

# **The 1840s Depression and the Origins of Australian Capitalism**

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**Paper first prepared for the Conference of the Indian Association of Australian  
Studies, New Delhi, January 2004**

**Revised 2005.**

## I

This paper about the significance of the 1840s depression is a summary of a draft of a chapter of my current project on the history of Australian capitalism within a long-run, world-historical, context of global capitalism. In this project Australia is seen, in part, in comparison with other settler societies.

Thus let me begin by saying a few words not about Australia but about another settler society – Argentina. Argentina is currently experiencing its worst economic crisis and depression since the 1930s, with unemployment about 20%, half the population in poverty, and having defaulted on a massive foreign debt of \$150 billion US. Before this crisis, for most of the 90s, Argentina had experienced its most rapid period of economic growth since the 1920s. Income per capita had reached about US\$ 8,000 pa, still less than half the Australian level. But after 1998 Argentina returned to the post-war pattern of stagnation and crisis, although without hyperinflation, which is an important part of the story, largely due to an IMF-inspired and disastrously mismanaged currency peg to the US dollar. Australia, on the other hand, also had strong growth in the early 90s but there it continued unabated until the present. This is Australia's longest period of uninterrupted economic growth ever.

Now, it's often said that there's no point in comparing Australia and Argentina – they're chalk and cheese – one a rich developed country with a long tradition of liberal democracy and political pluralism and stability, the other a poorer developing country with a typically Latin American structure of greater inequality, political instability, and dependency. And that's true. But the inappropriateness of comparison today was not always so. Up until the 1920s the similarities seemed to be more important than the differences. Although it's a story for another time, the similarities were not so great actually and this leads me to a main point I want to make here which is that the divergence between Australia and Argentina began most significantly in the 1840s or earlier. Rather than being on parallel paths, as Duncan and Fogarty (1984) put it, they were actually on divergent paths.

Re-examining the significance of the 1840s depression in the widest possible context, then, my argument about Australia and its divergence from a path with similarities to southern South America is based on a theory of evolving regimes of regulation that define forms and phases of capitalism as a social system of production. These regimes exist on several levels – they combine a particular technological composition of production, a particular system of control and management of the capital/labour relationship, and the institutional, legal, and governance structure in which an economic system operates. Historically, regimes over time exhibit a pattern of stability or equilibrium with rapid shifts to new regimes. At the same time, there are also strong structural continuities that persist across the eras and the centuries. There is always an unresolved tension between regime change and the path dependencies that certain social, cultural, and geographical characteristics exert. At least, that's the account that is presented by certain theorists of the long-run historical political economy of capitalism. I think there's a good deal of evidence for it and also that a viable theory can be constructed for why this pattern must be the case.

I don't have space here to go into detail of the theory of the tension between equilibrium and change that produces this pattern of punctuated equilibrium and path dependency – it's an argument about the long-run multidimensional influences on institutions and the sources and conditioning of social agency. [for more details see Lloyd, 2002 and 2003] But it's not part of the theory to argue that the shifts from regime to regime are necessarily progressive steps in either economic or social senses. The history of Argentina makes that fairly clear. There's no teleological force operating in history, either economic or social, but there is what we can call an inner logic or *modus operandi* that characterises capitalism as a socio-economic system and which underlies both the eras of regime equilibrium and the pressure for regime revolutions. This logic is one of profit-seeking, competition, and accumulation of

capital. Capitalists need regimes that are conducive and supportive of their aims and they want them to be stable and predictable but not to stultify the effective realisation of the desire for accumulation. Security of investment and an acceptable rate of return are essential. Without a supportive government, investment declines and crises deepen. One of the important complications, however, is, of course, that capitalists are not a unified class or interest group and don't agree on economic strategies or policies. Conflicts among capitalists are an important impetus for regime change. Furthermore, because the dominant regulatory regime is usually embedded in the prevailing culture, the precise connection that political economy has with culture during periods of stability and change is an important part of the context.<sup>1</sup>

So, if we want to explain what happened and to understand the significance of the events and processes of a brief period of rapid institutional and economic change, such as the 1840s, or the long-run path of economic change and development, or its failure, we have to see them in a context of long-run history of political economy and society, and in world comparisons. Thus, for those interested, and by way of an aside, the approach I'm taking in my book attempts to synthesise and use aspects of four sets of existing theoretical streams:

- (i) the social structivist, institutionalist, and culturalist approach to social explanation that comes out of a tradition that has taken a line through Marx, Weber, Polanyi, and Geertz, and which can be used to construct a particular approach to institutions, their social embeddedness, and of agency;
- (ii) the new political economy literature on models, varieties and regimes of capitalism by such people as Hall and Soskice, Coates, and Boyer of the French regulation school;
- (iii) work on Australia's historical political economy by those influenced by Wallersteinian world systems theory and Von Thunenian geographical economics, particularly McMichael, Schwartz, and Buckley and Wheelwright.
- (iv) Neo-Darwinian social evolutionary theory, especially from Runciman, which can be used to make an argument about the evolution of regimes as a process of punctuated equilibrium.

But it's not necessary to know all that for this paper.

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<sup>1</sup> Regimes of regulation can be studied for several reasons. Economic historians have traditionally been interested in the long-run history of economic growth and development. But, unfortunately, there has been a tendency to assume there's a teleological force at work in the capitalist economy which pushes it inexorably in the direction of growth and development and that all other aspects of the social totality have to adjust to this telos. Thus regimes of regulation could be important in terms of whether they facilitate or hinder profitability, productivity, and efficiency, which in turn lead to growth and development. But the tendency among certain economic historians (eg Sinclair) used to be to more or less ignore institutions. More recently there has been a big increase in interest by institutionalist historians from a public choice theoretical perspective (eg Olson and North), studying economic history because they have been interested in how institutions such as governments, property rights, exchange mechanisms, and distributive coalitions have 'distorted' the freedom of markets to produce good macroeconomic outcomes, which are closely associated with a simple measure of efficiency. There is a strong policy determinant in this viewpoint and history tends to be read backwards and judged from that perspective. Thus historical analysis and explanation is not really the aim for public choice theorists. Another approach has been to study regimes of regulation from the point of view of social and institutional history. That is, these regimes are the chief object of enquiry and the study of macroeconomic history is of secondary concern, although also very important. In other words, a historical political economy approach is interested in the history of forms of socio-institutional organization of production, within their wider societal contexts, and then to make an argument about economic change as arising essentially from changes in the socio-institutional organization and the political context. This sort of approach has the great merit of not putting the cart before the horse. Economic history at micro and macro levels is explainable then by changes in its institutional and social organizational structure, not by seeing it as having an autonomous trajectory.

## II

After 1815 a new phase of the history of the world economic and geopolitical system began, driven by industrialisation. European imperialism and trade in materials, food, and precious metals had long formed the foundation of a world economy that had, by comparison with later times, but a superficial connection with the lives of most people and social groups, even in the core European imperial states. But now industrialisation, especially in Britain, began to revolutionise the world economic system through the growth in need for raw materials, the greatly increased output of cheap products, the rapid growth of population, and the supply of available capital through a developing financial system. Until this time the little Australian penal settlements were of very little significance to Britain or anyone else. By contrast, Argentina was fighting for and achieving its political independence in the 1810-1816 period, an independence that cemented in place the monopolistic ascendancy of quasi-feudal relations in the countryside with a large pool of very cheap, semi-servile, rural labour (largely native and mestizo to begin with) that was later augmented by a massive wave of poor southern European immigration in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries. There, like Australia, the agrarian oligarchy grew rich from agricultural exports, largely to Britain, and by being co-opted to British capital investment strategies (it has been argued that southern South America was an informal part of the British empire in the late 19<sup>th</sup> century). But a sizable, independent, relatively affluent, farmer class was prevented from developing because of the failure of land reform in Argentina. Tenants and share farming were still the norm in the wheat lands of the late 19<sup>th</sup> and early 20<sup>th</sup> centuries. The liberal democratic forces in the cities have not been able securely to vanquish the oligarchy even until today. And perhaps a part of the story has to do with the different influence that cattle hunting and herding rather than sheep raising had over cultural development on the frontier. It's hard to think that a romantic myth, rather than the tragic, Lawsonsque, Australian rural frontier legend, could have developed around shepherding and shearing in the way that the gaucho legend grew to reinforce the semi-feudal labour system on the Argentinian frontier. Of course that difference from Australia is linked closely to the different natures of frontier violence in the two places. The Argentinian frontier saw real, organised, large-scale warfare (greater than in North America) between indigenous and mestizo armies and the caudillos with their large estates, for control of the vast feral cattle herds of the agricultural lands. Out of this, militarism became entrenched as a support for oligarchical power. The frontier police never formed a military force in Australia.

It's clear that the Australian colonial polities never developed the same strong desire for real independence because the dominant classes were always more or less comfortable within the imperial framework, except perhaps for a brief moment in 1844-45. But that imperial framework was also able to ensure the development and liberalisation of democratic institutions in the 1840s, which might have happened anyway but was certainly boosted by the influence of liberalism on the British colonial office, which was just as keen to retain the colonial relationship as were the colonial interests themselves, and by the consequences of the 1840s. In Argentina, liberalism, represented by Rivadavia in the mid-1820s, was defeated by the late 1820s. Until this day we see here too the ambiguous legacy of early 19<sup>th</sup> century developments. But I'm getting ahead of myself.

So, when Britain emerged from the Napoleonic wars as a more politically, militarily, and industrially powerful nation but even more riven by unrest, Australia became a greatly more valuable possession full of political usefulness and potential and actual wealth. Thus from about 1815 the real story of the Australian state and economic development began. The two necessities of exiling politically and socially dangerous convicts from all parts of the Empire and of finding raw materials formed the dynamic of Australia's development. By the 1830s Australia had become of major

significance to Britain in both penal and economic senses. The late 1820s and 1830s was a period of rapid economic expansion in New South Wales – the Pastoral Age in which land owners and squatters fanned out from Sydney to seize the vast hinterland of southeastern Australia. The potentiality and actuality of the pastoral wool industry had seized the imagination of metropole and colony, sparking a major immigration surge and speculative bubble in the late 30s. The rapid expansion of settlers into the hinterland had a consequent disastrous effect on the Aborigines of course but brought into being a new economic and social structure and a great source of wealth and power.

Thus a dynamic form of settler capitalism was forged in the quarter century after 1815, centred on pastoralism and associated speculation in land and livestock. It seemed by the late 30s that Australia's trajectory of development was set firmly in place as, like Argentina's, a society dominated by large land holders forming a quasi-aristocratic elite, exploiting the vast land mass and servile labour supply of British convicts or from other sources, and having their dominance reinforced by a class of poor white immigrants and emancipists, who would provide the unskilled and semi-skilled artisanal, manufacturing and service class of the towns and port cities. The dominant landholders, both exclusivist landowners within the limits of settlement and the squatters outside, believed they could retain control through alliances locally and in London and that their connection with the imperial sources of power would be decisive. Self-government within the empire in a symbiotic economic relationship with the centre, in which Australia would remain a big-man's pastoral frontier, rather than either the political independence but economic dependence of the South American estancia model or the truly independent North American republican frontier model of small landholders (later reinforced by the homesteading movement), would guarantee their position.

### III

The 1830s pastoral expansion was driven fundamentally by Britain's rapidly growing demand for strong fine wool and the dovetailing of British mercantilist and criminological policies. Cloth made from such wool, rather than coarse wool, was becoming the only viable rival to cotton cloths. Germany had by 1822 rapidly overtaken Spain as the biggest foreign source of fine wool thanks to the rapid improvement in the cross breeding of Saxon and merino sheep. Australia supplied less than 1% of the British imports in 1822 but breeders such as the Macarthurs saw the potential very clearly and imports of Saxon sheep grew rapidly in the early 20s. Then, as Commissioner Bigge recommended in 1822 and as the British government first approved in 1824 with the Australian Agricultural Company, joint stock companies began to be formed in the 20s to channel capital into the emerging pastoral industry. At the same time the transportation of convicts grew through the 20s and the assignment of convicts to large landholders accelerated. The granting and selling of land also grew rapidly so that by 1828 nearly three million acres had been alienated. In 1828 the British parliament removed protection from domestic wool growing, thus making foreign imports even more attractive to wool manufacturers. The wool boom began and in spite of the half-hearted attempts by the local authorities to confine settlement and the more serious attempts by the philosophic radicals and systematic colonisers to construct a different form of ordered society, pastoralism was essentially unchecked until 1840. The NSW Forbes Act of 1834 cleared the way for a rapid increase in banking and British capital inflow by permitting the higher rates of interest that could be charged in the colony.

Cheap or free land, abundant credit, and an abundant supply of cheap labour for shepherding were crucial institutional bases for wool production. In the first place, sheep and land had to be purchased at escalating prices or, if already on an established holding, had to be bred as a cost to production. By the time the proceeds of a clip sold in London had been repatriated a year or two could have passed but labour and

livestock costs and debt service remained short-term matters. The credit mechanism for production was one of advances by London and colonial merchant houses whose agents consigned the wool to London, prepared it for sale, and repatriated the proceeds on behalf of the producers. An Australian wool market had not developed by 1840. Thus increasingly during the 1830s the trade was dominated by London merchant banks. As McMichael put it, “the large-scale intervention of merchant capital into the pastoral industry stemmed from the long-distance character of the wool trade and the regulation of production by natural processes.... the turnover time of pastoral capital averaged two years ... the producer required liquid capital in advance.... merchant capital met this requirement.” (McMichael, 1984, p109) Therefore, the Australian boom was financed largely from Britain and wool producers came increasingly under the control of financiers.

Throughout the 30s the two systems of labour supply ran side-by-side – convict transportation and free assisted migration. Land sales were the basis that kept both going. The rapid population growth, the pastoral expansion, urbanisation due to the promotion of city employment in Sydney and the founding of new towns, led to a general land and business boom.

Political contention developed in the mid-30s between three groups. First were the so-called emancipists who had urban liberal, commercial, and upwardly mobile interests, some of whom favoured an end to transportation and a change to the social character of the colony with a widening of the franchise of the Council. Second were the exclusivists, the large landowning class within the counties, who wished to monopolise power and retain the inflow of convict labour. Third were the squatters who came from both other groups as well as new immigrants and who were undermining the system by not buying land and so not contributing to the immigration fund. (McMichael, p94 ff). There was also the small beginnings of an urban radical movement of lower classes that strongly favoured the ending of transportation on economic as well as social grounds.

The urban commercial liberals were supported in London by the Wakefieldians who wanted greatly to increase free immigration to relieve British social pressure and who were in the ascendancy in the colonial office. They argued that the attractiveness of the Australian colonies as destinations for free immigrants would improve if they were no longer penal settlements, as in the new, systematic Wakefieldian, South Australian colony.

Meanwhile, the rapid growth of squatting beyond the frontiers in the late 30s, which depended on assigned convict labour as much as did the established landowners, served eventually to unite the interests of all pastoralists, whether legitimate or not, in favour of transportation. But the anti-transportation forces won against the interests of the pastoralists and so the shipping of convicts to NSW ceased in 1841. Still, it continued to VDL and later started to WA, both of which had much greater difficulty in attracting free immigrants.

NSW had the great advantage of abundant arable and pastoral crown land for sale with which to import the immigrants. That land supply, provided it could be wrested away from the grip of the squatters, would continue to be a major theme in the history of NSW even into the following century. Among other things, its contribution to government revenue meant that NSW was one of the few areas of the industrialising world of the late 19<sup>th</sup> century, apart from Britain itself, that was free trading for it had no need of customs duties for revenue and had not developed a lobby strong enough to support the emerging manufacturing. Consequently, by the 1880s, Melbourne, in protectionist Victoria and only half the age of Sydney, had well overtaken it as an industrial city. The path dependency thus established, growing essentially out of the physical geography of scale and natural resources in the first place, reinforced by policy, continues to this day. We could say as much for all the states of course.

## IV

In 1840-41 the pastoral expansion came to a sudden halt. The causes and timing of the onset of depression revolve around a set of interconnected factors – an apparent exhaustion of available free land for grazing, declining wool prices, cessation of capital and migrant inflow due to financial difficulties in London and Sydney, ending of convict transportation, a steep fall in government revenue and expenditure and in interest rates in Britain and Australia. The depression marked decisively the end of the expansion phase, which was not one of *development* as such in the sense of economic diversification of the economy. Labour intensive pastoralism was very much the engine of the economy. Very little agricultural or manufacturing diversification had occurred – New South Wales remained dependent on imports of food – although there had been rapid urbanisation because even though pastoralism was still labour intensive compared with later forms it generated more jobs in the commercial port cities in transport, warehousing, finance, construction, provisioning, and administration than on the frontier. Indeed, it was hard to get people to go voluntarily as shepherds to the frontier districts. This was a pattern that was reinforced later and became very significant socially and politically.

Interestingly, as another aside, Argentina also experienced a surging urban development, especially in Buenos Aires, the only great port city of the whole country. But, anticipating my argument about Australia, the political connection between city and countryside in the two nations diverged sharply. The Porteños of Buenos Aires were always dominated by the rural oligarchy, who needed and used the city but retained their power base in the rich agricultural hinterland. And in 1890 two of the great cities of the southern hemisphere, Buenos Aires and Melbourne, were inextricably linked in another crisis that precipitated the next regime change – that is, the Barings Crisis that began with the default of the Buenos Aires city government, severely shook the London capital market thus collapsing the Melbourne property bubble, and precipitated the 1890s depression. But this is to get too far ahead.

The 1840s crash was severe. The depression ranks as one of the three great ones of Australia's history. In Barrie Dyster's lively summary, the depression visited unemployment on thousands of families and bankrupted hundreds of businesses and trades people from Port Adelaide to Port Macquarie, and in colonial New Zealand too. The great Australian axiom, that you can't go bust if you own a brewery, was disproved more than once. The richest man in Australia, John Hosking, had been lent more money than anyone else, because he was the richest man; he became as a result inordinately popular, was elected first mayor of Sydney and failed part way through his term of office, bringing down the bank that lent him the money and almost bringing down the bank that lent that bank money. (Dyster, 1993, p589)

As with most depressions there was a severe deflation. Retail prices and wages fell by a third to a half. Wool prices had declined to only 12 pence per lb in 1844 from a peak of 24 pence in 1836. The bank note issue declined by about 30% between 1841 and 1843. The prices of sheep and cattle collapsed. The only thing of any value in sheep was their tallow fat, which was obtained by boiling them down in vast quantities. The depth of the depression was reached in 1843 with the failure of several banks, including the Bank of Australia, which was locally owned and capitalised, along with the conglomerate firm of Hughes and Hosking, the biggest in the colony. The first genuine workers union was formed of unemployed workers in 1843 – the Mutual Protection Society – which stood for a government system of unemployment payments. Unemployment had increased from effectively full employment to at least 10%.

There's no doubt the depression brought to a head the chief, closely interconnected, issues and conflicts within the political economy of the era – squatting and land ownership, labour supply and immigration, government revenue and expenditure, and representation and governance. How these were worked out in the 1840s, both locally and in London, was very important. As I've indicated, by the mid-30s squatting had threatened to turn the established class and economic relations upside down. Hitherto land grants and then land sales had brought into being a landed gentry allied to an urban commercial elite. Now, with squatting, anyone could get land but of course they needed capital to stock it. That capital had become more freely available. The response of the gentry was ambivalent. They feared the loss of exclusivity and thought the squatters were free riders, not contributing to the costs of immigration by purchasing land. But many of them joined the squatting rush while remaining secure with their legal landholdings. Government accommodation with the squatters had begun as early as 1836 when Governor Bourke, acting against the exclusivists, licensed squatters at £10 per station but without giving them land tenure. By court judgement of 1839 they had effective protection from usurpation by anybody but the crown. However, by then there was a growing fear by pastoralists of all kinds of the end of transportation and the consequent labour shortage that free immigration could not fill. There was even a proposal by Governor Gipps to institute a land tax to pay for free immigration. The woolgrowers of both kinds began to see their common interests. Demands for self government, especially over land, and even independence, arose among the pastoralists, which alarmed Whitehall and the NSW liberals. They didn't want, in effect, an Argentinian outcome. Philip McMichael's summary of what happened is insightful:

Constitutional reform now shifted from being an issue of internal division to an issue between the pastoral alliance and the imperial state (and its representative, the governor), especially concerning land administration. This shift was reinforced by the 1842 act granting colonial representative government. The colonial state legislature was now composed of an elected majority based on a property-owning electorate, including emancipists, and weighted in favour of country districts. The British government reserved powers of land administration, however (including its revenue – 50 percent of which was for emigration). Thus the settler Legislative Council was hamstrung in precisely the policy that concerned its majority of large landowning members. The politicoeconomic contradiction dominated 1840s politics but at the same time transformed them again. Out of the pastoral alliance arose an emboldened faction of large landowning squatters. They attempted to ... obtain pre-emptive rights to the land they leased. This was a rearguard monopolistic action by a social group whose interests would be compromised with self-government. The extremity of their demands, in conjunction with the exposure of the limits of squatting in the colonial economy by the 1840s depression, precipitated an opposition, led by urban liberal interests, to the woolgrowers monopoly of landed economy. (McMichael, pp 98-99)

In 1844 Gipps moved to try to tax the squatters in order to control them, unlock the land, and restore government revenue. He proposed to increase greatly the licences by tying them to the size of runs. The £10 licence would apply to every 12800 acres and they would be obliged to buy a homestead block of 320 acres for every station, at £ 1 per acre. The squatters were outraged. They wanted security of tenure through long leases at low rates that would give them effective customary and pre-emption rights. Gipps was determined to retain ownership of the vast resource of crown land. The landowners sided with the squatters over the high price of land, which had been set in London. But Gipps was undermined in London by the united Australian interest of merchants, financiers, and shippers who wanted to see a resumption of the Australian pastoral expansion. By Act of Parliament and Order in Council of 1846-47 the squatters were given their way with 14 year leases in the interior regions.

Thus in the 1840s the key economic issues for pastoral capitalists were continuation of favourable access to land, labour, and capital. The ways in which these worked out marked a significant shift in the medium to longer term in their production process. The land problem had been solved temporarily in their favour. The capital supply and risk issue was mixed, however. In 1843 the Legislative Council enacted for liens (ie mortgages) on wool and livestock. This was very welcome to squatters who had no land to mortgage and gave them access to a vital new source of credit. But it also enabled them to thereby become considerably more indebted. Also in 1843 there was a new insolvency act that enabled voluntary bankruptcy and continuation of trading while bankrupt and an act abolishing imprisonment for debt. I think these were all world firsts. All of these measures were welcomed by pastoralists for they were enabled better to secure their capital but the power of financiers over producers was consolidated.

With regard to labour supply, the ending of transportation had caused a labour supply shortage in the rural districts once the local pool of convict labour began to run out. A new source of cheap labour was desperately sought but attempts to insert Australia into the rapidly emerging world labour trade from the late 1840s were politically thwarted except, as Maxine Darnell (1992) has extensively documented, about 5000 Chinese were imported between 1848 and 1852 as shepherds even though none of them even knew in advance what a sheep was. With this minor exception, Australian rural capitalism moved decisively away from servile labour in the 1840s and even the later Queensland sugar plantation importation of Pacific Islanders was an experiment that failed. The use of Aboriginal labour in the northern cattle industry later had more ambiguous relations of production. Henceforth, then, wage labour, at a greater cost, had to be employed. Later the technological transformation of fencing gradually did away with the need for shepherds and Australia became by the early 20<sup>th</sup> century perhaps the most fenced continent on earth. Fences, particularly barbed wire fences, became an important socio-cultural symbol as well as an essential component of the application of scientific husbandry to the livestock industries of Australia.

Economic recovery from the depression had begun by 1845 by which time Australia became the biggest supplier to the British wool market. Wool prices rose in response to the sharp fall in supply in the early 40s so production rose sharply again. Immigration resumed, including to the new copper mines of South Australia, and the British tried to resume convict or quasi-convict transportation in the late 40s but that was successfully resisted by urban liberal interests. Apart from the changes in the technical composition of production in pastoralism and its institutionalised connections with the financial and merchant sector, the 1840s saw an important shift in the government system which impacted directly on the path of economic development. The rise to prominence of urban interests from the late 1840s and 1850s reflected the growing diversification of the Australian economy both in terms of the breadth and wealth of the primary production (such as gold and associated cropping) that supported the urban population and the growing importance to economic development of urban secondary and tertiary industries. Indeed, we can say that economic development truly began from the late 1840s and the nature of the Australian capitalist economy and bourgeois society was rapidly transformed during and after the gold rushes. Wool and later other agricultural products remained economically essential, of course, and were technologically transformed but capital formation was increasingly led by infrastructural and urban investment, in which there developed a close nexus between capital and the state.

Construction of the first railway began in 1850 and the first university also founded that year. Then also in 1850 the Australian Colonies Government Act was passed at Westminster, granting responsible government. Thus it seemed recovery from the depression was complete before the gold rushes began and the political economy had been transformed in a decade.

## V

The long-term consequences of the early 1840s were profound, even though some of them were masked for a time by the victory of the squatters over Governor Gipps, and not all of them were caused directly by the depression itself. I think we can summarise the significance of the 1840s as marking a regime change in Australian capitalism. This was because of the following set of interconnected factors.

First, the technical composition and institutional organization of pastoralism, the colony's dominant industry, was altered significantly by (a) its change in labour organization and control (ie the ending of unfree labour), (b) the form of provisioning of capital and the relationship of finance capital to the production process, and (c) the longer-run necessity for a new technology.

Second, the political framework of the social formation shifted towards liberalisation and a loss of power by the exclusivist landholders because of the power of urban liberal/commercial interests and their working and artisanal class allies. Class pressure from below on wages and conditions began to become a factor in both urban and rural industries. And the issue of land ownership and food self-sufficiency became important, especially in the context of the rapid population growth after 1851.

Third, the abundance of good arable land in NSW and Victoria became readily apparent to large numbers of gold seekers and pressure for land reform against the erstwhile squatters began.

Fourth, the economic role of the state authority in general, so central in the early decades of the penal settlement, was reinforced through all the machinations of the late 30s and 40s as Whitehall ensured that democratisation would keep Australia firmly within the empire and the colonial government ensured it retained control over labour supply and land. Later the colonial states moved to control finance and manufacturing and agricultural marketing.

Thus the new regime that emerged out of the 1840s crisis was one that had a significantly different connection between capital and labour in the leading sectors of the colonial economies – pastoralism, mining, and urban services – and the government framework was one of parliamentary representation and state support for economic diversification through direct infrastructural and financial investment and facilitation. The new stable regime took hold in the late 40s and early 50s after the decade of crisis and transition. The gold rush consolidated capitalist diversification. By the 1870s this regime had taken on the features of what Noel Butlin called “colonial socialism” (Butlin, Barnard and Pincus, 1982). State ownership of productive enterprises and industrial protection (except in NSW) became widespread.

So, the old idea that the 1830s to 50s consolidated Australia as a staple-based economy, riding completely on the pastoralist's and miner's backs, with crucial linkages into the rest of the economy and society from those foundations, is inadequate. The political challenge to the squatters that gathered steam from 1848 and came to a head in the 1860s was greatly strengthened by gold but not created by it. Still, the process of unlocking the land took a long time and went on into the last brigalow scrubs of North Queensland until the 1970s. Brian Fitzpatrick (1949) thought that the unequal land ownership of the early 20<sup>th</sup> century was the ‘snake in eden’ of the Deakinite Lib-Lab settlement and even the Fisher majority Labor government of 1910 that enacted its Land Tax Act did little to change the overall situation of inequality. After the First World War there began a sustained process of unlocking the land from both the squattocracy and drought through irrigation schemes that persisted for half a century. To quote McMichael again,

Agitation for land reform against the squatter monopoly was not simply a materialist demand for the redistribution of land. It included a

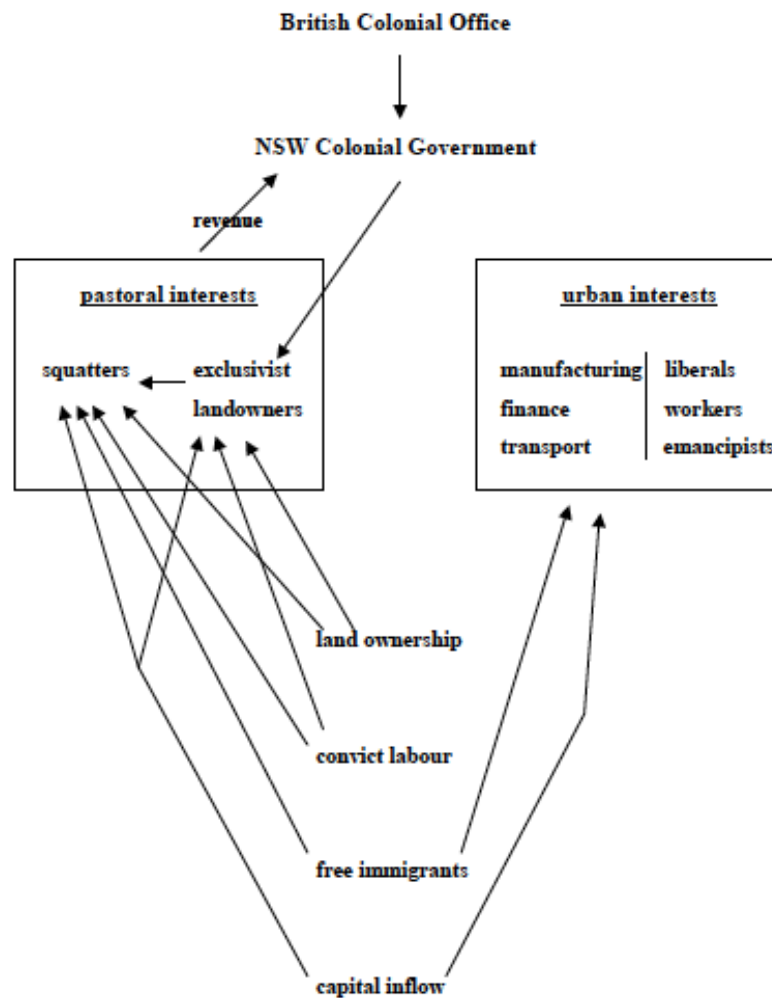
politicoideological theme, beginning in the cities and proceeding from the image of bourgeois agrarianism that hitherto governed imperial land settlement policy. With the changed social environment [after the gold rushes], however, the agrarian ideal assumed a more populist character – inexorably linked to the constitutional reform of the newly self-governing colonial states. The bourgeois designs of Wakefieldian imperial policy that so patently discriminated against small holders were to be superseded by the democratic implementation of a petit-bourgeois ideal. Hence the linking of manhood suffrage to the homesteading movement in the demand of an 1860 public demonstration: “every man a vote, a rifle, and a farm.” ... Extension of the franchise was not simply an issue of political rights ... It was indeed considered integral to the political regulation of squatting in creating a productive society founded on the agrarian producer. (pp208-9)

This urban and semi-urban, radical, and populist movement became a powerful social force from the 1860s and was the foundation for colonial socialism and later the labour party. But that’s a story for another time although the echoes in our time are uncanny.

## VI

Thus to sum up: what we have here is a clear case, it seems to me, of a regime change in the 1840s but with a certain degree of path dependency continuing on into the period of the new regime and further. Certain fundamental features of all subsequent Australian history were set in place in the crucial decades of 1830s and 1840s that no amount of economic and social change could alter. But, at the same time, the 1840s saw a major shift of the political economy onto a new capitalist foundation. The pastoral age of the 1820s and 30s gave rise to a struggle over land, capital, social ideology, and political power that lasted until the 1870s. The influence in the 1830s of liberal theories of ordered, state-controlled colonisation, the ending of the importations of semi-servile convict labour to NSW in the early 1840s with the subsequent almost complete reliance on free wage labour, except in VDL, the collapse of the first wool boom and severe depression of the early 40s, and the gold rushes of the 1850s, all combined to tip the balance of power away from atavistic landed oligarchs in favour of urban mercantile capital and urban liberal democratic reformers. Land reform was partly successful by the 1870s. The agrarian/political question was thus more or less resolved in the period from 1848 to 1870 against pastoral capitalism and in favour of closer settlement of family farmers and urban commercial and industrial liberal and working class interests. The struggle over land was closely related to the struggles for political enfranchisement and for employment of the displaced population of erstwhile miners once the alluvial gold began to run out by about 1860. Booming exports of raw materials such as gold, wool, wheat and later base metals, meat, and dairy products, the development of family arable farming, aided by extensive government railway building, and rapid immigration with urbanisation and emerging manufacturing, transformed the capitalist structure of the colonies by the 1880s into the world’s most prosperous and urbanised region. The 1890s crisis, however, punctured the optimism and after a decade or more of depression and struggles a new regime of labourist-protectionism emerged in the early federation years. But through all this, the central economic role of the state was the great continuity from 1788 and that force of combined colonial and imperial state power, which was a fundamental initial and continuing condition of Australian history, allied to liberalism, was the crucial difference between the settler societies of Australia and southern South America.

**Figure 1. Summary of the Politico-economic interests of early colonial NSW**



### Summary of measures in response to economic and political crisis of 1840s.

- 1836 – NSW Acts licensed squatters – £10 per run regardless of size
- 1842 – British Act authorised part-elected Councils for NSW and VDL
- 1842 – Gipps increased the note issue by about 25% by a new government note issue
- 1842 – British Australian Land Sales Act – increased land price to £ 1/acre
- 1843 – Act (NSW) for liens on wool and livestock– mortgages on wool and livestock – this legalised and extended an unofficial but risky practice that had been going on since 1833 and was greatly welcomed by squatters who had no land tenure as security
- 1843 – Insolvency Act (NSW) that allowed voluntary bankruptcy and debtors to continue managing properties under licence
- 1843 – An Act (NSW) abolishing imprisonment for debt
- 1844 – Gipps’ proposals for control, of squatting – defeated
- 1846 – British Act for granting leases to squatters – implemented by order in Council of 1847
- 1850 – British Australian Colonies Government Act – granted responsible government

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