1 Introduction, themes and overview

This book is an introduction to Australia's economic history in the twentieth century, taking as its main theme the integration of the Australian economy in the global economy. It focuses on Australian external trade (imports and exports of goods and services), the inflow and outflow of **capital** (**foreign investment**) and the influx of permanent settlers from abroad (immigration). Each of these flows across Australia's borders formed – and continues to form – part of the nation's international integration. Each can be viewed separately in time, but in reality they interact closely, and together have defined Australia's relationship with the global economy. This relationship changed and developed in some ways, and remained constant in others, over the first century after Federation. Each of these international economic connections was the subject of public policy – both separately and as it interacted with others. Of course, international flows of trade, capital and people also impacted on the performance and development of the domestic economy, and ultimately on Australian living standards.

This chapter introduces the nature of these flows and the themes of the book. It begins by examining two fundamental features of the Australian economy in its international context: its size and openness. It then considers how integration with the international economy contributed to Australia's **economic growth**, both through international demand for the products that Australian producers could export to the world and through the international supply of two **factors of production**: **capital** and **labour**. The third part of this chapter introduces the major contours in the history of public policies that shaped the international economic flows: tariff policy, **wages policy** and immigration policy. The chapter concludes with a brief discussion about the development of government management of the Australian economy, with particular emphasis on managing Australia's **balance of payments**. Subsequent chapters and their themes are outlined at the end of this chapter.

Features of the Australian economy

Population growth and urbanisation

Australia at the beginning of the twentieth century was small in population but, in the global context, it was far from poor. According to Maddison's (2006) estimates, Australia had the highest real GDP per head in the world before the 1890s depression, a position it regained briefly just before the First World War. Over the course of the twentieth century, Australia's relative position declined somewhat – especially in comparison with the United States and Canada after the Second World War, as indicated in Figure 1.1.

Australia's population did not grow particularly quickly in the twentieth century. Indeed, concerns about its future at the beginning of the century led to the establishment of a Royal Commission into the Decline in the Birth Rate in 1904. The Commissioners reported with alarm that it would take 113 years for the population of Australia to reach 20 million – a fairly accurate prediction, as it turned out (Offer 1989, p. 167; Olds 1993, p. 159).

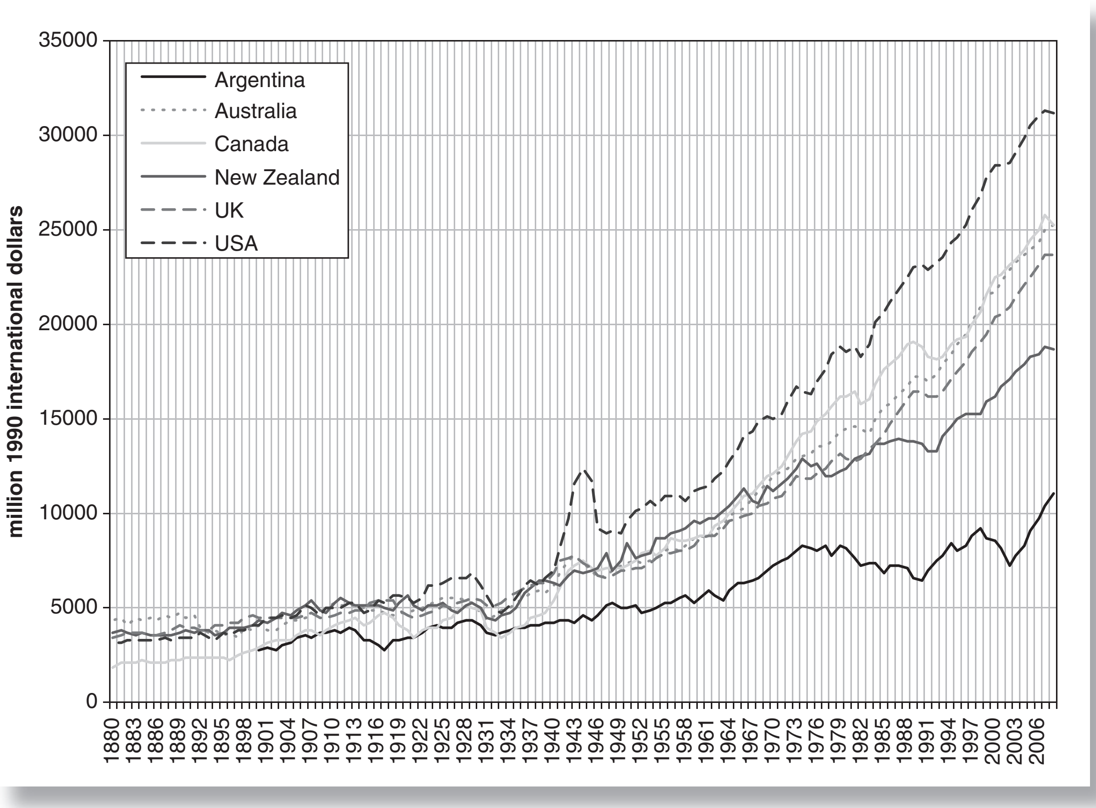

Figure 1.1 Real GPD per head in six countries, 1880–2008.
Source: Based on Maddison (2006, Tables 1c, 2c, 4c).

Although Australia's population grew more quickly than that of Britain – the origin of most nineteenth-century settlers – it grew noticeably more slowly than some other lands of European settlement – Canada, the United States and Argentina. This outcome was not due to a failure to reduce mortality: death rates in Australia fell significantly over the twentieth century. Rather, it reflected a relatively low birth rate and a restricted inflow of immigration. Table 1.1 shows the contribution of natural increase (the difference between birth rate and death rate) and net immigration (the difference between immigration and emigration) in the growth of Australia's population. Despite the fulmination of the Royal Commission against family planning, significantly raising the birth rate was not a likely outcome: Australia had already achieved the high average material living standards historically associated with smaller family size. Instead, Australia looked to immigration to boost its population – at times, the phrase 'populate or perish' was used in this connection.

Australia's population growth was influenced by fluctuations in net immigration. There were periods when the inflow was relatively large – generally those years of higher economic growth and when Australian governments encouraged immigrants, such as the half-dozen years before the First World War, the mid-1920s and the 'Long Boom' from the late 1940s to the early 1970s. At other times, net immigration was negligible or negative. In the late 1980s, there was a return to higher intakes, and

Table 1.1 Contribution of net migration to Australia's population growth, 1881–2010

Period (calendar years)	Population at start of period	Population increase during period	Proportion of population increase due to net migration (%)
1881–1890	2 231 531	919 824	41.6
1891–1900	3 151 355	613 984	4.1
1901–1910	3 765 339	659 744	17.9
1911–1920	4 425 083	986 214	22.5
1921–1930	5 411 297	1 089 454	27.9
1931–1940	6 500 751	576 385	5.3
1941–1945	7 077 586	352 611	2.2
1946–1950	7 430 197	877 284	40.3
1951–1955	8 307 481	1 004 344	41.2
1956–1960	9 311825	1 080 095	37.5
1961–1965	10 391 920	1 072 437	37.3
1966–1970	11 505 408	1 158 061	47.0
1971–1975	12 799 600	1 169 300	31.5
1976–1980	13 968 900	838 500	38.0
1981–1985	14 807 400	1 093 200	39.3
1986–1990	15 900 600	1 269 200	50.3
1991–1995	17 169 800	1 026 300	32.2
1996–2000	18 196 100	1 081 100	43.1
2000–2004	19 153 400	1 241 400	45.9
2005–2009	20 394 800	1 934 000	55.9
2010	22 328 800	377 100	57.2

Source: Based on ABS, *Migration Australia* (2009–10).

although this faded in the recession of the early 1990s, from the middle of the 1990s to the end of the first decade of the twenty-first century, net migration once again contributed strongly to Australia's population growth. These ups and downs had less to do with supply than they did with demand. Comparatively high living standards 'pulled' people in Australia's direction, guaranteeing a constant supply of potential immigrants. But demand varied according to the country's perceived needs for labour, and for another important reason. Before the 1970s, immigration was restricted by racism. The White Australia policy dictated that most of Australia's immigrants should come from Britain and Ireland. When these were not forthcoming in sufficient numbers after the Second World War, Australia turned (somewhat reluctantly) to continental Europe and the Mediterranean. However, it did not look to Asia or the Pacific until the late 1970s. The White Australia policy was abandoned in a period when immigration levels were low. When the total intake rose in the 1980s, the proportion coming from Asia certainly increased; however, as the overall intake did not return to the higher levels of the 1950s and 1960s, the impact of the adoption of a non-discriminatory immigration policy on total population growth was muted.

Whether Australia would have been better off had it matched the more rapid population growth of the United States is uncertain. More people would have meant more consumers and more labour. The size of the economy would have been larger. This might have attracted more capital **investment** and led to more **land** being released, the two other important factors in the production equation. But even if capital and land were increased in proportion to labour, it is unclear whether this would have translated into a higher *per capita* level of income. Economic growth *per head* requires **productivity** gains. Productivity rises when work practices improve or, more typically, when firms purchase new equipment that increases the output of their existing **labour force**. It was quite feasible that faster population growth in the twentieth century may have led to *lower* per capita incomes than were actually achieved if extra labour had been substituted for investment in the new labour-saving technologies. If this were true, it would imply that Australia's immigration program (the element in population growth more easily controlled by the government) was not unduly inadequate. Otherwise, the limits placed on immigration were also limits placed on economic growth.

Despite its geographic size and the importance of its rural economy, Australia was not a rural society. Its degree of urbanisation at the beginning of the century was remarkable, and was remarked on by foreign visitors (for example, the American writer Mark Twain). Australia was more urban than the United States or Canada, though less so than Britain, which at that time was the most industrialised society in the world (see Table 1.2). Between them, Australia's two largest cities – Melbourne and Sydney – accounted for 26 per cent of the total population in 1901 and 28 per cent a decade later. The reasons for this high level of urbanisation lay in the nature of the rural economy and the preferences of Australia's nineteenth-century immigrants. Rural production was land intensive, but it did not absorb the bulk of either capital

Table 1.2 Urbanisation in Australia and the United States, 1891–1947

Year		Population (persons, 000)		Percentage of population living in urban centres	
Australia	US	Australia	US	Australia	US
1891	1890	3 152	62 948	56.4	35.1
1901	1900	3 744	75 995	57.1	39.7
1921	1920	5 406	105 711	62.5	51.2
1933	1930	6 613	122 775	64.0	56.2
1947	1940	7 561	131 669	68.9	56.5

Sources: Based on Vamplew (1987, p. 41); United States Bureau of the Census (1960, p. 14).

investment or population increases. Australian cities developed as ports to facilitate rural exports. As a result, most people lived in the coastal cities and earned their living by working in the services sector (including construction and transport) and manufacturing. A great deal of Australia's nineteenth-century population growth was due to immigration from Britain and Ireland, and whatever the background of these migrants in their homeland, most showed a clear preference for city life over rural living once they arrived in Australia. As a consequence, Australia developed a vibrant and relatively prosperous urban economy, linked only partly to the rural economy that supplied the nation's export earnings. Competition between these two economies for resources and tension between them for power formed a permanent theme in Australian domestic politics during the twentieth century.

Reliance on the World Economy

Australia was an **open economy** at the beginning of the twentieth century in the sense that it depended on the outside world for imports, capital and, as discussed already, people. It was also open in the sense that there were few restrictions on imports and none on capital. Immigration was open to British citizens, who could enter Australia at will, though not to other nationalities. Australia was also open to new ideas and technology – and sometimes the rest of the world was interested in Australian social experiments.

The share of exports in the Australian economy is shown in Figure 1.2. During the pre-First World War period, there was buoyant global demand for the narrow range of primary products that made up the bulk of Australia's exports, and the export ratio was fairly high, at around 20 per cent. The ratio declined after the First World War as global markets for the type of commodities Australia exported were depressed by over-supply of most primary products. The post-Second World War peak of 28 per cent in 1951 reflected very high wool prices caused by the preparations for the Korean War. Thereafter, Australia's export values failed to keep up with economic growth and the export ratio fell to a lower level of 12 to 15 per cent. By this period, the share of manufactures in Australia's export mix was greater, and this further depressed the export ratio in the late 1960s and 1970s when primary product prices (especially energy prices) soared. There was some resurgence towards the end of the twentieth century and in the early twenty-first century as demand for Australia's primary exports was stimulated by Asian industrialisation and the share of manufactures in the export range diminished.

At the beginning of the twentieth century, with a very limited manufacturing sector, Australians' high per capita incomes could only be converted to high material living standards through importing **consumer goods** as well as **capital goods** and equipment. Exports were the main means of paying for these, although international lending enabled Australia to live beyond its means for most periods during the twentieth century. The nature of exports was well established by 1900: wool and gold, the staples of the nineteenth century, still predominated, though they were now

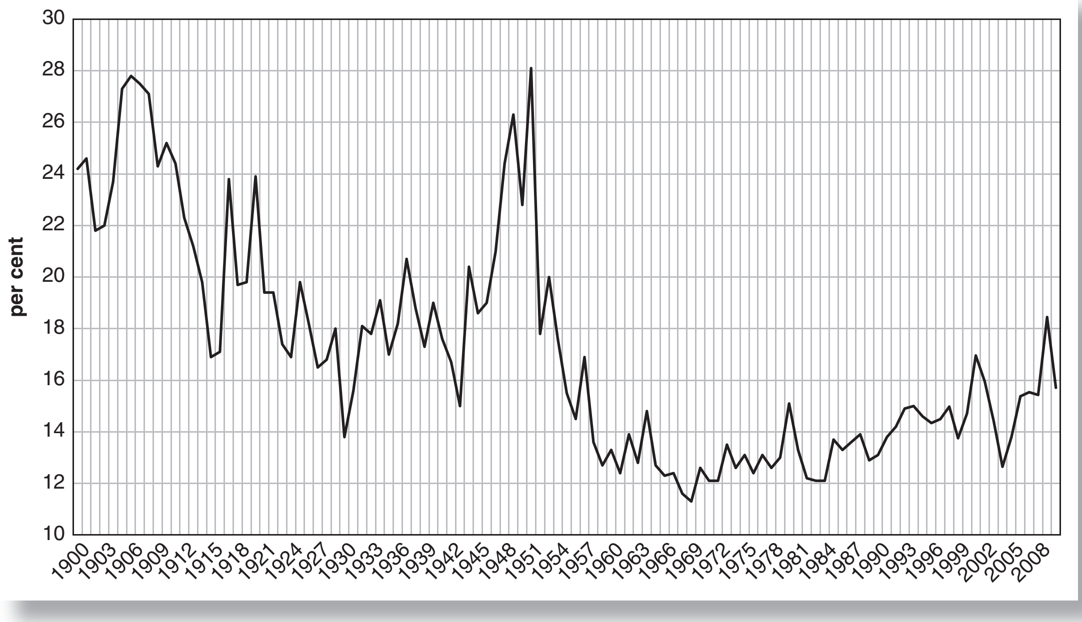

Figure 1.2 Australia's export ratio, 1900–2010 (exports of goods as % of GDP).
Source: Based on Pinkstone (1992, p. 393) (1900–49); RBA (1996) (1949–50 to 1994–95); ABS, *Australian Economic Indicators*; ABS, *Key National Aggregates* (2009–10).

joined by a limited range of other primary products (wheat, meat, dairy produce and some base metal ores). The primary products that were exported were not usually processed in Australia, but entered the global economy as raw foodstuffs and raw materials.

Thus a dual economy had developed by the beginning of the twentieth century. One economy was rural and export orientated; the other was urban and, as the century wore on, increasingly protected. Linkages between the two economies existed but were limited. Imports were essential to both production and consumption. But some at least were also competitive, and seemed to undermine the urban economy. Since this was where the majority lived and worked, and Australia was at least partially democratic, protection from imports was a politically popular policy and one that lasted for nearly all of the century. It took the new Commonwealth less than a decade to embark on a **protectionist** stance that raised barriers to imports constantly for the next six decades. This encouraged and sustained the growth of the manufacturing industry for most of these years and was an important element in Australia's industrialisation. Protectionism was the major factor that qualified Australia's openness.

Exports not only paid for imports, they also underwrote Australia's ability to attract foreign investment. Ultimately, foreigners who lent to Australian businesses or governments, or directly invested in the Australian economy, expected to be repaid with **interest**, and to repatriate their profits. Some of the foreign capital that Australia was able to attract flowed into export industries; most did not. Instead, it consisted of loans to Australian governments (Commonwealth and state) and private investment (of loans or equity) in the manufacturing and services sectors of the economy. Foreign investor confidence in Australia was damaged by the economic crisis of the 1890s (see Chapter 3), but foreign capital inflow returned in the first few years after Federation. State governments found that they could once again borrow on the London capital market and private businesses (especially those in the 'new' export industries and in nascent manufacturing) were also recipients of British funds. State government expended their funds on building **infrastructure**, particularly railways, which in turn led to the creation of new inland towns as commercial centres for rural industry.

The outbreak of the Great War in 1914 produced a series of foreign loans from Britain to the Commonwealth government and the return to peace and expansion of the domestic economy in the 1920s led to a further large capital influx. By the end of the 1920s, Australia had a **foreign debt** problem. Since most of this debt was publicly owed (and therefore could not easily be written off), the international economic **crash** at the beginning of the 1930s exposed Australia's vulnerability. Foreign capital dried up so the foreign debt stabilised, but interest and repayments continued, imposing a heavy burden on Australian living standards in the years before the outbreak of the Second World War.

The Second World War was a watershed in Australia's dependence on foreign capital. Sales of goods and services to the United States during the war enabled most of the existing foreign debt to be repaid. After the war, Australian governments raised the majority of their capital requirements at home, and private foreign borrowing was heavily regulated. Foreign investment flowed into Australia, but now it consisted almost entirely of direct investment by foreign firms, mainly in manufacturing industries. US investment edged ahead of flows from Britain for the first time. Post-war industrialisation depended on foreign investment, foreign technology and foreign workers – a feature that stimulated economic nationalism in the 1960s and led to the imposition of curbs on **direct foreign investment** in the early 1970s. Foreign capital also flowed strongly into the mining sector once the minerals boom of the 1960s was underway, a development that further heightened criticism of foreign ownership. Financial deregulation in the early 1980s permitted a return to private foreign borrowing. By the end of the decade, Australia once again was faced with a high foreign debt, stabilisation of which was one of the challenges of 'globalisation' in the last decade of the twentieth century.

Over the twentieth century, then, Australia's openness to **international trade** was qualified by its commitment to protectionist policies, while its dependence on export earnings to pay for both imports and foreign investment remained in place. Its openness to foreign capital was qualified by periods of **slump**, when investors lost confidence (for example, the 1890s and 1930s) and by restrictions placed on foreign borrowing in the 1950s and 1960s, and foreign direct investment in the 1970s. Only with deregulation in the early 1980s did Australia return to the openness of international capital markets of the earlier part of the century.

SUMMARY BOX

In the twentieth century, Australia could be described as a small, open, export-dependent economy that relied on primary production for export earnings to pay for imports and foreign capital. Foreign investment and immigration augmented domestic sources of capital and labour. A dual economy developed between the rural export sector and the urban manufacturing and service sectors, where most Australians lived and worked. These features were qualified by restrictions placed on immigration, import barriers and regulation of capital flows. In the last two decades of the century, globalisation recreated some of the openness lost in the middle part of the century.

International economy and economic growth

Australia's economic growth is depicted in Figure 1.3, which shows real output per head rising substantially over the twentieth century (this is the increase in per capita income mentioned earlier). Output per head increased in most years – though faster at some times than others. In a general sense, this increase represents the extent to which material living standards rose during the century. Australia's integration with the international economy played a major role in causing economic growth and shaping its contours. Periods of faster or slower economic growth in Australia coincided with similar patterns in the global economy, leading to a close correlation between the pace of expansion internationally and domestically. This pattern is illustrated by Figure 1.4. Here, the rate of growth in real GDP between 1901 and 2008 is shown for Australia and 23 other nations representing 'the world': Austria, Belgium, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, Canada, the United States, Argentina, Brazil, Chile, Columbia, Mexico, Peru, Uruguay, Venezuela and Japan. While there were times when Australia performed better or worse than the 'world', the direction and timing of the main fluctuations are very clear. Australia grew fastest when the world economy grew fastest; and when the world economy was stagnant, Australia's growth rate slowed as well. From this it might be concluded that Australia could not prosper unless the world economy was prosperous and that when this was the case, Australia was usually able to seize the opportunities for growth that the international economy offered. The global economy was Australia's pacemaker.

Local demand and the international economy

The linkages between the international economy and that of Australia lay on both the demand and supply sides. Growth of the international economy consisted of expansion

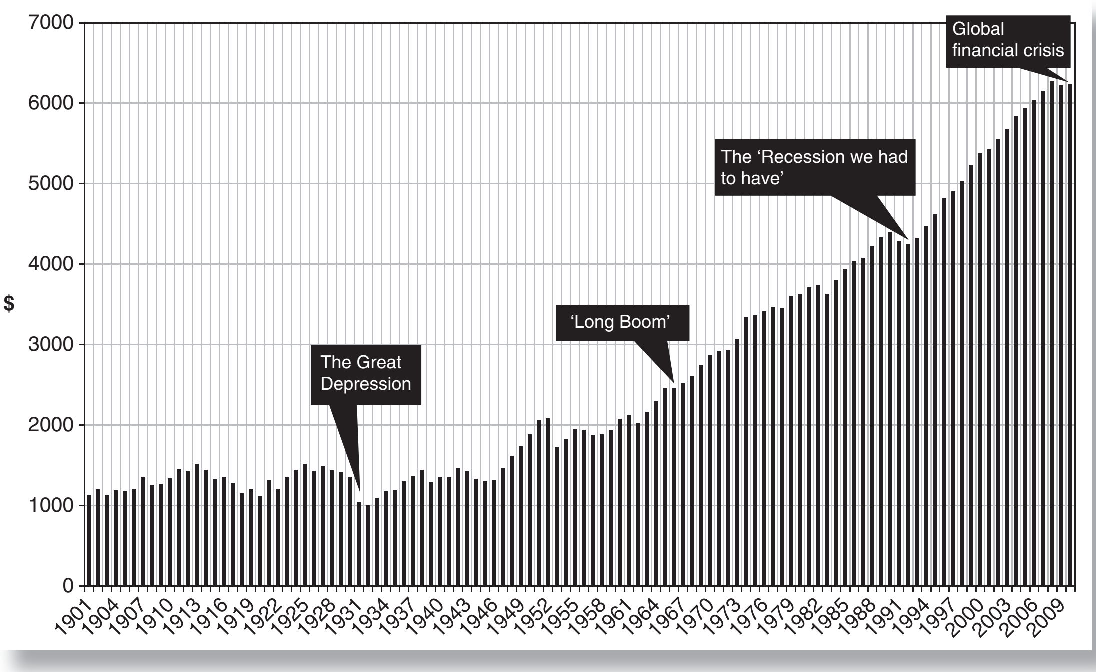

Figure 1.3 Australia's real GDP per head, 1901–2010.
Source: Based on Butlin (1962, pp. 440–61); RBA (1996); ABS, *Key economic aggregates*.

of world trade, capital flows and migration of people. Australia was affected by each of these. Faster growth of world trade implied rising demand for Australia's exports of primary products. In some periods of expansion, international demand for primary products was the most dynamic element (for example, before the First World War and just after the Second World War). The main driving force behind this demand was the rate at which industrialisation occurred.

As discussed in more detail in Chapter 2, industrialisation was fundamental to the growth of the international economy. By the start of the twentieth century, industrialisation was no longer a new phenomenon, having spread in the second half of the nineteenth century from Britain to Western Europe, North America and Japan. As industrialisation spread, and as industrialised economies continued to grow, demand for raw materials needed for the manufacturing industry expanded. Some countries (especially Canada, the United States and Australia later in the twentieth century) were able to supply much of what was required from their own resources, but even they increased their imports of raw materials to some extent. Other countries relied on imports even more, especially those – like Britain and Japan – that were poorly endowed with natural resources for large-scale industry. International demand for raw materials fluctuated with the rate and pattern of these industrial countries' growth. Moreover, in Europe industrialisation had the effect of reducing national self-sufficiency in foodstuffs. Agriculture in industrial countries did not contract absolutely, but in the face of a rapidly rising population, food imports became vital. Industrialisation also led to the solution of the technical problems of developing