

*Economic policy and Australian state building: from  
labourist-protectionism to globalisation*

*Christopher Lloyd*

ORIGINS AND COMPARATIVE SIGNIFICANCE OF THE  
EMERGING AUSTRALIAN STATE

The emergence and development of the Australian state and economy from the initial precarious penal colonisation of New South Wales (NSW) in 1788 must be understood within the context of British imperialism and the world economy of the nineteenth century. The early economic development depended to a large degree upon state direction of investment, labour and land use. Early political/administrative struggles concerned the control and alienation of land, access to foreign currency in order to import luxuries and control of the convict labour supply.<sup>1</sup> The lands of Aboriginal inhabitants were simply expropriated by the crown under the legal fiction of *terra nullius*. A free, proto-capitalist economy soon burgeoned within the imperial framework, especially after a couple of decades of uncertainty. Unlike almost all other parts of what became the industrialised world of the early to mid-twentieth century, and in comparison with other former settler colonies in the Americas, Australia was founded *within* and was an *integral* part of the world economy *from the very beginning*. The Australian colonies and later the independent federated Australian Commonwealth owed their existence, their character and their development to these overlapping forces. There was no other background or significant pole of attraction or alternative developmental trajectory possible. Australia was born as a *modern* component or offshoot of the British state and developed in such a way that no pre-capitalist or anti-modern forces were permitted to influence significantly the infant society. No peasantry or aristocracy impeded the accumulation of rural and urban capital. In the beginning the idea was to subjugate, develop and civilise the alien land and so the concept of a physical alteration process has been a central component of nation building. Subjugation was not just environmental but also of the native people. That the Aborigines have survived to the extent they have, in order to reassert

ancestral land and cultural rights and become a potent political and cultural force within a new era of nation building or national reorientation from the late twentieth century, is one testament to the failure of a certain form of exclusiveness that was central to the national project until the 1960s.

When Britain emerged from the Napoleonic Wars as a more politically, militarily and economically powerful nation but even more riven by unrest, Australia became a much 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 early history. By the 1830s Australia had become of major significance to Britain in both penal and economic senses. The actuality and potential of the pastoral wool industry had seized the imagination of metropole and colony, sparking a major free immigration surge and speculative bubble in the late 1830s and a rapid expansion of settlers into the hinterland, with consequent wholesale violent dispossession and partial eradication of the Aborigines.<sup>2</sup>

Ideas of liberalism, democracy and socialism took root at the very early stage of the second half of the nineteenth century in Australia but racial and cultural exclusion was also central. Nationalism in the sense of the establishment of a genuinely independent political entity was underdeveloped until much later. By the late nineteenth century, well before anywhere else, a special form of 'primitive' social democracy, in combination with liberalism, came to pervade the entire interconnection between capital, labour, culture and the state. Instead of the class exclusion of the Old World, this new world's dominant ideology attempted to deliver class *inclusion* while being racially exclusive. And quite unlike the United States experiment in supposedly class-less democracy, this attempt to create a new kind of democratic society around the turn of the nineteenth century was centred on the essential role of the regulatory state. What has recently been called the Australian 'compromise' or 'settlement',<sup>3</sup> in which the state was so central, emerged from the experience of a century of development up to the late nineteenth century and became a nation-building ideology and project in the early twentieth. From the late 1960s and early 1970s, however, the robustness and adaptiveness of the structure to rapidly altering external and internal environments became a major issue facing the political process and its state actors. Since then there has been a rapid and relatively peaceful move towards racial inclusion, although not yet fully achieved, and economic openness.

The very early and relatively successful economic and political development of Australia, compared with Latin American and African settler societies, and the tropical colonial regions, and compared also in certain crucial ways with Europe and the United States,<sup>4</sup> and the comparatively very successful achievement of a peaceful multicultural society in the late twentieth century, were the result of the interconnections of local, imperial and world cultural and economic legacies as well as local political and social struggles of a much more contingent kind.<sup>5</sup> In particular, full significance must be accorded to the importance of mercantile capital, representative democracy, organised labour, the protectionist class compromise, and the cornucopia of mineral and agricultural exports that underpinned the continuing relative prosperity. But the legacy of violent Aboriginal dispossession, partial extermination and exclusion, which freed the land for settlement and exploitation, remains the darkest legacy of this comparative success.<sup>6</sup>

#### THE DEBATE ABOUT THE AUSTRALIAN LABOURIST STATE

While the concept of a 'settlement' or 'compromise' between capital and labour via state intermediation has its limitations, it is a convenient way into examining Australia's historical political economy and nation building. The essence of the compact was that workers, employers (especially manufacturers), middle-class professionals and the British culture and way of life would be protected from competition and erosion in the interest of retaining and building a prosperous, harmonious society of relative class inclusion that liberals believed was the triumph of the post-convict era. Contributing ideological elements to the compromise were British Chartism and Philosophic Radicalism, Fabian Socialism, Liberalism and an emerging form of half-hearted Australian nationalism. Nowhere else in the world was there such an apparent compromise by that time. It can be described as 'labourist-protectionism' in the sense that both organised labour and elements of capital reached a high degree of influence and integration with the state from the earliest decades of the twentieth century such that it benefited greatly those within the protected compromise, especially (male) trade union members, manufacturing firms, state enterprises, certain professional groups and the necessary bureaucracies. Later the compromise was joined by family farmers. To call the arrangement 'state socialist', as some commentators did at the time, is to overstate the significance of state ownership and control of the economy. To call it 'social democracy' would be better but there were significant essential elements of democracy missing

compared with the final expression of the arrangement under the Whitlam government of the early 1970s and essential elements of social inclusion were missing compared with Scandinavian post-war exemplars.

The arrangement was widely supported, especially while it delivered profits and high wages, but did not include all interests or ideological commitments. The dominant ideological commitment of organised labour was a mission to civilise capitalism through redistribution and some state ownership, rather than to undermine it. There was also always a minority oppositional anti-capitalist left. Free trade interests, including pastoralists and mining companies, were also marginalised. But they too found they could live with it, especially after the formation of the Country Party in 1919. The compact survived the great crisis of the 1930s, thanks largely to the Second World War, which rebuilt and reinforced the labourist-protectionist commitments to egalitarianism and state centrism, but could not survive the crisis of the 1970s and began to disintegrate.

This way of seeing Australia is not without its difficulties or critics. Many alternative proposals have been advanced for understanding Australia's historical political economy. Left critics have emphasised both the 'capture' of the state by sectional interests of capital and the imperialist/world-economy context of Australian capital, which stunted the development of a vigorous national form of either capitalism or democratic socialism, so making Australia akin to the Latin American form of dependency.<sup>7</sup> But dependency theory fails to grasp the very real differences between the two zones. Liberal parliamentary democracy took firm root in Australia from the nineteenth century and industrial maturity with high living standards were reached by the late 1950s. More pertinently, the concept of a 'dominion' form of capitalism within the British empire has emphasised the special dependent, semi-peripheral, but relatively advantageous relationship the white settler societies had with the British core.<sup>8</sup> Some have also pointed out how the labourists missed golden opportunities at various moments to make major, even revolutionary, reforms to Australian economy and society and were in fact led by class traitors. Labour was never hegemonic. Industrial and political labour were co-opted by the capitalist state and failed in their mission to civilise capitalism, especially in comparison with the Scandinavians.<sup>9</sup> It is argued that class inclusiveness was a sham that bought off the working class. Others from a centre-left perspective have emphasised the positive social democratic outcomes of egalitarianism, social justice and prosperity with low levels of bureaucratic regulation of social life resulting from the 'compromise' and have drawn positive comparisons with southern South America and the US.<sup>10</sup>

Economic analysts and neo-liberal critics have pointed out what they see as the deleterious long-run economic consequences of the labourist-protectionist consensus. Their view is that Australia's long-run performance was poor; for example, the fifty years of relative economic stagnation between 1890 and 1940 was a consequence of the failure to encourage a vigorous national capitalism through an international free-trade framework,<sup>11</sup> and the protectionism and immigration restriction of the post-war decades were the 'Rip van Winkle' years. According to public choice theory,<sup>12</sup> the state was too central, having been captured by sectional, redistributive interests rather than growth-oriented interests. Similarly, the critical designation of 'colonial socialism'<sup>13</sup> as the close, often monopolistic 'partnership' between private business and government, which had roots back to the foundation in 1788, which was then acquiesced in by organised labour, pointed to the power of monopoly as a brake on growth. Sectional capitalist and labourist interests could use the state for private benefit as long as the costs were shared widely.

Thus there has been a vigorous debate in recent decades about the costs and benefits of the labourist-protectionist state and the theorists and critics are certainly right to try to understand the particular institutional developments and policy choices. While it's unavoidable to reinterpret history to some extent from the standpoint of the present and the long-run outcome, are backward-looking criticisms of the policy choices made at certain contingent moments sometimes too filled with hindsight derived from the new theoretical standpoint? Some such politically motivated criticisms are aimed at shoring up ideological commitments in the present and are not sufficiently historical, failing to see the complexities of the forces at work as well as the contingencies and constraints on decisions and outcomes. For example, the recent neo-liberal critique of the labourist-protectionist settlement tends to deny the historical contingency and balance of forces that produced and sustained that structure of regulation at particular moments.

Taking a more complex historical and realist view, we should stress the interconnections between natural conditions and socio-economic structures that have arisen and evolved slowly over time and which set strong inherited frameworks and limits, on the one hand, and the development and impact of social and political events, movements and decisions, on the other. The deep structures of Australian history include the natural environment as discovered, exploited and more or less humanised by Aboriginal and European occupiers. Included here are the Aboriginal inhabitants who were comparatively poorly organised and easily dispossessed,<sup>14</sup>

the temperate climate and poor soils but vast open landscape, lack of native domesticates, the huge distances within and without, which restricted trade and immigration, the limited water supplies (natural and corralled), and abundant mineral discoveries. Such an environment, within a world-economy nineteenth-century context, called forth a rapacious capitalist response. The prison-state foundation and the convict egalitarian legacy, combined with the refracted British inheritance of ideologies, cultures and institutions, particularly liberalism and later socialism, and the context of world capitalism with its insatiable appetite for raw materials and profitable investments, were all relevant. The interconnections between these deep structures and local social classes, politics and ideologies produced the peculiar Australian outcome at the beginning of the twentieth century. The entrenchment of liberal democracy in the 1860s with a high degree of affluence was always going to open government to social and economic interests wanting to influence the state. Underpinning it all was the cornucopia of exports that were extracted efficiently from the land. The capitalist rural subjugation and exploitation process produced the necessary foundation for the success and persistence of the protected coalition in the commercial cities.

Therefore, the idea that an inappropriate settlement or compromise emerged around the turn of the century and that there really were genuine alternative paths downplays too far the central role of the state from the beginning and the structural imperative, in a path-dependent sense, of that role continuing in a socially and culturally homogeneous settler society that was strongly influenced by liberalism and chartism and which could not have industrialised without some form of protection. Neither capital nor labour was hegemonic and consequently a special form of social democratic settler capitalism came into being in Australia that was something of an institutional laboratory as well as becoming increasingly ossified until the 'revolution' of the early 1970s<sup>15</sup> paved the way for the eventual radical reconstruction of the 1980s and 1990s.

#### FOUNDATIONS OF THE AUSTRALIAN STATE—CAPITAL—LABOUR COMPROMISE

Thus to see the economic and political context for the origins of the labourist-protectionist compromise we need to go back briefly to the 1820s, to the sudden irruption into consciousness and practical consideration of the capitalist possibilities inherent in the new continent. The expansion of pastoralism and the widespread phenomenon of uncontrolled land

squatting, with the resulting emergence of a new economic and political class in south-eastern Australia (the 'squattocracy', although this came to mean all large pastoral land occupiers whether legally entitled or not), and the near failure of the Swan River colony (1829) in Western Australia (WA), 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, especially Wakefield's,<sup>16</sup> 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 Van Diemen's Land (later named Tasmania),<sup>17</sup> the collapse of the first wool boom and severe depression of the early 1840s, 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.<sup>18</sup> Land reform was largely successful by the 1880s.<sup>19</sup> The agrarian/political question was thus more or less resolved in the period from 1840 to 1880 against the squattocracy and in favour of closer settlement of family farmers and urban industrial liberal and working-class interests. The particular outcome varied from colony to colony, depending largely on the physical environment and consequent form of agriculture and population distribution. 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 associated manufacturing, transformed the colonial societies by the 1880s into the world's most prosperous and urbanised region.

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. In actuality, the struggles for democratisation of representation and access to land were remarkably peaceful by the standards of Europe and South America. In terms of formal universal male suffrage (and later female suffrage in all colonies by the 1890s) and parliamentary representation, no violent upheaval was required to secure the vote, except for the relatively minor clash at Eureka, Victoria, in 1854 over the issues of taxation and control of miners, political representation and republicanism.<sup>20</sup>

The issue of post-gold-rush employment was particularly acute in the colony of Victoria (separated from NSW in 1851), the largest centre of gold mining and suffering the largest subsequent fall in production and mining employment.<sup>21</sup> At the same time Victorians, like the rest of Australians, had

seen their average incomes rise to be among the highest in the world with an associated massive thirst for imported manufactured goods. Domestic manufacturing was thus seen as the solution to unemployment and political pressure. Import duties were the means to achieve that and also provide the government revenue with which to service the growing external borrowings to build railways and provide the urban infrastructure desired by the rising, affluent, voting, middle and working classes, and to pay large numbers of immigrants to bring their labour power to the 'working-man's paradise' of the south. Economic and social policy thus converged on protectionism, especially in Victoria, which soon became the most important manufacturing colony.<sup>22</sup> Other colonies, except NSW, were also protectionist to varying degrees. NSW remained free trade, largely due to the influence of the pastoral interest and because of the large reservoir of saleable arable crown land for government revenue. NSW was thus one of the few parts of the industrialising world in the late nineteenth century not to resort to protection or to increase it.

The desired social outcomes – economic and social diversification, social harmony, population growth and general prosperity – could be achieved while the raw materials were exported, import-replacing industry was fostered, the economy grew, and the capital and migrants flowed in. And economic growth enabled the organised working class in the strategic sites of shearing sheds, mines, wharves and ships to enforce the closed shop and redistribute some of the excess profits generated by the long commodities boom. Significant numbers of real estate speculators also thought they could get significantly rich very quickly on the back of the boom that culminated in the late 1880s from the aforementioned combination.<sup>23</sup> But of course it all turned sour in the early 1890s as the economy crashed into a severe depression upon the spark of the Barings crisis. Unemployment approached 25 per cent and at the bottom of the crisis in 1893 a generalised banking failure wiped out the entire savings of most of the population.<sup>24</sup> The shock of the depression and banking failure in a country grown used to great prosperity and confidence was profound. New institution building was the main long-term outcome.

The trade unions of Australia believed they could hold the line in their hitherto increasingly successful campaign for recognition of collective bargaining against the radically altered labour market conditions of the early 1890s. They learnt many bitter lessons in the years 1890 to 1894 and paid dearly for their adherence to collectivism and radicalism in the face of concerted onslaughts. The colonial governments also adhered to the interests of capital and individual work contracts. Democracy in the formal sense



of universal voting (for men at least) for parliamentary representation had long since been achieved. While everywhere the unionists were defeated,<sup>25</sup> since they did have the vote a potent weapon remained in their hands if they could but manage to wield it collectively. They began to do so as early as 1891 when nascent labour parties began to contest elections. The effect was an immediate sea change in the political landscape. The labour parties developed during the course of the decade to greatly influence the colonial parliaments as unified groupings that followed coherent ideologies and enforced party discipline. Modern party politics was thus born in Australia in the 1890s and entered the newly federated Commonwealth of Australia as an institutionalised three-party system – Labour, Protectionists and Free Traders.<sup>26</sup>

Federation itself was another institutional outcome of the 1890s upheaval. Federal talk began in the 1880s under the impetus of economic arguments for customs unification, communications and transport harmonisation, political arguments by capitalists needing to oppose organised labour, cultural arguments regarding ethnicity and immigration, and defence imperatives. Strong and determined political leaders from the colonial parliaments took the lead and persuaded the people within a few years to vote for a federation loosely modelled on the American structure whereby states retained a high degree of sovereignty. A group of hard-working enthusiastic visionaries, such as could be found in any voluntary movement, tirelessly persuaded the populace that this was the right thing at the right time and that they should turn out and vote for it. They did so with narrow majorities in all colonies. Here was an example of a completely modern political process.<sup>27</sup>

The national sentiment that helped give rise to federation was not radical republican nationalism of American or Irish sorts although there was a republican current. Rather it was predominantly a nationalism of racial and cultural feeling about Britishness, egalitarianism and democratic social solidarity among the majority rural and urban working population. There was a widespread distrust of rather than hope for genuine independence. Perhaps never before or since has a set of erstwhile colonies exhibited such reluctance to demand and grasp real independence. Genuine political independence (if there could be such a thing in an integrating world) *à la* the United States was the dream of only a radical minority. Feeling small and isolated on the wrong side of the world, Australians rationally clung to the military and economic benefits of close association with Britain. (That the benefits of this association failed to materialise when sorely needed in 1941–2 was a great shock.)

The third great institutional outcome of the 1890s depression was the reforged and greatly expanded role of the state as the central regulator of capital and labour and defender of social harmony, equality and welfare. The labour parties of the colonies and early federation had as one of their central policy planks the regulation of industrial relations by the state. They were adamant that the defeats of the 1890s resulted from the combination of governments and capital so in the future governments must be not only captured and controlled through parliamentary politics but used to enact laws that would protect unions and give them an equal role with capital in the industrial struggle. Officially registered unions and dispute-settling industrial tribunals were thus supposed to become quasi-state instruments of social harmony through the redistributive mechanism of high wages on the back of employment and profit protection. The income shares for capital and labour flowing from the productive process were to be maintained at 'fair and reasonable' levels in order to maintain the 'social harmony'. Anti-capitalist or communist ideology played no significant role in the thinking of the organised working class or their parliamentary representatives. Recognition, collective bargaining, redistribution, state ownership of elements of significant industries and social welfare under the umbrella of capitalism (i.e. labourism) were the aims. Similarly, the humanisation of capitalism and the institutionalisation of social harmony through egalitarian social policies were the aims of the middle-class liberal reformers who worked together with the labour parties to bring to full fruition and set in powerful concrete in the first decade of the twentieth century the peculiarly Australian 'compromise'. In a country where the industrial working-class had barely begun to form, an avowedly working-class party formed the national government as early as 1904, after having been severely defeated as a movement only a decade before.

Clearly, labourism has to be understood, then, as far more than the 'compromise' of capital with labour. The Labour Party represented from the beginning the essence of a nation-building idea of a fusion of the interests of working classes (plural) in upward socio-economic mobility, an Anglo-Celtic and egalitarian culture, and racial purity, in coalition with the liberal vision of social stability and democracy. The crisis of the 1890s forged this coalition on the foundations of much older institutional and social developments. That labour recovered so quickly from the 1890s defeats is testament to the capacity of labourism to articulate a national consensus and also to the weakness of industrial capitalism. In America the 1890s crisis of labour had a far different outcome.

## NEW PROTECTIONISM IN THE EARLY TWENTIETH CENTURY

The new federal structure permitted nation building in the early twentieth century, especially in the Lib-Lab era from 1905 to 1917 when a succession of Liberal and Labour governments consolidated the 'compromise' that had begun to emerge in the 1890s. The constitution and early federal legislation formalised the six main building blocks of the new national framework. First, the surviving Aborigines were unrecognised and the spoken assumption was that they had no prior claim on land and they would assimilate and/or disappear. Second, the immigration restriction policy (i.e. White Australia) was the first substantive legislation of 1901. This effectively excluded non-white immigrants. 'White' was of course a complex cultural-racial-political-economic category. Most sections of society, especially organised workers who wished to protect their standard of living, were in favour of the maintenance of a British-only immigrant stream on economic, cultural and racial grounds.<sup>28</sup> (Some other Europeans were tolerated in small numbers.) Third, the Conciliation and Arbitration Act of 1904 put in place a federal dispute prevention and settlement court with the power to intervene and compulsorily arbitrate in disputes across state borders and to set wages. All the states already had their own compulsory arbitration systems.<sup>29</sup> Unions were required to register, thus legalising and legitimising them as quasi-official entities. Union formation and density burgeoned from 1905 so that between 1901 and 1911 the number of unions grew from 198 to 573 and density from 6 per cent to 28 per cent and then rose to 52 per cent by 1921.<sup>30</sup> Fourth, large-scale assisted immigration supplied the labour force for industrial and agricultural growth. The fifth building block was protectionism, which became a central aspect of policy in 1906-7 with the passing of the tariff acts of those years. By 1905 Labour had come down decisively on the side of protection and supported the Deakin Liberal government of 1905-8, which was the original protectionist regime.<sup>31</sup> The final main building block was state ownership of key sectors of the national economic infrastructure, notably railways, telegraphs, postal services and, after legislation in 1911, the new 'people's bank', the Commonwealth Savings Bank.

The building blocks came together into 'New Protectionism', then, under Prime Minister Alfred Deakin. New protection explicitly linked job protection, profit protection, wage protection and racial/cultural protection. The Court of Arbitration was the instrument for converting industrial protection into standard of living protection through its brief to determine what were 'fair and reasonable' wages. The court decided in 1907 that the needs

of workers rather than any other principle, such as general macro-economic conditions or demand and supply in the labour market or capacity to pay of particular employers, should determine fairness. There should be wage equality right across the nation. Henceforth freedom of individual contract and freedom of the labour market would be severely curtailed for ninety years. 'A new province for law and order' had been created.<sup>32</sup>

Enthusiasm among Liberal (conservative) and Labour governments for participation in the First World War in support of 'the empire' was an essential component of the nation-building process, even if a significant proportion of the articulate left and of the population generally, probably even a majority by 1917, opposed the participation, certainly to the extent of twice rejecting referenda on military conscription.<sup>33</sup> The war should be seen as confirming trends already in existence rather than as a break with them even though it threatened to undermine the social harmony. The path of industrialisation, political economy and national culture continued in the same direction afterward, indeed was even more encompassing of all groups, classes and interests, except for Aborigines. The protectionist 'compromise' continued in reinvigorated form (even though the radical left attempted to undermine it in favour of a more militant, class-conscious, direct political struggle for more thorough socialism) strengthened by the newly created ANZAC spirit of blood sacrifice for egalitarian and racial solidarity.<sup>34</sup> Nationalism could at last be built on this new ideological foundation of heroic myth.

#### MATURATION AND SUCCESS OF LABOURIST-PROTECTIONISM, 1920-74

Australia emerged from the First World War with a more centralised political economy, an enlarged and heavily protected industrial sector, an almost fully unionised workforce, and a greatly expanded opportunity to supply Britain and the rest of Europe with food and raw materials. The early 1920s were thus confident years. But the confidence didn't last and by about 1926 world market conditions had turned adverse, with the revival of competition by domestic and international producers in Britain and Europe for the Australian primary products. And so, once again, Australian policy-makers, along with the populace, lost any desire to even question the protectionist consensus. Even the farmers' party (the Country Party, formed 1919), representative of the efficient, exporting sector most adversely affected by protection, joined the protectionist consensus. Rationally, they believed the pragmatic course was to seek both domestic and international protection

through subsidies, organised marketing, prohibition of imports and export assistance. 'Protection all round' then became the chief slogan of the Australian political economy and was to remain largely inviolate in public opinion until the late 1960s. The 'arrogant' attempt by Prime Minister S.M. Bruce to reform significantly the centralised and compulsory arbitration system saw him swept politically and personally from office in 1929.<sup>35</sup>

The major immediate response to the Great Depression was a dramatic resort to further protection and then fiscal and monetary conservatism, including wage reductions, with avoidance of any even partial deferment of loan servicing, let alone moratorium or default, by the moderate Labour federal government that had come into office on the eve of the depression. The Labour Party split over depression policy and conservatism triumphed in politics and policy. The 1930s was thus a significant crisis for the labourist compromise although protectionism was not seriously questioned. But as it turned out, the long-term significance of the depression for the Australian political economy was as an interruption rather than a turning point. The resort to protection and the war speeded up the transformation to an industrial economy.<sup>36</sup>

So, the Second World War was of greater long-term significance, serving to consolidate a more secure foundation for the ANZAC myth and eroding considerably the remaining neo-colonial mentality. The stimulus to industrial development from the total mobilisation effectively completed the transition to a mature industrial economy. The socio-political effects of the depression and war included, as with all industrial countries, the turn to Keynesian macro-economic policy and increased social welfarism. Full employment, fortuitously achieved, became a fundamental plank of the political and social consensus. The 1941-9 Labour government had a socialist agenda in the sense of continuation and extension of public ownership of the 'commanding heights' of sections of the economy, such as banks, coal mines, railways, suburban transport, airlines, ships, electricity, hospitals, universities, insurance, telephones and postal services. The war emergency enabled federal centralisation of economic power via taxation and banking regulation. The subsequent conservative governments from 1949 to 1972 did nothing to disturb the established regulatory pattern, in spite of another split in Labour over communism. No government could have survived electorally without maintaining the centralised labourist-protectionist consensus, certainly while full employment and prosperity continued.

Australia represented in the 1950s and 1960s the epitome of the protectionist state, presided over, perhaps curiously, by liberal conservatives and not social democrats. Behind the protectionist wall Australia matured

in terms of the secondary sector's share of GDP and employment by the late 1950s.<sup>37</sup> Nation building reached a sublime height with the Snowy Mountains hydro and irrigation scheme in the 1950s which combined a great wave of European migration with land subjugation on a grand scale, massive investment in agricultural exports and state-induced demand for protected industrial development. The achievements of industrial maturity, full employment, generalised social welfare, and egalitarian income and wealth distribution were all substantial. There was a high degree of political and social consensus on economic, industrial relations and immigration policies. The centralised and unionised industrial relations system guaranteed the maintenance of a high wage structure whatever the skill level. The relatively high price of labour was a crucial determinant of the maintenance of protectionist policy and an affluent internal market.

#### CRISIS OF LABOURIST-PROTECTIONISM, 1967-86

The crisis of the late 1960s/early 1970s witnessed the beginning of a significant weakening of the Australian compromise and of the nation-building role of the state. The Vietnam involvement, anti-racist social movements and feminism galvanised opposition to the increasingly conservative government and a cultural awakening occurred which, combined with several other factors, produced a watershed. First, the late 1960s and early 1970s witnessed a version of 'Dutch disease' or supply-side-shock economic syndrome consequent upon the rapid rise of the minerals and energy export sector. This shock had deleterious effects on the traditional exporting sector (agriculture) and the import-replacing sector (manufacturing) through the mechanism of exchange rate appreciation caused by balance of payments surpluses. Combined with the other rigidities in national policy the result was stagflation with the onset of the post-oil shock recession. Having become a major energy exporter by then (coal and uranium), Australia was in a more complex position within the world economy. Here was an industrialised country in which the most dynamic sector was minerals and energy exports and the most stagnant sector the import-replacing and exporting secondary sector.<sup>38</sup>

Second, the protectionist consensus began to crumble in the face of the minerals export boom. The intellectual basis had shifted in the 1960s and the first significant steps to reduce the levels were made by the Gough Whitlam Labour government in 1973, which imposed a unilateral 25 per cent reduction in all tariff levels in response to the supply-side shock and inflation.<sup>39</sup>

Third, in response to stagflation there was an intellectual shift, in common with many countries, away from the Keynesian macro-economic management policy focused on employment to a more monetarist philosophy of fighting inflation first.<sup>40</sup>

Fourth, the White Australia policy was scrapped and a trickle of Asian migrants and, indeed, migrants from every part of the world, began arriving, which soon turned into a flood, especially after the end of the Indochina wars when Australia accepted proportionally the largest number of refugees. Thus there was the beginning of a rapid breakdown of socio-cultural-racial exclusion and isolation and a very significant move towards multiculturalism and openness as official policy. The explanation for this relatively smooth and peaceful transition has to be sought in the earlier widening of immigration to include all of Europe and then the Middle East, and in the class inclusiveness of the social democratic tradition which was able to adjust easily to ethnic inclusion as long as, crucially, the other building blocks of egalitarianism and market regulation remained in place to protect living standards.

Fifth, the Aboriginal land rights issue came to the fore as the issue of the legal legitimacy of land domination by the settler state began to be raised by the surviving Aborigines and their white supporters. In 1967 Aborigines were given legal recognition in the constitution and gradually reconciliation has become a central element of the new phase of multicultural nation building from the mid-1980s.

With the re-election of Labour in 1983 Australia witnessed one of the first examples of a deregulatory social democratic government, increasing the move away from state regulation of some areas of the economy, particularly the finance and transport sectors. On the other hand, there was an attempt to introduce a degree of corporatist national management of a quasi-Scandinavian kind. The Prices and Incomes Accord with the Australian Council of Trade Unions was a 'backroom' deal to trade off 'social wage' increases (national medical insurance, welfare increases and tax cuts) for real wage reductions and hence investment growth to generate employment.<sup>41</sup> The 1980s was a period of rapid economic recovery and employment generation as well as growing inequality.

#### GLOBALISATION AND FORGING A NEW NATIONAL IDENTITY SINCE 1986

Although the settler era has passed, some of its legacies persist and nation building or rebuilding is an ongoing task. The late 1980s and 1990s, after the

transitional period of the previous decade, have seen a virtual 'revolution' in economic and social policy and cultural formation such that the nature of the Australian state and society has changed very significantly.<sup>42</sup> From 1986 the Labour government increased the tempo of deregulation corporatisation, privatisation, and Aboriginal reconciliation. *Terra nullius* was judicially overturned and Aboriginal prior ownership recognised. Australia switched from being a non-participant in the GATT negotiations in the 1960s and 1970s to being a leading proponent of multilateral reductions of protection, particularly in the agricultural sector. The levels of protection of agriculture have unilaterally been reduced to levels below 10 per cent in spite of the lack of reciprocation in other OECD countries. Secondary protection has declined generally to 5 per cent except for special higher levels for the textiles, clothing and footwear, and automobiles sectors. Protection all round, the framework of national policy since the early 1920s and the culmination of policy since 1905, has decisively been killed. Even limited deregulation of the labour market was begun by the Labour government with the weakening of the centralised arbitration system and a concerted move towards workplace bargaining. Since 1996, under a conservative government, micro-economic reform has gone further to include a significant assault on the power of the centralised industrial arbitration system, significant reductions in the welfare, education and public broadcasting systems, and even a degree of deregulation and privatisation of the state universities.

In the space of twenty years, even a decade, the structure of Australia's political economy has changed enormously. From being a protected, mixed economy with a high degree of state ownership and regulation, toleration of monopolies and oligopolies, with an egalitarian income distribution by world standards, the economy and society have been opened to global competition and resulting inequality. Multiculturalism displaced 'White Australia'. Aboriginal land rights and reconciliation moved to centre stage as national issues. Indeed, the beginnings of a new cultural formation, focusing on the special characteristics and influence of the natural environment, fusing Aboriginal, European and Asian cultural elements with environmentalism, can be discerned.<sup>43</sup> And the globalisation strategy has provoked a severe political realignment. As the new century dawned the remaining social democrats grappled with how to redefine their role and that of the state in the face of the strength of the neo-liberalism of the economic elites, the anti-globalisation xenophobia and disaffection of the marginalised and increasingly impoverished small farm and urban working classes, and the anti-capitalist reregulators of the left. The social



democrats within the Labour Party, as in Western Europe, are starting to redefine themselves as less enthusiastic supporters of but also ameliorators of globalisation. Neo-liberals have largely prostrated themselves before the Washington economic consensus. Neo-social-democrats are still trying to find their feet. The twenty-year dominance of economic ideology over politics and society is perhaps ending and a new political economy is vaguely taking shape around a more self-confident cultural formation and the new watchword of efficiency.

## NOTES

I wish to thank Tim Rowse for helpful advice on an earlier draft.

1. The administrative and economic history of early NSW is discussed in G. J. Abbott and N.B. Nairn (eds.), *Economic Growth in Australia, 1788–1821* (Melbourne, 1969); N.G. Butlin, *Forming a Colonial Economy, 1810–1850*, (Cambridge, 1994); B. Fletcher, *Colonial Australia Before 1850* (Melbourne, 1996); J. Kociumbas, *The Oxford History of Australia, Vol. II: 1770–1860* (Oxford, 1992).
2. On the 1813–40 period, see G.J. Abbott, *The Pastoral Age* (Melbourne, 1971); Butlin, *Forming a Colonial Economy*; M. McMichael, *Settlers and the Agrarian Question: Foundations of Capitalism in Colonial Australia* (Cambridge, 1984).
3. The idea of an Australian ‘historic compromise’ is discussed in F. Castles, *Australian Public Policy and Economic Vulnerability* (Sydney, 1988). See also P. Kelly, *The End of Certainty: the Story of the 1980s* (Sydney, 1992), where the idea of the ‘settlement’ is given a central place. There is much contention about this concept (see below) but it is a useful place to start for it highlights what is perhaps different about Australia’s political economy even at the risk of neglecting the more global and social (rather than economic and administrative) forces at work. See also the many valuable discussions in P. Smyth and B. Cass (eds.), *Contesting the Australian Way: States, Markets, and Civil Society* (Cambridge 1998), where many contributors defend the idea of a broader ‘way’ instead of a settlement. See also the challenging and intelligent Gramscian analysis in A. Davidson, *The Invisible State: the Formation of the Australian State 1788–1901* (Cambridge, 1991).
4. See D. Denoon, *Settler Capitalism: the Dynamics of Dependent Development in the Southern Hemisphere* (Oxford, 1983). C. Lloyd, ‘Australian and American Settler Capitalism: the Importance of a Comparison and its Curious Neglect’, *Australian Economic History Review*, 38 (1998), 280–305. On Australian democratisation, see J.B. Hirst, *The Strange Birth of Colonial Democracy* (Sydney, 1988).
5. Cf. H. Schwartz, *States Versus Markets: The Emergence of a Global Economy*, 2nd edn (New York, 2000), for a good analysis of local/global interconnections over time.

6. On the history of Aboriginal dispossession see C.D. Rowley, *The Destruction of Aboriginal Society* (Canberra, 1970); N.G. Butlin, *Our Original Aggression: Aboriginal Populations of Southeastern Australia, 1788–1850* (Sydney, 1983); Butlin, *Economics and the Dreamtime: a Hypothetical History* (Cambridge, 1993).
7. For left criticisms, including ideas of dependency, see K. Buckley and T. Wheelwright, *No Paradise for Workers: Capitalism and the Common People in Australia, 1788–1914* (Melbourne, 1988); Buckley and Wheelwright, *False Paradise: Australian Capitalism Revisited, 1915–1955* (Melbourne, 1998); B. Catley and B. McFarlane, 'Labor and Economic Crisis': Counter Strategies and Political Realities' in E.L. Wheelwright and K. Buckley, *Essays in the Political Economy of Australian Capitalism, Vol. IV*, (Sydney, 1980), pp. 267–310; P. Cochrane, *Industrialization and Dependence: Australia's Road to Economic Development* (Brisbane, 1980); J.G. Crough and E. L. Wheelwright, 'Australia: Client State of International Capitalism. A Case Study of the Mineral Industry' in E.L. Wheelwright and K. Buckley, *Essays in the Political Economy of Australian Capitalism, Vol. V* (Sydney, 1983), pp. 15–42.
8. Cf. P. Ehrensaft and W. Armstrong, 'Dominion Capitalism: a First Statement', *Australia and New Zealand Journal of Sociology*, 14 (1978, 252–363); W. Armstrong and J. Bradbury, 'Industrialisation and Class Structure in Australia, Canada, and Argentina: 1870–1980' in Wheelwright and Buckley, *Essays in the Political Economy of Australian Capitalism, Vol. V*, pp. 43–74; McMichael, *Settlers and the Agrarian Question*. See also discussion in C. Lloyd, 'Capitalist Beginnings in Australia', *Arena*, 81 (1987), 35–54, and C. Lloyd, 'Regime Change in Australian Capitalism: Towards a Historical Political Economy of Regulation', *Australian Economic History Review*, 42, 3 (2002), 238–66.
9. See, for example, McMichael, *Settlers and the Agrarian Question*; Catley and McFarlane, 'Labor and Economic Crisis'; Cochrane, *Industrialization and Dependence*; H. Schwartz, *In the Dominions of Debt: Historical Perspectives on Dependent Development* (Ithaca, 1989).
10. For social democratic/Keynesian views see T. Battin, *Abandoning Keynes* (London, 1997); H. Stretton, *Political Essays* (Melbourne, 1987).
11. One of the first important expressions of this view was by W.K. Hancock, *Australia* (Brisbane, 1961: first published 1930). See the excellent discussion of protectionism from a multi-faceted economic perspective in K. Anderson, 'Tariffs and the Manufacturing Sector' in R. Maddock and L. W. McLean (eds.), *The Australian Economy in the Long Run* (Cambridge, 1987), pp. 165–74.
12. M. Olson, *The Rise and Decline of Nations* (New Haven, 1982); Olson, 'Australia in the Perspective, of the Rise and Decline of Nations', *Australian Economic Review*, 3 (1984), 7–17.
13. The most developed form of the argument is in N.G. Butlin, A. Barnard and J.J. Pincus, *Government and Capitalism: Public and Private Choice in Twentieth Century Australia* (Sydney, 1982).
14. The indigenous people were easily vanquished compared with those of all other settler societies such as New Zealand, USA and Argentina, but nevertheless

there was a long campaign of violence on the frontier. See Rowley, *The Destruction*; H. Reynolds, *The Other Side of the Frontier Aboriginal Resistance to the European Invasion of Australia*, new edn (Ringwood, Victoria, 1990). The latest estimate is that the Aboriginal population fell from about half a million to about 100,000.

15. Cf. R. Manne, 'The Whitlam Revolution' in R. Manne (ed.), *The Australian Century: Political Struggle in the Building of a Nation* (Melbourne, 1999), pp. 179–223.
16. See the excellent discussion of Wakefield and other philosophic radicals in B. Semmel, 'The Philosophic Radicals and Colonialism', *Journal of Economic History*, 21 (1961), 513–25; repr. in A.G.L. Shaw (ed.), *Great Britain and the Colonies, 1815–1865* (London, 1970), pp. 77–92.
17. Transportation of British convicts continued to Tasmania until 1853 and occurred in WA between 1850 and 1868. No sooner had transportation to NSW ceased than influential pastoralists and shippers were scouring the world for suitable sources of servile or semi-servile cheap labour for shepherding. Approximately 3,600 Chinese indentured labourers were imported in the years 1848–53; see M. Darnell, 'The Chinese Labour Trade to NSW, 1783–1853' (Unpublished Ph.D. thesis, University of New England, Armidale, 1997). Later, about 65,000 Pacific Island indentured labourers were brought to Queensland between 1863 and 1904 to work on sugar plantations; see A.A. Graves, 'The Abolition of the Queensland Labour Trade' in Wheelwright and Buckley (eds.), *Essays in the Political Economy of Australian Capitalism, Vol. IV*, pp. 41–57.
18. See McMichael, *Settlers and the Agrarian Question*.
19. On land reform, see S. Roberts, *History of Australian Land Settlement, 1788–1920* (Melbourne, 1924).
20. Thirty-four miners and four troopers were killed. See the account in J. Molony, *Eureka* (Melbourne, 1984).
21. See W.A. Sinclair, *The Process of Economic Development in Australia* (Melbourne, 1976), ch. 4.
22. Cf. Sinclair, *The Process*, pp. 102–3; B. Fitzpatrick, *The British Empire in Australia, 1834–1939*, 2nd rev. edn (Melbourne, 1949), pp. 128–9.
23. On the 1880s boom, see E.A. Boehm, *Prosperity and Depression in Australia, 1887–1897* (Oxford, 1971). A contrary view about the 1880s as not the 'working man's paradise' is in Buckley and Wheelwright, *No Paradise for Workers*.
24. The 1890s depression is examined in Boehm, *Prosperity and Depression*.
25. On the strikes of the 1890s, see R. Gollan, *Radical and Working Class Politics* (Melbourne, 1960); J. Rickard, *Class and Politics* (Canberra, 1976).
26. The early history of labour parties and the party system are dealt with in Rickard, *Class and Politics*.
27. For recent discussions of federation, see W.G. McMinn, *Nationalism and Federalism in Australia* (Melbourne, 1994); B. De Garis, 'Federation' in Manne (ed.), *The Australian Century*, pp. 11–46.
28. Cf. H.I. London, *Non-White Immigration and the 'White Australia' Policy* (Sydney, 1970).

29. On the origins of compulsory arbitration, see S. Macintyre and R. Mitchell (eds.), *Foundations of Arbitration* (Melbourne, 1989).
30. S. Deery D. Plowman and J. Walsh, *Industrial Relations: a Contemporary Analysis* (Sydney, 1997), ch. 7.
31. Cf. W.K. Hancock, 'The Commonwealth, 1900-1914' in E. Scott (ed.), *The Cambridge History of the British Empire, Vol. VII: Australia Part 1* (Cambridge, 1933; reissued 1988), pp. 491-520; Fitzpatrick, *The British Empire*, pp. 261-5.
32. Justice H.B. Higgins, second president of the Court of Arbitration.
33. J. Hirst, 'Labour and the Great War' in Manne (ed.), *The Australian Century*, pp. 47-79.
34. ANZAC stands for Australia and New Zealand Army Corps, in which the Australasian troops fought at Gallipoli and on the western front. The ANZAC experience was deliberately mythologised after the war as a symbol of courage, tenacity, independence, solidarity and equality and ANZAC Day (25 April), the national day of war memorialising, is more solemnly respected than the official Australia Day of 26 January.
35. See Anderson, 'Tariffs and the Manufacturing Sector'.
36. Cf. Anderson, 'Tariffs and the Manufacturing Sector'; Sinclair, *The Process of Economic Development*.
37. On the post-war growth and development, see S. Dowrick and T. Nguyen, 'Measurement and International Comparison' B. Chapman (ed.), *Australian Economic Growth: Essays in Honor of Fred Gruen* (Melbourne, 1989), pp. 34-59. S. Dowrick, 'Economic Growth' in P. Kriester (ed.), *The Australian Economy*, 3rd edn (Sydney, 1999), pp. 6-25; A. Maddock, 'The Long Boom: 1940-1970', in Maddock and McLean, *The Australian Economy*, pp. 79-105.
38. Supply-side-shock economics is discussed in R.G. Gregory, 'Some Implications of the Growth of the Mineral Sector', *The Australasian Journal of Agricultural Economics*, 20 (1976), 71-91; W.M. Corden and J.P. Neary, 'Booming Sector and De-Industrialisation in a Small Open Economy', *Economic Journal*, 92 (1982), 825-48.
39. On the debate over protectionism in the late 1960s/early 1970s, see Anderson, 'Tariffs and the Manufacturing Sector'.
40. Battin, *Abandoning Keynes*.
41. On the accord and its effects, see K. Wilson J, Bradford and M. Fitzpatrick (eds.), *Australia in Accord: An Evaluation of the Prices and Incomes Accord of the Hawke-Keating Years* (Footscray, 2000).
42. On the 1980s and 1990s micro-economic deregulatory programme see S. Bell, *Ungoverning the Economy* (Melbourne, 1997); D. Bryan and M. Rafferty, *The Global Economy in Australia* (Sydney, 1999); A. Capling, *Australia and the Global Trade System* (Cambridge, 2001); P. Kelly, 'Labor and Globalisation' in Manne (ed.), *The Australian Century*, pp. 224-63.
43. This new formation was graphically expressed in the opening ceremony of the 2000 Sydney Olympics. The fight for Aboriginal rights is discussed in B. Attwood and A. Markus, 'The Fight for Aboriginal Rights' in Manne (ed.), *The Australian Century*, pp. 264-92.

# NATION, STATE AND THE ECONOMY IN HISTORY

EDITED BY  
ALICE TEICHOVA  
HERBERT MATIS



**CAMBRIDGE**  
UNIVERSITY PRESS

PUBLISHED BY THE PRESS SYNDICATE OF THE UNIVERSITY OF CAMBRIDGE  
The Pitt Building, Trumpington Street, Cambridge, United Kingdom

CAMBRIDGE UNIVERSITY PRESS

The Edinburgh Building, Cambridge, CB2 2RU, UK  
40 West 20th Street, New York, NY 10011-4211, USA  
477 Williamstown Road, Port Melbourne, VIC 3207, Australia  
Ruiz de Alarcón 13, 28014 Madrid, Spain  
Dock House, The Waterfront, Cape Town 8001, South Africa

<http://www.cambridge.org>

© Cambridge University Press 2003

This book is in copyright. Subject to statutory exception  
and to the provisions of relevant collective licensing agreements,  
no reproduction of any part may take place without  
the written permission of Cambridge University Press.

First published 2003

Printed in the United Kingdom at the University Press, Cambridge

*Typeface* Adobe Garamond 11/12.5 pt.    *System* L<sup>A</sup>T<sub>E</sub>X 2<sub>ε</sub> [TB]

*A catalogue record for this book is available from the British Library*

ISBN 0 521 79278 9 hardback

# Contents

<i>List of figures</i>	page viii
<i>List of tables</i>	ix
<i>List of contributors</i>	xi
<i>Acknowledgements</i>	xvi
Introduction	I
<i>Alice Teichova and Herbert Matis</i>	
PART I	
1 Political structures and grand strategies for the growth of the British economy, 1688–1815	II
<i>Patrick K. O'Brien</i>	
2 Economic factors and the building of the French nation-state	34
<i>François Crouzet</i>	
3 Nation building in Germany: the economic dimension	56
<i>Gerd Hardach</i>	
4 The harmony liberal era, 1845–1880: the case of Norway and Sweden	80
<i>Göran B. Nilsson</i>	
5 Nationalism in the epoch of organised capitalism – Norway and Sweden choosing different paths	96
<i>Francis Sejersted</i>	
6 Economic development and the problems of national state formation: the case of Spain	113
<i>Clara Eugenia Núñez and Gabriel Tortella</i>	

## PART II

- 7 The state and economic development in Central and Eastern Europe 133  
*David F. Good*
- 8 Concepts of economic integration in Austria during the twentieth century 159  
*Ernst Bruckmüller and Roman Sandgruber*
- 9 The economy and the rise and fall of a small multinational state: Czechoslovakia, 1918–1992 181  
*Václav Průcha*
- 10 Economic retardation, peasant farming and the nation-state in the Balkans: Serbia, 1815–1912 and 1991–1999 197  
*Michael Palairret*
- 11 National and non-national dimensions of economic development in nineteenth- and twentieth-century Russia 219  
*Peter Gatrell and Boris Anan'ich*

## PART III

- 12 Nation without a state and state without a nation: the case of Africa south of the Sahara 239  
*Catherine Coquery-Vidrovitch*
- 13 The economic foundation of the nation-state in Senegal 251  
*Ibrahima Thioub*
- 14 From the Jewish national home to the state of Israel: some economic aspects of nation and state building 270  
*Jacob Metzger*

## PART IV

- 15 Economic change and the formation of states and nations in South Asia, 1919–1947: India and Pakistan 291  
*B.R. Tomlinson*
- 16 State transformation, reforms and economic performance in China, 1840–1910 308  
*Kent G. Deng*



17	Japan's unstable course during its remarkable economic development <i>Hidemasa Morikawa</i>	332
PART V		
18	The state and economic growth in Latin America: Brazil and Mexico, nineteenth and early twentieth centuries <i>Carlos Marichal and Steven Topik</i>	349
19	Building the Brazilian nation-state: from colony to globalisation <i>Domingos A. Giroletti</i>	373
20	The role of nationhood in the economic development of the USA <i>Gavin Wright</i>	387
21	Economic policy and Australian state building: from labourist-protectionism to globalisation <i>Christopher Lloyd</i>	404
	<i>Index</i>	424