

**REVIEW ESSAY: The Cambridge Economic History of Australia, edited by Simon Ville and Glenn Withers, Cambridge: Cambridge University Press, 668+xxi.
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This excellent book provides a comprehensive account of Australia's economic history from the beginnings of European settlement in 1788 to the present. The story is told in four main parts covering: (1) the transition from a pre-colonial aboriginal population to a settler economy based on penal transportation from Britain between the late eighteenth and mid-nineteenth centuries (2) the expansion of the colonial economy under self-government during the second half of the nineteenth century (3) the formation of a "national economy" in the first half of the twentieth century, following Federation and (4) the building of the modern economy from the mid-twentieth century to the present, based on globalisation and liberalisation. This chronological narrative is fronted by an introductory part which provides historiographical perspectives and an analytical framework based around economic growth. It is then followed by a concluding part with a very useful statistical appendix and narrative, together with a number of thematic chapters, including an innovative reflection on the experience of the last two centuries from the perspective of the indigenous peoples.

1. Getting an Overview

With a daunting 24 chapters spread over 668 pages, I found it helpful to begin reading with Chapter 21, "A Statistical Narrative: Australia, 1800-2010", by Matthew Butlin, Robert Dixon and Peter J. Lloyd, which is accompanied by a statistical appendix. This charts many of the key time series, which have been assembled on a consistent basis at an annual frequency for the whole period. The original sources are described, and it is easy for the reader to see how they have been manipulated to derive the series which are charted in a helpful series of graphs to give a broad overview of Australian economic development over more than two centuries. I then found it helpful to turn to Chapter 2 on "Australian Economic Growth and its Drivers since European Settlement" by Jacob B. Madsen, for an understanding of the periodisation chosen by the editors. Although some of these periods can be linked to political changes such as Federation in 1901, they can surely be understood most easily with reference to changing patterns of economic growth, charted here in Figure 1.

FIGURE 1 NEAR HERE

The first period, lasting from 1788 to the 1840s marks the establishment of European settlement on the Australasian continent. During this period, GDP per capita for the European settlers fluctuated but without any clear upward trend. The second period from the 1840s to 1901 was characterised by a clear upward trend as the economy's natural resource base was exploited, although the end of this phase was marked by a severe slump between 1891 and 1896. The third period during the first half of the twentieth century was marked by a return to fluctuations without any clear upward trend. The fourth period from the mid-twentieth century to the present has seen a return to steady growth, following a brief period of volatility during and immediately after World War 2.

Part 1 also includes two methodological chapters, by William Coleman on "The Historiography of Australian Economic history" and by Christopher Lloyd on "Analytical Frameworks of Australia's Economic History", which I think are easier to appreciate at the end rather than at the beginning.

2: Transition: 1788 to the 1840s

An interesting issue here concerns the question of the standard of living of the aboriginals and the early settlers. In his chapter on “The Aboriginal Legacy”, Boyd Hunter does an excellent job of revisiting Noel Butlin’s innovative work on this period in the light of much subsequent research. He argues that the productivity of the aboriginal people compared favourably with that of the early settlers, who struggled to establish stable food supplies, without getting carried away by claims of an “original affluent society”. He shows convincingly that assumptions of simple, limited and geographically uniform technology have been debunked, but recognises that in a hunter-gatherer society, the need for portability limited the accumulation of goods and implements. He is also sceptical of anthropological interpretations of exchange as gift giving and ceremonial rather than economic.

The chapter on “The Convict Economy” by David Meredith and Deborah Oxley provides a fascinating account of the early years of the settler colony. Transportation began in the early eighteenth century as part of a policy of moving Britain away from the death penalty for all but the most serious offences, with convicts originally being transported to America. After American independence, a new location was required, and in 1788 New South Wales was founded as a penal colony. Convicts were largely male, young and skilled, and despite often lacking rural skills, quickly adapted to establish a colony with a high standard of living. The convicts were better-fed than in England, and worked in a similar manner to ordinary workers, but subject to military regulations and discipline. With a sharp increase in the number of convicts arriving after the end of the Napoleonic Wars, new lands suitable for wool production were brought into use, establishing Australia’s staple export. Convicts formed a large share of the labour force, and the colony had a strongly skewed sex ratio during its early years.

FIGURE 2 NEAR HERE

Both chapters include a surprisingly impressive amount of quantitative data. Nevertheless, I found myself wanting to know more about some basic questions concerning this period. The statistical appendix provides data on population and GDP in constant prices back to 1801 for the settler community. These data suggest a high standard of living already by the start of the nineteenth century at around A\$6,000 in prices of 2010-11, which can be converted to 1990 international Geary-Khamis dollars for comparison with the more familiar units used by Maddison (2010). This works out at over \$2,000, which is around 5 times bare-bones subsistence, and already on a par with Great Britain at that time. It is interesting to speculate what difference the inclusion of the aboriginal community would make to this picture. Maddison (2010) included an allowance for the aboriginal community in his estimates of Australian GDP per capita, plotted in Figure 2 alongside the new series produced for this volume. Maddison assumed that aboriginals lived at bare bones subsistence of \$400, so that GDP per capita for Australia as a whole increased from \$518 in 1820 to around \$2,000 by the 1840s, as the aboriginal community suffered a catastrophic decline in numbers due to disease and violence. If Boyd Hunter is right, the assumption of aboriginals living at bare bones subsistence would need to be revised upwards, and could make early nineteenth century Australia as a whole substantially richer than suggested by Maddison. This is relevant to understanding the ultimate (as opposed to proximate) reasons for the success of Australia: geography versus institutions. Was Australia successful due largely to the initial endowments found by the settlers, or was it due to the institutions that they brought with them? If the aboriginal economy was living close to bare bones subsistence, then the success can be attributed largely to the institutions imported from Britain. But if there was little difference

between the productivity of the settlers and the aboriginals, geography must have played a more significant role.

3. The economic expansion of the colonies: from the 1840s to 1901

As Madsen points out in his overview chapter on growth in Part 1, there were a number of growth phases during the nineteenth century. Following a period of fluctuations without trend growth, lasting from settlement in 1788 to the end of the 1830s, the period from the beginning of the 1840s to Federation in 1901 can be divided into three phases: rapid growth during the 1840s, continued growth at a slower pace from the 1850s to the end of the 1880s, and a sharp growth reversal during the 1890s. The six chapters in this section can be characterised as covering a range of topics that contribute towards an understanding of these trends, but without being tied to a specific explanatory framework. Someone looking for an explanation based on the proximate sources of growth could turn to the chapter on “Labour Skills and Migration” by Andrew Seltzer for the contribution of labour, the chapter on “Infrastructure and Colonial Socialism” by Henry Ergas and Jonathan Pincus for the contribution of capital and Gary Magee’s chapter on “Technological Change” for the contribution of technology. The chapter on “Colonial Enterprise” by Simon Ville could also be seen as contributing to an explanation of total factor productivity growth. However, there is no accounting exercise to assess the relative importance of the various inputs and total factor productivity growth.

Someone interested in the ultimate causes of growth could see a focus on first nature geography (natural resource endowments) in the chapter on “Industrialising Australia’s Natural Capital” by David Greasley, and perhaps more tenuously on second nature geography (agglomeration effects and market access) in Lionel Frost’s chapter on “Urbanisation”. However, there is surely a much greater emphasis on institutions in the majority of chapters, particularly through the role of government, and also through the inclusion in Part 6 of a chapter by Edwyna Harris on “Property Rights Regimes and their Environmental Impacts”. The positive role played by government in Australian economic development in the nineteenth century is most obviously emphasised by Ergas and Pincus, who characterise development as requiring investment in reducing the costs of transport and communications in (as well as to and from) a large and sparsely populated continent. Although the private sector played a key role in the development of clipper ships linking Australia to Europe, the government played a larger role in infrastructure investment within Australia, compared to other colonies. Infrastructure investment boosted the value of Crown lands that could be sold to immigrants, providing revenue to finance further rounds of investment in a virtuous circle. This “colonial socialism” left a lasting legacy for Australia’s political economy. Magee emphasises the role of the patent system in encouraging the adaptation of technology from abroad for use in the different environment of Australia, and the discovery of new productive uses for the abundant resources that the settlers found there. He characterises Australia as participating in the global technology market, needing to specialise. Given that Australia did not possess sufficient expertise to produce efficient and viable technology across the full range, it needed to take international technology off the shelf in some areas. Seltzer notes the role of government in attracting immigrants through schemes of assisted migration and intervening in labour markets, initially through regulation of convict labour, but spreading to non-convict labour from the early 1870s. Greasley points to the role of government in the exploitation of Australia’s natural resources, initially through land sales, then the granting of rights to squatters and moving on to the licensing of small workings during the mining booms. Frost emphasises the role of planning in the process of urbanisation.

FIGURE 3 NEAR HERE

The nineteenth century in this volume is told primarily as a story of the expansion of primary production, first sheep and wheat, then minerals, especially gold. An initial period of growth booms and reversals without any sustained increase in the level of per capita GDP is seen as giving way to a period of sustained growth from the 1840s to the beginning of the 1890s. During this period, Australia had the highest per capita GDP in the world, at times 30 to 40 per cent higher than in the United Kingdom (Figure 3). However, this boom period ran into problems with a catastrophic growth reversal during the 1890s. Although the scale of the downturn varies between alternative estimates, the most widely accepted series by Noel Butlin, which is used here, puts the decline at 20.6 per cent between 1891 and 1896. This decline clearly reflected a downturn in the international terms of trade, but there were also signs of concern in international markets about unsustainable borrowing. The chapter on “Capital Markets” by Rodney Maddock comes later in the volume, but also discusses this period, pointing to the speculative asset price bubble in property as well as mining and government bonds. Of 64 deposit-taking institutions in 1891, 54 had closed by 1893, 34 of them remaining permanently closed. Agriculture and mining were clearly important drivers of Australian development and the ups and downs of the cycle, but together they rarely accounted for more than 40 per cent of GDP between 1840 and 1900. I would therefore have liked to see much more attention being devoted to industry and services in this section of the book, to provide a more rounded picture of the economy.

4. The formation of a national economy: the first half of the twentieth century

Although the economy bounced back from the slump of the 1890s, there were further growth reversals, including a 20.0 per cent decline in GDP per capita between 1929 and 1931, so that the 1889 peak was not decisively surpassed until the late 1930s. Furthermore, there was another substantial setback during and after World War 2, with GDP per capita falling by 17.6 per cent between 1943 and 1947. During this period, GDP per capita in Australia was about the same as in the United Kingdom, and Australia’s period of exceptional performance was over (Figure 3). The conclusion that I found myself driven towards here was that Australia did not thrive during the era of de-globalisation in the first half of the twentieth century (Findlay and O’Rourke, 2007). I expected to see an emphasis on the difficulties created for Australia by the faltering of international trade growth and restrictions on the free flow of capital and labour. However, these themes are surprisingly muted here. Rather, the focus is on how Australia managed to industrialise by embracing protectionism. This is a central theme of Diane Hutchinson’s chapter on “Manufacturing”, which emphasises that industrialisation could not have occurred naturally in Australia because of high productivity in the resource-based sectors, combined with high wages. This seems a natural way to shed light on Australia’s poor productivity performance and relative economic decline during the interwar period (Broadberry and Irwin, 2007). Although this perspective is mentioned here, more attention is devoted to factors such as the creation of employment, balance of payments and strategic benefits, and even the symbolic value of industrialisation as a sign of modernity in the first half of the twentieth century.

Whilst government and public policy during the nineteenth century are presented in a highly favourable light in this volume, the tone can be seen as more ambivalent during the first half of the twentieth century. As already noted, the policy of protectionism has been seen by at least some commentators as encouraging a shift of resources into low productivity sectors. John K. Wilson, in his chapter on “Government and the Evolution of Public Policy” after Federation also notes a host of other extensions of government intervention to override

market outcomes during this period. In product markets, the growing monopoly power of firms arising from tariffs was strengthened further by the toleration of cartels and restrictive practices, following the recognition by the legal system of the notion of acceptable measures to avoid “ruinous competition”. Labour markets saw the introduction of a formal “White Australia” policy on immigration, and the creation of a Commonwealth Conciliation and Arbitration Court to settle industrial disputes. Tim Hatton and Glenn Withers describe in their chapter on “The Labour Market” how the latter led effectively to a system of centralised wage-setting.

The focus during this period shifts away from natural resources towards manufacturing, with a chapter on “Big Business and Foreign Firms” by David T. Merrett, as well as the chapter on “Manufacturing” by Hutchinson. However, services also receive a fair amount of attention in this section. In addition to an informative chapter on “The Service Economy” by Monica Keneley, the banking sector is also discussed separately in Maddock’s chapter on “Capital Markets”.

5. Building the modern economy: from the mid-twentieth century to the present

The period since the mid-twentieth century contains three chapters, with Richard Pomfret covering the “Reorientation of Trade, Investment and Migration”, while Jeff Borland writes on “Microeconomic Reform”, and Michael Keating on “The Evolution of Australian Macroeconomic Strategy Since World War 2”. The central theme here is the changing nature of Australia’s participation in the global economy as the process of reglobalisation gathered pace after World War 2, particularly from the 1980s.

Change was inevitable after World War 2 as a result of Britain’s declining role in the world, highlighted by the War in the Pacific, which left Australia vulnerable to the threat of Japanese invasion. As Britain sought to enter the European Common Market, it became clear that Australia would need to diversify its trading links. There is a slight irony here, as links which had survived a period when transport and communication costs were so high, finally disintegrated just as technological change and declining costs heralded the “death of distance”. Readjustment was at first quite slow, as Australia clung to the protectionist policies of the first half of the twentieth century and retained preferential trading agreements with the United Kingdom until the latter’s accession to the EEC in 1973. Indeed, Pomfret points out that uniquely amongst high-income countries, Australia’s openness, as measured by the ratio of imports plus exports to GDP, was lower in 1975 than in 1960. Change nevertheless came about during this period with the growing influence of East Asian economies in the world market. As other western economies worried about the threat to their industries from Japanese competition, Australia benefitted from Japan’s increased demand for raw materials. The growth of Newly Industrialising Countries such as South Korea and Taiwan had a similar effect during the 1980s, followed by China and India from the 1990s. As communications improved and more Australians travelled abroad, they became less willing to put up with restrictions on what they could import, particularly in areas where domestically produced goods could not compare with the highest international standards.

The first reform efforts were made in the mid-1970s, but the pace of change accelerated in the 1980s. These reforms are given largely domestic explanations here, but I was struck by the similarity of the timings with policy changes in the United Kingdom, the United States and other OECD countries. This similarity is acknowledged by Borland, but he nevertheless emphasises what he sees as distinctive aspects of the Australian situation, claiming that the reforms were more extensive than in other countries, but at the same time more gradualist,

and initiated by a government of the left. Perhaps this was the case, but I would have been more convinced if these differences had been demonstrated rather than asserted.

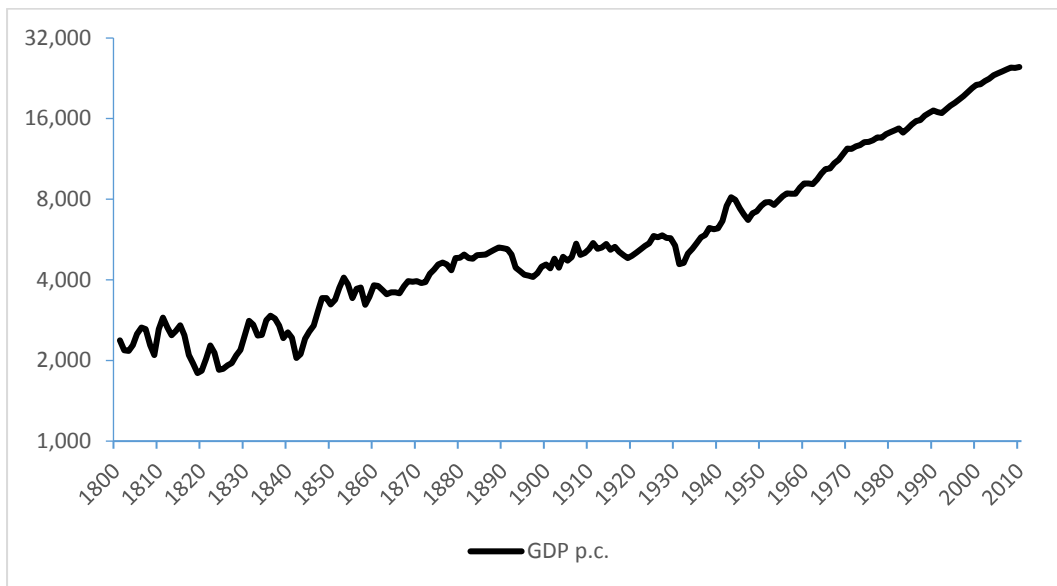
One overarching theme which I felt could have received more emphasis, particularly in the chapter on microeconomic reform, was the role of technological change as a key driver of the need for reform. During the era of mass production, with standardisation of products and processes, heavy regulation seems to have been consistent with good economic performance across the world. Indeed, many writers see tripartite agreements between unions, employers organisations and governments as underpinning the high rates of growth achieved during the “Golden Age” between 1950 and 1973 (Eichengreen, 2007). Even the socialist economies of eastern Europe were able to achieve high rates of growth during this era, as central planners were able to mimic the allocation of resources within large corporations (Broadberry and Klein, 2011). However, with the growing importance of information and communications technology and the spread of flexible production methods, central planning and even corporatist institutions in the OECD economies struggled to meet the new demands of flexibility. In these circumstances, the costs of the regulations introduced during the postwar boom years increased substantially (Crafts and Toniolo, 2010: 325). Continued growth therefore required liberalisation, and Australia joined in this process at about the same rate as most OECD economies, thus retaining its relative GDP per capita position.

6. An Assessment

The final section is entitled “Looking Backwards and to the Future”, and contains a mixture of chapters. Butlin et al’s “Statistical Narrative”, which I recommended earlier as an ideal starting point, is complemented here with Martin P. Shanahan’s discussion of “Wealth and Welfare”, which as well as discussing alternative measures of average welfare, such as life expectancy, infant mortality and hours of work per week, also examines trends in the distribution of resources. Shanahan concludes tentatively that income inequality peaked in the late nineteenth century, then declined until the 1970s, before increasing back to the level of the first half of the twentieth century. Compared with other OECD countries, the level of inequality in Australia was mid-range, contrary to the perceptions of many Australians of their society as outstandingly egalitarian. One group that was certainly not treated equally for much of Australia’s history was the indigenous people, and the final chapter by Jon Altman and Nicholas Biddle on “Refiguring Indigenous Economies: A 21st Century Perspective” looks forward to the future, using trends visible since the inclusion of indigenous Australians in the census from 1971, combined with a more speculative re-imagining of the statistically invisible aboriginal economy during the period 1850-1970.

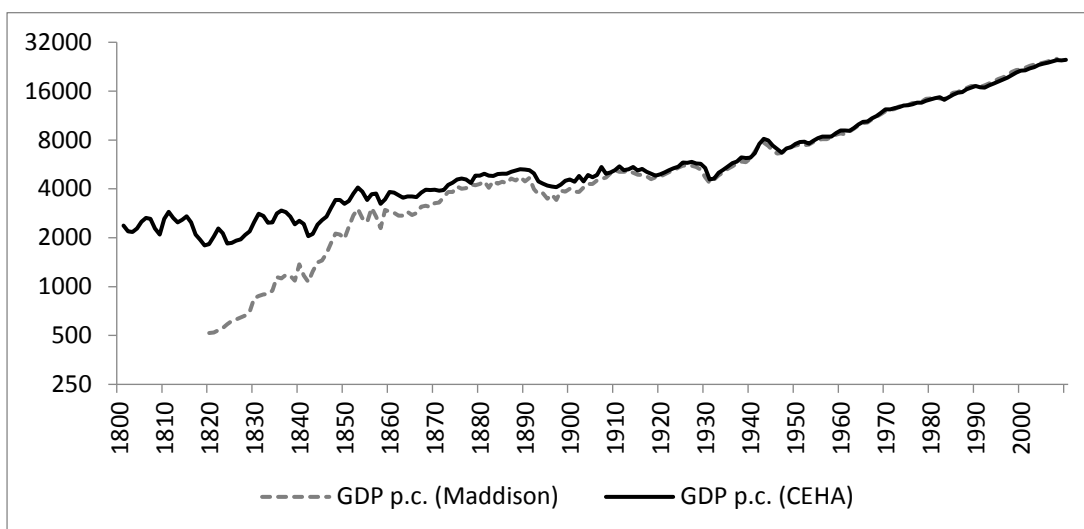
My assessment is that this is set to become a must-read volume for anyone interested in Australian economic history. The editors are to be congratulated on assembling a stellar team of authors, who have delivered an impressive set of chapters. The blurb on the cover jacket sums it up perfectly with the claim that “*The Cambridge Economic History of Australia* is the definitive study of Australia’s economic past and present”.

FIGURE 1: Australian GDP per capita (1990 international dollars, log scale)



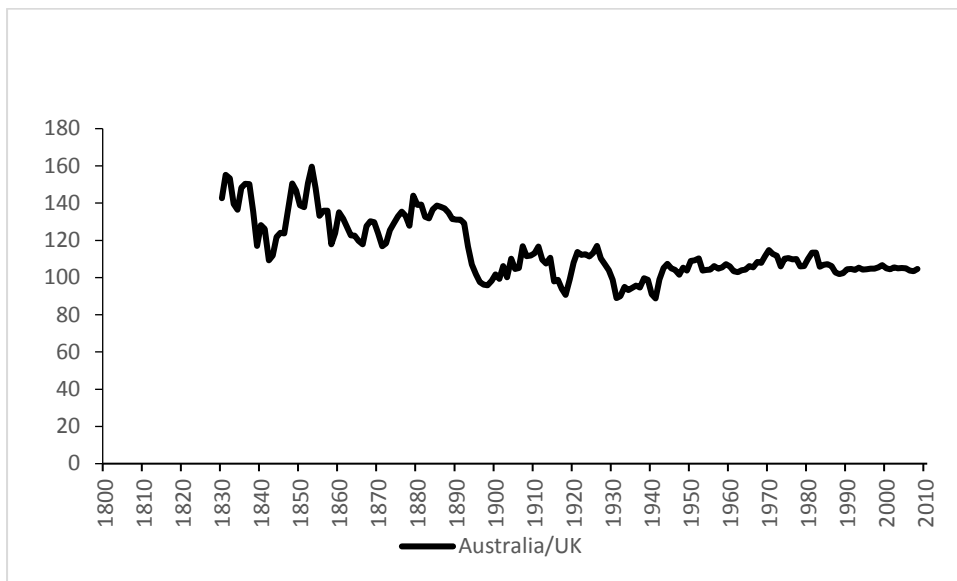
Notes and sources: Derived from Statistical Appendix, Table A1. GDP per capita in constant 2010-11 prices is converted to 1990 international Geary-Khamis dollars using the 1990 benchmark from Maddison (2010).

FIGURE 2: Australian GDP per capita, alternative estimates (1990 international dollars, log scale)



Sources: Figure 1 and Maddison (2010).

FIGURE 3: Australia/UK comparative GDP per capita (UK=100)



Sources: Australia: Figure 1; UK: Maddison (2010).

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