and the boom to a close.

In the wider perspective of Australian economic growth and development, these points lead to the conclusion that the expansion of government made limited contributions to the economy after 1856. It will be recalled, however, that economies in expenditure between 1828 and 1856 left the public sector unable to perform essential economic and social functions adequately. It is possible that after 1856 a less constrained central and local public service allowed colonial governments to perform better in areas other than those examined in this essay. On balance, however, it is hard to see how improved performance in other areas could have offset the harmful consequences of the excesses of the late 1870s and 1830s, which arguably may be said to have affected Australian growth until the later 1930s. ■

Many lines need never have existed. They rarely did more than duplicate existing transport routes, and drive private carriers out of business. They made no serious reductions in transport times or costs, and were of little value in times of drought.

References

Butlin, N.G. 1959, 'Colonial socialism in Australia, 1860-1900', in H.G.J. Aitken (ed), *The State and Economic Growth*, Social Science Research Council, New York.

____ 1964, *Investment In Australian Economic Development*, 1861-1900, Cambridge University Press, Cambridge.

____ 1985a, 'What a way to run an empire, fiscally!' Working papers in economic history, No.55, Australian National University, August.

____ 1985b, 'Free lunches antipodean style; N.S.W. economy 1788-1810' Working papers in economic history, No. 57, Australian National University, October.

Butlin, S.J. 1968, *Foundations of the Australian Monetary System 1788-1951*, Melbourne University Press, Melbourne.

Coghlan, T.A. 1918, *Labour and Industry in Australia*, vol. II Oxford University Press, Oxford.

Jackson, R.V. 1977, *Australian Economic Development in the Nineteenth Century*, Australian National University Press, Canberra.

McMartin, A. 1983, *Public Servants and Patronage: The Foundation and Rise of the New South Wales Public Service, 1786-1859*, Sydney University Press, Sydney.

Roberts, S. 1924, *History of Australian Land Settlement, 1788-1920*, Macmillan in association with Melbourne University Press, Melbourne.

Vamplew,W.(ed.) 1987, *Australians: Historical Statistics*, Fairfax, Syme & Weldon Associates, Sydney.