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INDUSTRIALISATION AND DEPENDENCE:

AUSTRALIA, 1919-1939

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TABLE OF CONTENTS

SUMMARY

The economic decline of Britain, the dominant overseas power in Australia, precipitated fundamental change in the character of the imperial connection between 1870 and 1939. As other rival industrial powers gathered strength and the pulse of British capitalism as a world power grew weaker, the empire underwent an extended period of re-organisation in which the Dominion, Australia, was affected. The Australian economy was necessarily broadened as it became an increasingly significant enclave for British investment.

Prior to the first world war this did not interfere with the essentially rural-export oriented character of the economy. But the war and its aftermath changed dramatically the relations between the leading capitalist powers, particularly between the United States and Britain, and relatedly the imperial nexus between Britain and Australia was subjected to marked change. In Australia the expansion of British capitalism became dependent upon the more even and integrated development of the secondary and the rural-export industries. Therefore, industrialisation after 1914 constituted a continuation of dependent development, rather than a break from it. Fluctuations in the pace and pattern of economic growth were broadly determined by Britain's changing place in the international economy and amongst the leading advanced capitalist powers, in conjunction with the specific local determinants of Australia.

The integration of other sectors of the economy into the industrialisation process sheds more light on the dependent character of economic development. Both the banking and mining sectors have been dealt with in detail.

For the banks and other financial conglomerations, their principal commitment continued to be to the rural-export industries which serviced the interest charges on British capital. This however was qualified in the 1930's as economic recovery and social cohesion became more dependent on the manufacturing sector. The history of banking capital from 1919 to 1939 is the history of its transition from an exclusively rural-export oriented sector to a more balanced participation in the economy as a whole.

In sharp contrast to the banking sector, mining capital played a vigorous and formative part in the diversification of manufacturing from early in the twentieth century and particularly between the wars. Anglo-Australian monopoly mining interests became caught up in the economic crisis of British capitalism and the world-wide trade slumps after 1918. The international overproduction of raw metals, unstable price levels and marketing uncertainties were the backdrop to vertical integration in Australia and greater use of the local market. The mining - manufacturing nexus, founded in heavy industry and based primarily on British capital, was increasingly dependent on the broadening of domestic manufacturing.

Finally, these fundamental changes - the movement of manufacturing to the centre of the economic stage and the re-organisation of other sectors around it - were effected primarily through the agencies of the state. At the federal level, strategies evolved which pivoted on the entrepreneurial leadership (or at least the co-operation) of British capitalists and on financial commitments to the City of London. The specific economic problems and the social antagonisms which arose in the course of these strategies were combatted with a combination of ideological measures and open repression. This necessitated redistributions of power and structural change in the state between 1919 and

1939. Furthermore, in effecting the more balanced development of the secondary and rural-export industries, the state necessarily played a constitutive part in re-organising the dominant coalition of classes in Australian society to accommodate a powerful industrial grouping.

This thesis contains no material which has been accepted for the award of any other degree or diploma in any university and to the best of my knowledge, it contains no material previously published or written by anyone else, except when due reference is made in the text.

Peter Cochrane

LIST OF TABLES

CHAPTER I

INTRODUCTION: METHODOLOGICAL CONSIDERATIONS

In the 1860's Australian capitalism was a backwater for the global activities of British investors. Other countries around the world, in Europe, and the United States for instance, occupied the centre of their attention.

Then the Australian economy began to develop more rapidly than before, fueled and shaped by intermittent injections of British finance. Between 1860 and 1890 the big pastoral companies established almost total hegemony over the sheep runs of the colonies. Immigrants were shipped out from Britain and bustled into new wheat growing lands to boulster export production. The railways followed them into the 'back blocks', building a network of tracks that drained back to the ports on the coast. Urban Australia, too, shared in the new lease of life. Towns and cities swelled with more new faces from abroad; a building boom took off; and small manufactories mushroomed particularly in the centresof Melbourne and Sydney. From Broken Hill, where big mines were already established, discoveries in the depressed nineties took vast human and financial resources to Kalgoorlie in Western Australia and to parts of Tasmania, in order to exploit the latest finds. Temporarily, minerals supplanted wool as Australia's staple export, but more importantly they spawned the business groups that would later dominate a new heavy industry.

Early in the twentieth century, agriculture diversified and the existing areas of manufacturing consolidated. New dairying, and fruit growing regions were established to consolidate exports, and manufacturers began supplying basic needs such as clothing and food or processing facilities for export products. During the 1914-18 war, these types of manufacturers tended to stagnate whilst the heavier requirements of a military commitment launched the metals, engineering and other related industries. At the end of the four year conflict there were renewed attempts to extend land settlement and agricultural production, but the hub of economic life shifted to the cities and to manufacturing which diversified rapidly upon a hastily built infrastructure floated on British loan funds. Manufacturing became the more dynamic sector of the economy. It drew on more human and financial resources than other areas of production, it harboured the largest concentrations of capital in Australia and it progressively incorporated new areas of activity previously occupied by imports. The leading mine interests backed a burgeoning heavy industry and the financial sector, which was tied closely to the rural economy, turned slowly to accommodate the new industrial bias of Australian capitalism. In the 1930's, with the breakdown of multi-lateral trade and the consolidation of manufacturing behind a solid tariff wall, direct investment began in earnest. Private capital from abroad now backed the spread of secondary industries as it had previously supported the rural industries in the nineteenth century.

By the late 1930's, with war threatening and placing still greater emphasis on heavy industrial production, the dominance of a rural-centred economy had largely disappeared. The sheep's back now shared pride of place in Australian capitalism with the assembly line and the smoke-stack chimney.

These were the major developments in the organisation of the Australian economy between 1870 and 1939. It is the objective of this thesis to examine the role of British capitalism in this organisation, and specifically to focus on the place of manufacturing development in the expansion and reproduction of British capital in Australia between 1919 and 1939.

It is argued, firstly, that the metropolitan power was the principal influence on the contours of Australia's economic development. This derived directly from its entrepreneurial activity, from the economic constraints of financial, commercial and technological dependence, and from the political and ideological mobilisation of the British capitalist class in Australia. Secondly, our dependent growth is found to be more comprehensible and meaningful in terms of the internal development of British capitalism and the requirements which this generated internationally. In abstraction, the analysis begins with the endemic problems of the imperial economy. It then moves to inter-imperialist rivalry wherein the fortunes of British capitalism were in turn determined, and henceforth to the Australian economy which was both a scene of this rivalry and, increasingly, an enclave to counter its detrimental effect on British capital.

Inasmuch as the imperial connection was essentially an exploitative process, it is also argued that the colonies, and then the Dominion of Australia, were the scene of intermittent resistance to British capitalism. The hegemony of British culture, that is the acceptance of a set of authoritative institutions and ideas which perpetuated Australia's client status, was ingrained in Australian society. But it was not sufficiently embedded to completely eliminate, or to suppress disparate political protests from social classes whose objective interests brushed against those organised around and benefiting from the British presence. The radical origins of the Country Party in the exploited wheatlands of Victoria is one instance to note here; another is the political disruptiveness of neglected small manufacturers in the mid and late 1920's.

In the following chapters the concept of economic development is not a conventional one. The itemisation of quantitative change and the bland chartering of market forces has given way to an analytical structure which moves from the internal contradictions of British capitalism to the economic and political fabric of Australian society. Consequently, the principal concepts employed in my perspective of the historical process may not be widely familiar. In this section of the chapter it is proposed to briefly outline them. These are the concepts of imperialism, class and the capitalist state.

Imperialism is generally identified with a high degree of concentration in the production process, an advanced stage of industrial technique, the integration of finance and industry and the export of capital from and between the centres of advanced capitalism.[1] As a stage in the development of world capitalism, it arises from contradictions which are embedded in the production process: from competition under capitalism emerges the necessity to 'expand or die', a necessity which ceaselessly drives the industrial capitalist or firm to buy new, more efficient machinery and to revolutionise technique. This procedure, the accumulation of capital or its reproduction on an expanded scale, takes its most advanced form under the conditions of monopoly or oligopoly. However, the accumulation process is a self-contradictory one since labour as the source of all value (and hence profit) is reduced relative to constant capital. This imparts a permanent tendency for the rate of profit to decline as accumulation proceeds. That is to say, the raison d'etre of the process, which is the production of capital to produce more capital, harbours in itself the tendency to

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[1] The current predominance of the export of capital between the advanced capitalist economies is dealt with in Poulantzas, N., "The Internationalisation of Capitalist Relations and the Nation - State", Economy and Society, Vol.3, No.2, May, 1974, pp.145-179. See also Rowthorn, R., "Imperialism in the Seventies - Unity or Rivalry", New Left Review, No.69, September-October, 1971, pp.31-54.

make capitalization more and more difficult. This is the central marxist proposition in the analysis of economic crisis under capitalism.

Marx's own account of the tendency of the rate of profit to fall freely admitted of counteracting influences which could stabilise or increase the rate, and these also form an essential part of the theory of imperialism. Foreign trade and colonialisation for instance could effectively reduce the costs of production and raise the rate of exploitation by the importation of cheap raw materials and foodstuffs. At the same time it might provide outlets for the manufactured goods of the imperialist power. So might the export of capital to other countries which increased demand there and simultaneously lightened the downward pressure on the rate of profit at home. Moreover Marx's analysis acknowledged that the rate of profit could be adversely affected by factors other than the inherent one outlined above. Maurice Dobb has summarily discounted those theorists who attempt to 'straight-jacket' the analysis of imperialism with prescriptions fashioned outside of empirical investigations,

> I believe that the right way of looking at economic crisis is to regard them, not as the inevitable product of any one particular form (or aspect) in which the essential contradiction of capitalism appears (that between the developing forces of production and profitability for capital), but rather as an expression of this basic contradiction which may manifest itself in a variety of particular forms.[2]

So it is in the process of historical analysis and empirical validation that the particular form of which Dobb speaks must be uncovered and elaborated.

Inseparable from the fundamental contradiction in the theory of

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[2] Dobb, M., Capitalism Yesterday and Today, (Socialism Today Series), Lawrence and Wisehart, London, 1958, pp.51-2.

imperialism is the problem of the inherent tendency of the capitalist production process to produce commodities without regard to the limits of the market. This has been the source of periodic crises and fluctuations in all capitalist economies. Since the accumulation of capital is dependent on the realisation, or the sale, of commodities produced, it has followed that capitalism developed as a world system in which the advanced centres penetrated and took over less developed societies. These societies became markets and played a vital part in the whole process of accumulation on an ever expanding scale. However, the realization problem cannot be reduced causally to 'the capacity of the masses to consume'; that is, to an under-consumptionist notion. As Kemp has argued, the marxist approach to realization has not been based on the assumption that capitalism could not grow beyond certain limits; rather it has sought out the conditions for its growth.[3] Marx demonstrated that the explanation of economic crises in terms of market forces was tautological and could in fact do nothing more than mirror the major contradictions at work in the heart of the production process.[4]

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[3] Kempt, T., Theories of Imperialism, Dobson, London, 1967, p.26.

[4] Marx's most important statement on this issue, and one that is often overlooked, is to be found in his major work: "It is sheer tautology to say that crises are caused by the scarcity of effective consumption, or of effective consumers. The capitalist system does not know any other modes of consumption than effective ones.... crises are always prepared by precisely a period in which wages rise generally and the working class actually gets a larger share of that part of the annual product which is intended for consumption. From the point of view of these advocates of sound and "simple" (!) common sense, such a period should rather remove the crisis". (Marx, K., Capital. A Critique of Political Economy, International Publishers, New York, 1967, Vol2, pp.410-11). For the wide ranging debate around underconsumptionism see Mattick, P., Marx and Keynes. The Limits of the Mixed Economy, Merlin Press, London, 1971, pp.83-95; Yaffe, D., "The Marxian Theory of Crisis. Capital and The State", Economy and Society, March, 1973; also, Fine, B., and Harris, L., "Marxist Economics Today - A Survey", in Miliband, R., and Saville, J., The Socialist Register, Merlin Press, London, 1976.

The general lesson to be culled from this part of his analysis, simply, "seems to be that whether capitalism would move forward, and at what rate it would move, would depend upon the possibility of realizing surplus value".[5] The production and reproduction of this possibility is a major part of the theory of imperialism. The dilemma facing the imperialist system, however, is that the creation of new markets abroad through the extension and development of the capitalist mode of production, must ultimately reproduce the realization problem at the periphery itself.

The theory of imperialism thus embraces not only the internal contradictions of advanced capitalism but also the efforts of the system to counteract, resolve or subdue their effects. The intervention of the political level at this point does not presume that people or agents, like corporations, are directly responsive to or conscious of these contradictions; nor indeed that they are aware of the consequences of the political actions they might take.[6] But it does suggest that the framework for political action is circumscribed by the economic laws operating in the capitalist mode of production and that these confront people in business, politics and elsewhere with specific historical problems. How these problems are faced is of course another matter entirely. The notion of an 'economic being' is rejected here.

In place of such a notion, the central organising principle of life under capitalism has been the social class and the class structure. This principle provides an objective basis for analysis of the dynamics of economic and social change. Class is viewed here as an historical process of unification and organisation based on common

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[5] Kemp, op.cit.

[6] Ibid., Ch.9.

experience and interests, and the threat to these from other hostile classes. The productive relations in which men and women move are the principal though not the exclusive determinants of class, for political and ideological criteria are also necessary. Thus the political and ideological maturity of a social class was the basis on which Marx distinguished between a 'class in itself' and a 'class for itself'.[7] That is to say, he distinguished between a social class with little in common other than its location to the labour process and a highly developed social class with solidarity, traditions, and a combatative apparatus, such as a political party of its own.

Class then is conceived as an historical relationship, something that is made in the course of development and change in human societies based on exploitation. In the analysis which follows it is the dominant or ruling class which provides the focus of our account since its superiority is expressed precisely in its decisive influence on the course of Australian economic history.

It is necessary to demarcate this concept from stratificationist impersonations, currently fashionable in academic circles, which could not perform the analytical function outlined above. For the stratificationist, social classification tends to be arbitrary. With categories such as 'income', 'education' or 'suburban location', the subject is set on a vertical grid, each line of the grid representing a strata and one line towards the top marking the cut off point between 'elite' and 'non-elite'. The 'class' structure extracted from this method is necessarily quantitative and static. Social groupings are marked off, ossified and unable to account for social

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[7] There are many examples of this distinction. See for instance, the letter to Bolte of 1871 in Karl Marx and Frederick Engels, Selected Works, Progress Publishers, Moscow, 1973, Vol.2, pp.422-24.

change. Stratificationist theory is consequently non-integrative, contributing nothing to the analysis of how classes interact and how this interaction changes society.[8]

The structural complexity of the capitalist class has made it necessary for me to differentiate between economic locations or fractions of capital within it. Fractions are the different forms taken by capital in its total movement through the spheres of circulation and production. The pursuit of an ever more sophisticated and efficient division of labour has progressively transformed some of these forms into special branches of business and independent institutions or regions of activity. The distinction between productive and unproductive capital has consequently arisen. Luxemburg described productive capital (manufacturers, farmers, etc.) as "the heart of the social organism" and other forms in the unproductive sphere, such as merchant and banking capital, as "the living sap" circulating and nourishing "the body from the centre".[9] In the chapters ahead the concept of a ruling or dominant class is employed and this is best understood as a coalition of the leading fractions of capital.

It should be added at this stage that despite constant change within the coalition, the pivot of unity and cohesion throughout the years under examination, was British capitalists. This arose

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[8] Connell, R., "Class Analysis and History", Unpublished Seminar Paper, Sociology Department, Flinders University, July, 1974. See also Ruling Class, Ruling Culture. Studies of conflict, power and hegemony in Australian life, Cambridge University Press, 1977, Chapters 1 and 2, by the same author. One of the best applications of this concept of class and class structure is Thompson, E.P., The Making of the English Working Class, Penguin, Harmondsworth, 1968.

[9] Mehring, F., Karl Marx. The Story of his Life, University of Michigan Press, 1962, p.377. At Mehring's request Luxemburg had written the chapter in which this quotation appears.

both from their maturity as a class (in terms of political and ideological organisation), and from the sheer weight of their economic power in the Australian economy.

The theory of the capitalist state employed below has attempted to unite the two mainstreams of the marxist tradition in this field, the instrumentalist and the structuralist perspectives. The first of these explains the activity of the state in terms of class conscious manipulation by well placed interests. The decisive factor is the sociological integration and affinity between state personnel, 'big business' for instance, leading professionals, and so on. Much of the instrumentalist work on the role of the state has focussed on the 'transmission belts' (boards of inquiry, commissions, etc.) which link capitalist groupings to the state apparatus, and the policies of the state have been interpreted in terms of the influence of capitalists flowing through these belts.[10] The priority of access acquired by the capitalist interests is identified as a function of their economic power and their social and ideological proximity to leading state functionaries, advantages which are not shared with other classes of society. Thus the imperfect or unequal basis on which all classes compete for access to state agencies pre-determined the priority enjoyed by capitalists.[11]

Whilst the basic proposition of the instrumentalist perspective is acceptable, that is, that such priority does benefit propertied interests and that state policies can reflect their direct influence,

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[10] The most thorough and convincing account of instrumentalist theory is Miliband, R., The State in Capitalist Society, Weidenfeld and Nicolson, London, 1970.

[11] Ibid., pp.146-178.

it is not possible to accept that the state apparatus can be adequately understood and accounted for in these terms alone. The structuralist perspective therefore invites consideration as it takes an entirely different view of the determinants of state policy. Structuralists assert that the state apparatus is brought to life and its activity determined by the impersonal constraints and contradictions of the capitalist system. Their analysis must therefore account for both the specific historical expressions of contradiction and constraints, as well as the way that the state attempts to neutralise or resolve these.

The most thorough and extensive contribution to structuralist analysis has come from Poulantzas whose account has centred on the fundamental contradiction of the capitalist economy; that between the ever extending socialisation of the production process and the continuing private appropriation of the surpluses arising from it. This contradiction he argues, aggravates the tendencies towards working class unity in opposition to private appropriation on the one hand, and capitalist class disunity caused by conflict over the division of the surplus, on the other.[12]

The role of the state as a 'factor' of unity and cohesion stems directly from these tendencies. Its major activites can be divided in two, dealing firstly with direct intervention into the economy to ensure the ongoing accumulation of private capital, and secondly with the securing of social peace, itself a condition of accumulation.

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[12] Poulantzas, N., Political Power and Social Classes, New Left Books, London, 1976. See also Gold, D.A.; Lo, C.Y.H., and Wright, E.O., "Recent Developments in Marxist Theories of the Capitalist State", Monthly Review, Vol.27, No.5, October 1975, pp.29-43; and Vol.27, No.6, November, 1975, pp.36-51 (part 2).

When Marx described the state as "the official resume of society", he was referring to its role as the solvent of irreconcilable antagonisms.[13] The state evolved, in other words, as a counterweight against society's tendency to 'consume' itself. Common instances of its direct intervention into the accumulation process are corporate tax concessions, marketing organisation, land grants to industry and state sponsored industrial research, whilst in the field of social peace the welfare edifice, mediation in industrial conflict, and various aspects of the use of state force can be cited.

The social acceptance of the state as being above society and therefore neutral has played a vital part in its effectiveness. The ideology of the state as arbiter and non-partisan has defused political mobilisation amongst subordinate classes and absorbed social conflict into non-destructive areas. Or as R.G. Menzies has put it, in relation to one stage agency:

> The system of compulsory arbitration has, on the whole, worked well in Australia, largely because the judges and commissioners have been regarded by the general public as impartial.[14]

On another occasion he was still more explicit:

> No one can get ride of the fact that many industrial tribunals do have to reduce wages; but the men whose wages are reduced are better satisfied to take that reduction from a tribunal on which they have effective representation, than from an employer whose sole word would be law.[15]

In the following chapters, and in chapter VI which deals

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[13] Ibid., p.49.

[14] Menzies, The Rt. Hon. Sir Robert, Central Power in The Australian Commonwealth - An Examination of the Growth of Commonwealth Power in the Australian Federation, Cassell, Melbourne, 1967, p.130.

[15] Victorian Parliamentary Debates, Vol.188, 1932, p.469.

specifically with the capitalist state, the analysis of its principal functions as outlined above, has not been predetermined by an exclusively structuralist or instrumentalist perspective. Rather, structuralist determination provides the essential motivation for state activity whilst instrumentalist factors within the class struggle, parties and personalities for instance, determine how the structural demands of the system will be met.[16]

Finally, the theory of the state has necessarily incorporated the process of integrating imperialism into the local reality. For Australia, as a dependent social formation, the principal task of the state apparatus was the production and maintenance of the necessary

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[16] Mainstream accounts of the state in Australian politics are in sharp contrast to that outlined above. They are outlined here only briefly. What they have in common is a view of the state as "an institution whose inherent tendency is interventionism in economic, social and cultural matters"; that is, a machine for ad hoc intervention at the request of politically significant groups. Thus, in Encel's opinion, the state is an organ at the mercy of crass material objectives, subjected to the simplest possible species of utilitarianism. For Hancock its activity is the product of "swarms of petty appetites" preying on its services. Similarly, A.F. Davies juxtaposed the party system to a bureaucratically minded Australian society, incessantly demanding state action. Public pressure, from one quarter or another, presses reluctant government into a widening range of activities. J.D.B. Miller has constructed another version, arguing that the organs of government are controlled by self interested 'syndicates' which operate through the party system, whilst Encel himself considers that state policies are an irrational synthesis spun out of the pressures imposed on the state by many competing groups. (See Encel, S., "The Concept of the State in Australian Politics", Australian Journal of Politics and History, Vol.6, 1960, pp.62-76).

The fundamental weakness of these theories is their obliteration of the dimension of historical analysis which commutes from the structural make-up of capitalist society to the role of the state. Specifically, an objective relationship between the state and the laws of development in the capitalist mode of production is discounted. The subjectivity and arbitrariness of these writers has its roots in this failing. The perspective which they share, of capitalism as an essentially stable, non-antagonistic and politically 'equilibrating' system, could hardly have led them to an understanding of the state as an organ for the amelioration of the inherent instability in the system.

conditions for the expansion of British capitalism. This necessarily involved the use of ideology and open repression since imperialism in Australia had to be represented as an organic part of the locality and, secondly, to the extent that this failed it was necessary to ameliorate the social antagonisms which expressed the contradictions between local and overseas oriented interests.

The case put forward in this thesis is outlined later in the introduction and prefaced here by a few comments on the work of Brian Fitzpatrick. It is necessary to comment on Fitzpatrick's contribution, due to its stature and thematic proximity, in order to make clear the distance between his own project and mine.

In the late 1930's Fitzpatrick wrote The British Empire in Australia.[17] This was a general history of capital formation and economic growth, principally in relation to the operations of British loan finance. It was interspersed with a history of the working class and of the infrastructural role of the state. Fitzpatrick's emphasis on the exploitative character of the British presence and his passionate commitment to the struggles of working people and the oppressed, marked a sharp break with conventional historiography which professedly scorned 'bias' and 'commitment'. His work is an early landmark in the emergence and growth of a radical tradition in Australian history; for that reason his contribution is of inestimable value.

The exercise of power and control in the Australian economy are matters central to Fitzpatrick's work. He argued that the relationship of the Australian economy to Britain was a subordinate one entailing "the economic utilisation of the colonies to meet the

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[17] Fitzpatrick, B., The British Empire in Australia, 1834-1939, Macmillan, Melbourne, 1969.

needs of the imperial country".[18] He also identified a "dominant class" of financiers led by British capital, "which directed the Australian economy from the 'eighties and would continue to direct it".[19] These are strong views; they suggest that control was tight, narrowly based and external. They are central to Fitzpatrick's purpose, being "the history of Australian development in relation to British imperial expansion".[20]

Thus it is pertinent to ask what constituted this 'dominance' and how was an 'economic utilisation' effected? Surprisingly, Fitzpatrick himself fails to openly raise such questions. Partly for this reason he does not provide satisfactory answers in the text. There are timely accounts of British investment in the colonies and Australia's quantitative relations in trade with the Mother Country, but these do not fully account for the power relations which underline his thesis. The heavily economic emphasis of his work led him away from the essentially political character of 'dominance' and its reproduction. What Fitzpatrick does is to write a solid economic history. For this reason the question of dominance only gets to first base. He does not deal with British capital's organisation and hegemony within the Australian ruling class. But Fitzpatrick ought not to be criticised for failing to pursue another's methodological predilections. That would be pedantic and unfruitful. Rather, it is necessary to show how his analysis breaks down, given its theoretical framework.

Our starting point is Fitzpatrick's own: the correlation between 'investment' and 'control' which is implicit throughout the book and

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[18] Ibid., p.132.

[19] Ibid., p.272.

[20] Ibid., XV.

explicit on some occasions.[21] This correlation eliminated the necessity for a simultaneous commentary on developments in the imperial economy of Britain since overseas investment simply meant inflated strength abroad. In fact, roughly from 1873, the principal significance of the export of capital from Britain was the stagnation of the British economy. By sidestepping the internal contradictions of British capitalism - a manoeuvre which inescapably flowed from Fitzpatrick's approach to imperial relations - he failed to grasp the essential character of this investment, since it was symptomatic of chronic economic crisis at the centre and as such its long term significance was a weakening of British imperialism, not its gathering strength. Moreover, the germ of this weakness was present in relations with Australia as early as 1880 and thereafter, most notably in the rapid decline of Britain's virtual monopoly over Australian trade. It is a rather astounding fact that in his sixty-two page chapter on the Australian and New Zealand economies from 1860-90, Fitzpatrick fails to mention once the economic stagnation of the British economy after 1873. The same criticism can be made of his treatment of the twentieth century period to 1939.

These theoretical shortcomings prevented Fitzpatrick from coming to grips with a dynamic imperial relationship. Having abandoned the state of the British economy, he necessarily abandoned changes in the form of economic utilisation. This is evident, for instance, in his awkward sections on twentieth century manufacturing development and the rise of heavy industry. Fitzpatrick missed entirely the meaning of this development in the terms of his own project. The part of British capital in this development was an essentially defensive one: it temporarily held back competing economic

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21 Ibid., p.299.

forces and created an enclave of British dominance in a shrinking world 'empire'. This will be dealt with in some detail in the next chapter. But more importantly this development was the basis of a shift in power from a pastoral finance based ruling class to an industrial one. Having neglected the significance of urban manufacturing development in the 'eighties, Fitzpatrick thereafter persists with an increasingly redundant, though never entirely false, theoretical construct of political domination. We are told of the "vast capital, largely British, of the banks and rich agency and finance companies which directed the Australian economy from the 'eighties and would continue to direct it".[22] Fitzpatrick's populism probably owed much to the environment of the 'thirties in which he wrote, when the A.L.P.'s 'money power' theory was at its peak and bank nationalisation was a leading issue in federal elections.[23] But that is scant compensation for an analysis which misses a fundamentl change in power relations within Australian society. Perhaps for this reason Fitzpatrick views the period 1861-1939 as essentially one of continuity, and the industrialising factor as merely a "novel element".[24]

The complexity of the social antagonisms which arose in a class society and which expressed themselves not only in the fabric of production relations but also in the political and cultural mobilisation of social classes, has been reduced in Fitzpatrick's account, to a one dimensional notion of exploitation and oppression. "The class struggle is simply the external struggle of the 'haves' and the 'have nots' and the driving force in this struggle is a psychological one,

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22 Ibid., p.272.

23 For a discussion of the 'money-power' influence in this period see Gollan, R., "American Populism and Australian Utopianism", Labour History, No.9, November, 1965, pp.15-21.

24 Fitzpatrick, op.cit., p.130.

human nature".[25] Fitzpatrick accepted the exploitative character of imperial relations as a believer accepts the existence of god. His populism survived on a stroke of faith rather than historical elaboration of exploitation as a systematic process in which the productive relations of Australian capitalism were produced and maintained through a set of 'respectable' and 'authoritative' institutions and ideas, and through force. For example, the functions of the gold standard in the Australian economy and the ideological hegemony of its rules for economic management were not mentioned. And Fitzpatrick's notion of 'economic utilisation' is never clearly defined. He is forced to skate over the specific and irreducible content of class conflicts and the pattern of imperial exploitation in Australia, and he failed to differentiate between the underdevelopment economic process and that which occurred in Australia. The shades of the colonial tribute lack a certain amount of subtlety.[26]

Perhaps the most remarkable feature of Fitzpatrick's work is the absence of British capital and the imperial link in economic development, from the foreground of much of his analysis. These are at best interlopers whose occasional presence fails to unify and integrate the diversity of topics which Fitzpatrick covers. The organisation and reproduction of the class structure in Australia and the hegemonic role of British capital in this process is not present in the analysis. Consequently, the reader is tossed from sections on, for example,

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25 Macintyre, S., "Radical History and Bourgeois Hegemony", Intervention, No.2, October, 1972, p.60.

26 The concept of a "pattern of imperial exploitation" refers here to the processes by which an economic surplus was extracted from the dependent social formation and appropriated by the metropolitan power.

'Tropical Agriculture' to 'Australian Imperialism',[27] from 'the Occupations of People' to 'Industrial Legislation',[28] and from 'Markets' to the 'Worker in Industry'.[29] Such movements, in the absence of a unifying theory, are smoothed out only by the reorienting persuasiveness of the pen in mediating paragraphs.

Fitzpatrick viewed British capital as no more than an investing group whose dominance derived from its size and thus significance in the Australian economy. Repeatedly it intervenes as the bondholder, the mortgagor or some other embodiment of ownership. This outlook, as mentioned earlier, permitted Fitzpatrick to overlook the relative decline of British imperialism in Australia in respects other than the obvious case of trade.

In view of these criticisms it will become clear why Fitzpatrick's analysis is neither a sufficient nor even a necessary basis for my account of the role of British imperialism in the development of manufacturing between the wars. Indeed his methodology did not permit of such an account. He paid scant attention to change in the British economy and the meaning of such change for imperial relations and the Australian economy; the complexity of relations within the ruling class and the hegemony of British capital does not enter his analysis whereas it is an important part of my own; and finally, the role of the Australian state (in my view) has little in common with Fitzpatrick's treatment of this subject. In The British Empire in Australia the state is no more than a self-conscious agent of capital in the spheres of repression and economic infrastructure.[30]

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27 Fitzpatrick, op.cit.

28 Ibid., p.194.

29 Ibid., p.269.

30 For examples, see Fitzpatrick, ibid., pp.194-96, 269-75.

The case in the following chapters is summarised here, briefly. It is argued that the process of our economic growth was tied closely to developments in the British economy, and to the requirements these radiated to other parts of the world. The outstanding characteristic of the British economy between 1870 and 1939 was the existence of chronic stagnation which, though it changed in form, persisted throughout. Prior to 1914, it has been possible to identify a direct link between the economic crisis in the 'Mother Country', the rise of export capital from it, and the pace and pattern of economic development in Australia. This link however is mediated in the analysis by the impact of Britain's rivalry with other imperialist powers, by the redistribution of British influence around the world, and by the necessary adaptation to the historical conditions of Australia. In short, as its quasi-monopoly in manufactured goods and world markets deteriorated and crashed after 1870, Britannia retreated to rule the waves of empire alone. In this context Australia, as a potentially broadening field of surplus-value and as a market, became increasingly important to the British economy. The joint flows of 'excess' labour (migrants) and capital from the British Isles were put to work in the further development of the export sector to meet interest and dividend commitments in London, whilst they simultaneously developed the urban base of the Australian economy and inflated the market for British commodities.

Between 1870 and 1914 British investment fell into two phases, demarketed by the depression of 1892. In the first of these, Australia became the leading outlet for British overseas long term funds, though they flowed in intermittently as the south seas had to compete with other parts of the world that were also being developed for food and raw materials. The economic slump early in the 1890's 'warned off' many British investors for some time to come. Up until 1914 their interests in Australia continued to grow but not at rates comparable to the earlier years and British capital and trade became relatively less important to the Australian economy in this period. At the same time there was a significant restructuring of growth patterns in which the economic constraints of the imperial connection and British entrepreneurial activities played a leading part. Changes in import demands in the British Isles, Australia's heavy and maturing debt commitments in London, and 'big power' rivalry for instance, combined to hurry along agricultural diversification and some manufacturing development.

As a capitalist economy with labour in relatively short supply and therefore costly, the tendency towards manufacturing was inherent. Prior to 1914 however, it is the contention of this analysis that the tendency was considerably retarded. The specific requirements of the British economy dictated a pattern of development in which manufacturing grew as an auxiliary component in a rural based system of commodity production. It is also considered that manufacturing was nonetheless an important component of British economic domination: its growth from 1900 to 1914 was a necessary part of a drive to pre empt or forestall the penetration of Australia by imperialist rivals and for greater efficiency in the preparation and marketting of rural products bound for England.

For the period on which this thesis has largely concentrated, 1919-1939, my argument below will show that the continued decline of British imperialism after the war engendered still greater dependence on and integration with empire; also that a conjuncture of historical factors placed the Australian economy in the front line of British interests abroad. Morever, that the thesis of the background account, 1870-1914, maintains its relevance: the exploitation of the Australian economy continued to depend on the systematic and interconnected development of the major areas of production, pastoral, agricultural and manufacturing. However, the post-war period is contrasted with its predecessor when the specific problems of British capitalism come to be discussed and when the relationship of the imperial economy to the distribution of economic resources in Australia is unravelled.

Although the essentially exploitative character of the imperial connection persists after 1918, the pattern of this exploitation, it is argued here, alters fundamentally. In the 1920's the pre-condition for heavy British investment was rapid manufacturing development and with it, the construction of an elaborate urban infrastructure. Thus urban growth becomes the lynchpin for the expansion of British interests in the Australian economy. At the same time ambitious programmes of immigration and spending for rural export development were necessary to service the resultant, growing overseas debt. Industrialisation also favourably altered the pattern of market demand for British goods. For the purposes of both investment and trade then, it was now the central feature of the Australian economy. In the economic climate of the 1920's it quickly outgrew the previous function of an auxiliary component, and this trend was reinforced by the experience of the 1930's.

Both continuity and change can be traced through the analysis of dependent development in Australia between 1870 and 1939. On the one hand, the creation of markets for British goods and the search for new, profitable fields of production or speculative investment provides the whole period with a uniting continuity and an underlying rationale. On the other hand, the analysis has tried to pick up the contrasting problems of British capitalism through the years and the related structural changes in the Australian economy, as well as the social contradictions to which these gave rise. Through this perspective an overview of the period is constructed in chapters II and III. These are complimented in following chapters by the detailed study of the role of banking and mining capital respectively, in the pattern of economic development and in manufacturing progress in particular.

The structural adjustment of the banking sector to the industrialisation process in Australia, imbedded as it was in rural pursuits, is the stamping ground in which conventional marxist assumptions about the role of 'high finance' in capitalist development are challenged. A new prescription for the Australian process has proved necessary. This was also the case with the study of mining capital which has focussed on the leading Anglo-Australian mining groups and shares little in common with either the approach or the conclusions of the historiography in this field. The backdrop to a hastily formed mining-manufacturing nexus in Australia, it will be argued, was the international economic crisis in the inter-war period and the related fluctuations in the world market for raw metals. In a trading context in which British exporters were increasingly dependent on the growth of secondary industry in Australia, the big mining corporations were finding that their own interests compelled a similar dependence.

Finally, the case outlined here culminates in an account of the political process in economic development (Chapter VI). This has focussed largely on the Commonwealth plateau of state activity between 1919 and 1939. It has been argued that the political level of Australian society played the constitutive part in reorganising the leading propertied interests to accommodate an increasingly influential manufacturing fraction. Also that the problems before the accumulation process in this period were confronted with a combination of openly repressive measures, ideological measures, and legal menoeuvres within the state, which effectively consolidated private property in a period of acute economic crisis and social distress.

A number of the conclusions arrived at in the following chapters have either not been raised before or else conflict sharply with the consensus of opinion around them. Of these, the principal ones are discussed here briefly, in order to make the reader sensitive to them as they arise later. In the first instance, it has been the principal objective of this thesis to understand the role of manufacturing development in the expansion and reproduction of British capital. The analysis here has taken the subject outside the established and formidable parameters of an assumed division of labour between the rural producing periphery and the manufacturing centre. It is shown that manufacturing growth in the Australian economy was an essential component of British economic expansion and that the historical importance of this component increases throughout the period 1870 to 1939. Moreover, post war economic and political conditions endow the manufacturing sector with a qualitatively new location and significance in the systematic exploitation of the Australian economy by British capital. This conclusion lies outside of the widespread acceptance, in marxist circles, of the continued 'pastoral bias' of British capital in Australia after 1914.

The role of British finance capital in economic development in Australia complicates the conclusions outlined above. It raises new issues and invites new answers. The British dominated banking sector had become well integrated with rural interests in the nineteenth century. Established institutional and financial ties made it reluctant to accommodate industrial growth. Consequently, the evolution of the manufacturing sector, prior to the 1930's, was in sharp contrast to the scenario for capitalist development which was outlined by the German social democrat, Hilferding, at the turn of the century.[31] The views of Hilferding have been widely accepted in radical schools of economic theory. Hilferding has argued that the evolution of manufacturing was historically nurtured by banking capital and that this culminated in a thorough-going interdependence and the dominance of the latter over the former. In some of the advanced capitalist countries his thesis (of interdependence, if not domination) was clearly appropriate. However, it does not apply to the Australian experience. Indeed the question is raised here as to its appropriateness to any dependent or colonial situation. I have argued below that not only was manufacturing capital largely independent of the influence of 'high finance', but also that early steps towards integration and co-operation in the 1930's were effected on terms more suitable to manufacturers than financiers.

The second point at issue in relation to banking capital centres on the political role of the City of London, which was the financial centre of British capitalism. A controversy still rages over many of the policies pursued by the Bank of England in conjunction with the most powerful international banking groups in London between 1924 and 1933. The question at the heart of the controversy is whether the orthodox economic strategies which this grouping imposed at home and at the dependent periphery (in India and Australia for examples) were the result of ill-conceived economic thought, simply 'bad policies', or of deep seated structural compulsions that were built into the financial system of British capitalism. This has been the subject for entire volumes, so no attempt to analyse the issue will be made

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[31] Hilferding, Das Finanzcapital, Vienna, 1910. Lenin's analysis of imperialism drew heavily on this work. (Lenin, V.I., Imperialism The Highest Stage of Capitalism. A Popular Outline, Foreign Languages Press, Peking, 1973).

here. However, since the importance of the City of London in Australian economic and political history is inescapable, what must be recognised is that banking capital, that is, the Bank of England and its allies in 'The City', were politically dominant in this period. As a result Britain was subjected to economic strategies that were of little relevance or benefit to the major domestic economic problems of the time - as Winston Churchill as Chancellor of the Exchequer complained in 1925.[32] Keynes clearly recognised this situation and became one of its most fierce contemporary critics. He wrote,

> from the circumstances of the composition of the Bank (of England), from its traditional closer relations to the City of London than to the problems of employment and of industry, it (the Bank) is biased in favour of the City rather than of industry... The monetary policy in the last few years...has paid much more attention to the special interests of the City of London as an international money market than to the interests of industry and employment in this country.[33]

The concentration of power in these quarters had considerable significance for the place of the Australian economy in the empire, since the strategies pursued by the Bank of England on behalf of 'The City' enhanced the difficulties facing British exports and production in Australia that was dependent on the British market. This made the emphasis on developing the Dominions all the more urgent. The political dominance of British banking capital was, in other words, a key influence on the pattern of economic growth in Australia. Here the mining industry is a good example.

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32 His complaint in the form of a memorandum to Otto Niemeyer, a Senior Treasury official, was dated 22 February 1925. It is cited in The Times, (Letter to the Editor), 18 February 1977, p.13. "The Governor (of the Bank of England)", wrote Churchill, "shows himself perfectly happy in the spectacle of Britain possessing the finest credit in the world simultaneously with a million and a quarter unemployed...This is the only country in the world where this condition exists". For the academic debate around this issue see Pollard, S., (ed.), The Gold Standard and Employment Policies between the Wars, Methuen, London, 1970.

33 Pollard, ibid., p.14.

Historically, it has not been uncommon for mining interests to play a constitutive part in the establishment of manufacturing in dependent economies. For Australia however this process had quite unique features which are examined in Chapter V. Firstly the mining-manufacturing nexus, formed by Anglo-Australian mining groups, was a direct response to realisation problems in export markets and to the economic slump in Britain in particular. Australian capitalism was developed to provide additional markets for raw metals. Secondly, although the forms in which this crisis presented itself to different corporations were diverse, as were their tactical responses, mining capital nonetheless moved collectively towards greater dependence on Australian buyers and reduced dependence on exports. Finally, the instability confronting these corporations in the inter-war period has produced a novel development for the theory of imperialism. In the leading mining - manufacturing conglomeration, the Collins House grouping, we find the crisis is attacked by joint movement into the manufacturing sectors of Australia <u>and Britain</u>. In sharp contrast to the established and assumed practice, Broken Hill went to Birmingham, rather than the other way around,.... and stayed.

Much of the preceding discussion has centred on the organisation of the Australian economy, and it cannot be concluded until mention is made of the role of the state in this organisation, since it was through the agencies of the political level that the conditions of accumulation were guaranteed and reproduced. In Chapter VI it is argued, firstly, that 'discontinuities' in the accumulation process, in the form of economic cycles, bankruptcies and commercial crises, and consequent threats to social cohesion necessitated shifts in economic policy which disrupt the established ruling class. A rural-export oriented establishment increasingly shares political power with rising industrial interests. Therefore, in the coalition of class forces represented in the economic strategy of successive Commonwealth ministries, the place of manufacturers fluctuates, particularly in the 'twenties, but is finally consolidated in the wake of the depression.

Traditionally, marxists have perceived the state as an essentially coercive instrument for the defence of private property. The account of the inter-war period bears this out, being studded with 'heavy handed' measures to contain and subdue uncooperative and rebellious sections of Australian society. These sections posed a series of quite specific problems for the accumulation process as it moved through the base of the economic downswing in the inter-war period. It is therefore sought to understand the repressiveness of the state apparatus primarily in terms of these problems, rather than in the unattached psyche of state personnel. (This of course is not to say that the latter is unimportant in historical analysis). The account is consequently able to avoid the suggestion of a flat, undifferentiated sequence of coercive measures between 1919 and 1939. The repressive outbursts of successive ministries take on an historical specificity that has been sensitised by familiarity with the conjuncture of major economic and social contradictions of the time.

The construction of a political - constitutional edifice impervious to radical reform was another tangible response, it is argued, to the threat of political mobilisation from subordinate classes in this period. Thus the 1928 Financial Agreement embodied 'small print' which foresaw the possibility of Lang's (or someone's) repudiationism in the depression and built into the legislation the necessary Commonwealth means to counter it. However, the ideological confrontation between radical ideas and the state was the decisive field of battle around economic policy between the wars. It was fought as an unequal competition in which the hegemony of the dominant class, expressed largely through the parliamentary system, was the principal demobilising and fragmenting influence on other sections of society. In the depression it was able to split the Labor Party and the working class, and to electorally unite sections of both around orthodox monetary thought and a new conservative party.

CHAPTER II

BRITISH IMPERIAL EXPANSION AND MANUFACTURING IN AUSTRALIA, 1870-1914

"If I were to tell you how much of the work of the Foreign Office is connected with commercial operations you would be surprised. If it were not for the commercial side I would be a comparatively idle man. But the main business of the Foreign Office is to assist in the expansion of British investments in foreign lands, and watch over, foster and protect them."

Lord Lansdowne, Minister for Foreign Affairs in the Balfour Government (1902-05), replying to the toast of Foreign Affairs at the Guild Hall, 1904. Quoted in Commonwealth Parliamentary Debates, Vol. 103, 1923, p.158.

For advanced capitalist economies before 1914 the growth of the manufacturing sector was a dynamic process, drawing capital and labour away from other areas of activity, generating much of the income on which these areas were dependent, and affecting decisively the rate of profit in the total economy. For developing capitalism at the frontier however, this tendency cannot be assumed so readily. An international division of labour, imposed on the frontier by European countries, contained manufacturing within strict bounds. In the Australian economy between 1870 and 1914, growth in secondary industries was important but not dynamic. Economic revival in the depression of the 'nineties for instance was led by new primary industries. The rate of profit in the colonies was more dependent on the climate and the soil than on 'sweating' in urban factories.

Economic growth in Australia was tied closely to developments within the British economy and to the related international activity of British capital. Specifically, the growth of a secondary industry evolved within the framework of British imperial expansion. Two quite distinct stages in this evolution can be identified, one ending about 1914 and the other emerging during the first world war. This chapter deals with the first stage. It attempts to outline the specific determinants of manufacturing development in the Australian economy from 1870. It deals with the troubles of the British economy and their influence on economic growth, with the pattern of British investment in the Australian colonies before and after 1892 (the 'nineties depression), and with the rise of a manufacturing sector - its particular meaning in terms of imperial economic relations.

The British Economy

Twentieth century Britain has suffered steady economic decline. The recent drops in the value of the pound highlight the depths to which the world standing of the British economy has plummetted. The 1976 crash was preceded by the floating of sterling in 1972, by devaluation in 1967 and again before that in 1949. In 1931 Britain was forced to retreat to a 'Sterling Area' comprising the Empire and a few other nations, whereas hitherto the Sterling Area was coterminous with the world. By 1919 Britain had forfeited the mantle of the world's leading creditor to the United States.[1] Arising from the war effort of 1914-18 it had become for the first time a net debtor nation and was to spend the inter-war period ignominiously begging conversions from the money market in New York.

But it was not the Great War which began the rot. The historical roots of the decline of British capitalism go much further back. The 1870's is the conventionally accepted 'turning point'. A decline in the profitability of British industry set in during this decade ending fifty years of economic boom whilst Britain's competitive superiority in world markets was effectively challenged for the first time and subsequently deteriorated. These two features of British capitalism - economic stagnation (in association with intermittent social crises) and intensifying realisation problems abroad - play an important part in the following analysis of manufacturing development in Australia.

The outstanding feature of the post 1870 period was a crisis of profitability. Glyn and Sutcliffe have described the crisis as a

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1 Robertson, Sir D.H., Britain in the World Economy, Allen and Unwin, London, 1953, ch. 2. America had a net long term debt of $1.9 billion in 1914. By 1930 it had a net long term credit of $8.4 billion.

'profits squeeze' which has continued, largely unabated until present times. The 'squeeze' they argue, came from "the joint pressures of an increasingly militant working class and growing international competition".[2] Other writers have more correctly identified the cause of the crisis as overproduction, or excess capacity in the capital goods industries.[3] However there can be little doubt that a rapidly maturing working class was a feature of the period. The high rate of exploitation on which British economic stability was based earlier in the nineteenth century was undermined in the closing decades and thereafter subjected continually to further inroads. Similarly, the country became afflicted with a protracted export crisis as its comparative advantage in manufacturing was reduced and overhauled by countries such as Germany, the U.S.A. and Japan. Britain "in 1870 had produced one third of the world's industrial goods; by 1913 it produced only 14 per cent".[4] So disturbing was the arrival of this unabating dark age, which began effectively with the depression of 1873, that Commissions of Enquiry were held into the problem on three different occasions before 1900.[5]

The troughs in economic activity were reached in 1879, 1886, 1893, 1903-4 and 1908-9; after the war they were reached in 1922 and 1932.

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[2] Glyn, A., and Sutcliffe, B., British Capitalism, Workers and the Profits Squeeze, Penguin, Harmondsworth, 1972, p.15.

[3] Barratt Brown, M., The Economics of Imperialism, Penguin, Harmondsworth, 1974, pp.199-200. ("We think that...overproduction has been one of the most prominent features of the course of trade during recent years...the remarkable feature of the present situation...is the length of time during which this overproduction has continued". From the Final Report of the Royal Commission on the Depression of Trade and Industry 1884. Quoted in Barratt Brown, p.199).

[4] Glyn and Sutcliffe, op.cit.

[5] These were held in 1886, 1887-8 and 1894-7.

The difference between the crest and the base of these cycles, was quite marked, and according to one index of industrial activity, was never less than 10 per cent whilst in the post war period it climbed as high as 40 per cent. At the same time unemployment at the low points of activity was never less than 5 per cent, largely around 10 per cent, and after the war closer to 20 per cent.[6] This economic stagnation fed on itself such that the rate of domestic capital formation declined and British capitalists increasingly invested overseas after 1873. The interdependence of the crisis of overproduction and the rise of export capital was a prominent feature of the period. There was only a slight increase in the resources devoted to the capital stock between 1870 and 1914. Capital equipment per worker was virtually constant, whilst in Germany and the U.S. the rate grew rapidly. Concommitantly overseas investments between 1860 and 1890 increased the U.K.'s balance on interest and dividends from £513 millions to £1026 millions whilst total credit abroad rose from £195 millions to £685 millions.[7] These trends were maintained until 1914, suspended during the war and reversed thereafter, a change which contributed dramatically to altering in a qualitative way the function of the Australian economy in the nexus with British imperialism.

The traditional markets on which British exports depended did not erode at a combined and even pace. "Indeed one of the most remarkable features of British trade right down to 1914 was the continued rise of exports to Western and Central Europe".[8] Industrialisation there cut

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[6] Sayers, R.S., A History of Economic Change in England 1880-1939, Oxford University Press, 1969, p.32.

[7] Barratt Brown, op.cit., pp.135, 171.

[8] Sayers, op.cit., pp.17-18.

out some imports but simultaneously created demand for others. There was, in other words, an element of artificiality in some import substitution. Whilst the rate of increase in exports to these areas was declining, the total volume continued to sustain the British export trade. The same degree of complementarity however was not evident in trade relations with America where the balance swung more abruptly to the competitive side. Post-civil war industrial activity there was perhaps the greatest, though not the last boost to British exports from this quarter. After 1880 the multilateral character of U.S. trade quickly reduced dependence on British goods. The decline of markets in Japan, India and Latin America then seriously affected British manufacturers after the first world war. "Broadly, Britain was losing her best customers, first in the U.S.A., and then in India and Western Europe. In the rest of the Americas and Asia (where Japan suddenly became important) British exporters gained fast before the war, but lost even faster after it".[9] There was some compensation coming from the rise in the empire's relative and absolute consumption of British commodities and particularly from the part of the Dominions of Canada and Australia whose rapid growth from 1870 to 1914 was predicated on the combined inflow of capital, migrants and technology. However, the growing volume of trade with these countries did not compensate fully for losses elsewhere and the major export industries remained in serious difficulties for the entire period.

These difficulties became worse after the 1914-18 war. British exports were exposed to an unmitigated assault from the ascendant competitive forces in world capitalism. There were few offsetting compen-

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[9] Ibid., p.15. Strong trading ties between Japan and Britain were probably an important factor in their alignment in the first world war.

sations. European markets lagged, the leading industrial nations became increasingly protectionist and self reliant and the less developed countries, even the Dominions, traded more than ever before along multi-lateral lines. In Australia for instance the competitive superiority of many American goods cut sharply into the British share of the market. By the early 1920's the British exports crisis was at its peak. The value of iron and steel and textile exports had grown absolutely until 1913 but thereafter had crashed in the face of competition from the highly industrialised countries in the first instance and the low cost labour supply countries in the second. Exporting difficulties were equally severe in the coal industry as battleships turned to oil and hydro electricity took over the generation of land based power. Unemployment in these sectors became excessively high and chronic.

The crisis of British capitalism after 1870 had a profound effect on development elsewhere. Economic stagnation at home and the decline of the traditional export industries on which Britain's industrial growth had depended so heavily were the leading features of the crisis. To overcome them the U.K. increasingly committed its capital to expanded reproduction abroad rather than to domestic activity. The Dominions were the principal recipients of export capital which inflated incomes, created opportunities for investment and increased demand for capital goods from Britain. British economic relations with the rest of the world were marked, after 1870, by the retreat of much trade and capital dealings to the confines of empire. And capital in the Dominions was by degree committed in greater measure to industrial and related urban development. In the final section of this chapter it will become clear why this happened.

British Investment in Australia, 1870-1914

One of the questions confronted in this thesis is how do we show or give form to the notion of British imperialist domination in Australia? Of equal importance is the inquiry into the impact of this domination on the course of manufacturing development. It has been necessary therefore to compare and contrast our period, that between the world wars, with the era preceding it. This section deals with the pattern of overseas investment in the Australian economy until 1914. The manufacturing sector will be touched on only in a marginal way since it is dealt with in a separate section later in the chapter.

In the first half of the nineteenth century Australia's absorption of British capital was not sufficient to render it an important field of overseas investment. British investors were largely concerned with operations in Europe and the United States where government loans, railways and manufacturing works had taken their interest. In the 1850's there was a notable diversification into the railways and banks of Canada and to the gold mines of California and Victoria. In the sixties the investment flow into Australia's pastoral expansion was renewed but the economy still remained, comparatively, a back water for British finance.

In the following decade there was an abrupt change. The interval, 1870-1914, transformed the country into a focal point of the United Kingdom's overseas interests. Hall's admittedly incomplete and conservative statistics indicate a growth in overseas investment in Australia from £32 millions to £298 millions, forty-five per cent of which was effected between 1875 and 1889.[10] In the space of those

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[10] Hall, A.R., The London Capital Market and Australia 1870-1914, Australian National University Press, Canberra, 1967, pp.87-88.

14 years the colonies were absorbing more British capital than any other centre in the world. The inflow, however, was never even or reliable. In fact it fluctuated quite sharply. The peaks came in the late seventies and early eighties coinciding with a lack of strong alternative overseas or home investment demands.[11] And they almost certainly insulated Australia from the deflationary effects of the great depression in Britain. At other times the colonies' prospects on the London capital market were less favourable. The main influence on these fluctuations seems to have been a mercurial, but basically depressed period of capital formation in Britain and intermittent expansion into new areas overseas for the supply of food and raw materials. (Canada, South America and South Africa). Basically, Australia's competition with these influences was a successful one and this was at least partly due to the colonies' unusually high preference for public borrowing since the British rentier tended to prefer gilt edged securities.

Between 1870 and 1914, British investors in the Australian economy poured about 70 per cent of their capital into the colonial governments. This was largely for railway construction to facilitate the transport of food and raw materials to the sea board and thence to Britain. The railways pushed quickly, dutifully and sometimes recklessly into the newer areas of agricultural land settlement. The remaining investments in the private sector, were concentrated at the beginning of this period in the banks and financial, land and investment companies.[12] British capital had traditionally shown a distinc-

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[11] Ibid., p.148. See also Cairncross, A.K., Home and Foreign Investment; 1870-1913. Studies in Capital Accumulation, Cambridge University Press, 1953.

[12] Hall, op.cit., Ch. 4.

tive bias in favour of the Australian primary exporting industries, particularly the pastoral industry. This took the form of direct ownership of stations and ownership through the banks and other financial agencies; much of the countryside was also heavily dependent on the credit of the large financial institutions. A significant proportion, perhaps a majority of the corporate networks which had swallowed up rural Australia, were British-owned and the remainder were partially dependent on overseas funds. Consequently, the repatriation to Britain of profits made on the land was done primarily through the finance institutions. Indeed the largest of these - the trading banks - had a pastoral bias so ingrained as to noticeably retard integration with and support for the industrialisation process in the twentieth century. (This will be dealt with in chapter four).

The largest importer of capital in the first part of this period, the 'long boom' of 1860-90, was the colony of Victoria which was itself an investing community. It had large pastoral holdings in the Riverina and Queensland, and investments in the metal mining enterprises at Broken Hill. Similarly, a more heterogeneous economy had spun out of the gold rush decade, with an extensive agriculture and railways to serve it. The Melbourne-centred urban land boom of the eighties was also significant here. The speculatory enthusiasm of the boom affected Sydney, Brisbane and Adelaide too, but activities in those capitals were not on the same scale.[13]

The growth of British interests in financial, land and investment firms was concentrated, primarily in the land mortgage field of business - a high profit area. It became common early in this period

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[13] Fitzpatrick, B., The British Empire in Australia, 1834-1939, Macmillan, Australia, 1969, pp.162-3. See also Cannon, M., The Landboomers, Melbourne University Press, 1966. Melbourne's stronger land boom derived from the heavier presence of foreign speculative capital

for Australian companies to register themselves in Britain in order to raise capital there to help finance expanding activities. Dalgety and Co., formed in 1884 was a product of this technique. In addition, a number of entirely new British firms were formed to move into the land mortgage business. Some of these were related to existing Anglo-Australian firms and some to established banks, highlighting the close contact and the inter connections that were characteristic of this development.[14]

In the agricultural sector a relatively small group of finance and 'service' companies evolved to exploit the wheat lands. Again it was mainly British capital that floated these firms. The acreage under wheat in the colonies grew quickly after 1870 and even faster at the end of the century and in the 1900's, particularly in the north-west regions of Victoria. The finance agencies followed this expansion, setting up business in the burgeoning commercial centres and at the railside. Through the monopolisation of the distribution system, these institutions were able to exploit most of the producers who were small, widely dispersed and economically powerless. At the country rail side and the wharves, the control of facilities for storage and marketing eluded the wheat farmers. By utilising the defects of the F.A.Q. system and the shortage of space and by manipulating the scales, the farmers' price was reduced.[15] The company agent's commission was partly dependent on these skills. The farmer was dependent on the company agent. Cartel agreements amongst the agencies in S.A. and Victoria also effectively depressed the farmers'

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[14] Hall, op.cit., pp.108-144. ("In all a relatively small inter connected group was responsible for these flotations. This close contact between the leading Anglo-Australian companies seems to have been maintained throughout the period", p.111).

[15] Dunsdorfs, E., The Australian Wheat Growing Industry, 1788-1948, Melbourne University Press, 1956, pp.222, 227.

price.[16] As "middlemen", the role of these companies was to buy on behalf of interests abroad. They were paid a flat rate commission on every bushel, which permitted them to buy as cheaply as they possibly could. It was this very thorough going control over marketing that compelled farmers to organise politically in the twentieth century. For, as Dunsdorfs noted, "Whether the wheat merchants combined in a cartel or competed against each other the wheat grower had to foot the bill".[17]

British investment in Australia between 1870 and 1914 is divided by the year 1892. The first period was one of rising and then heavy investment reaching its peak in the middle eighties, at which time Australia was probably the leading outlet for British long term funds. In the second period after 1892, British investors were much less enthusiastic about Australia. The depression had broken their confidence.

The speculatory bustle of the earlier years was dominated by railway investment which began in earnest after 1870. In the following two decades about 9,000 miles of line were laid, cobwebbing the pastoral hinterland and the agricultural settlements and connecting them with both the rural commercial centres and the coast. Much of this construction was important to British trade, to the supply of food and raw materials to the Mother Country. For a number of reasons the regularity and reliability of this supply became increasingly

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[16] _Ibid_., pp.224-27. The consolidation of these social relations in the inter-war period is dealt with in Beasley, F.R., _Open Market Versus Pooling_, Cornstalk, Sydney, 1928.

[17] Dunsdorfs, _ibid_., p.237.

important to Britain in the final quarter of the century. Some of the railway construction, however, was purely speculatory and of little value to anyone save the British rentier and the manufacturer of rolling stock. After 1890 the rate of construction slowed, though some of its sustained impetus stemmed from the late start in railways made by Western Australia. The slowdown was largely due to the over-production of requirements and to the fiscal consequences for the State governments once the economic climate turned sour and 'mileage' ambitions were compelled to moderation and caution.[18]

Rapid population growth due to a high rate of natural increase and a heavy immigration flow between 1852 and 1890 played an important part in the demand for housing and in accelerated urban development. This was parallelled by the manifest failure of attempts to 'Unlock the Land' and create a yeomanry class in the colonies, a phenomenon which relegated the bulk of aspiring farmers to an urban working class life. The urban building and construction boom generated by this situation was the second most important field of British investment next to railway construction in the colonies. It was centred around spectacular growth in 'marvellous Melbourne' and in Sydney. Clusters of working class cottages became concentrated around the fringes of the metropolitan areas. These were studded with the homes of their superiors and the mansions of the well-to-do, usually to be found on the higher ground. In the city centres splendid public buildings were raised; so too were commercial institutions and manufacturing establishments and most of this development was underpinned

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[18] The expansion of the railway system is recounted in Fitzpatrick, op.cit., pp.157-8. Hall's account (p.122ff) is taken almost word for word from A.G.L. Shaw, The Economic Development of Australia, Longmans, Croydon, 1965, pp.90-92.

by the inflow of British capital: "It was only with the support of funds raised in Britain by banks, urban land mortgage companies and building societies that it was made possible".[19] There was, of course, a price to pay for this 'patronage', a subject which is dealt with later in relation to the gold standard mechanism.

The capital requirements of the wool industry were third in order of importance to British investors. A need for much increased output in the wool industry had emerged and was connected directly to the expanded consumption capacity of British manufacturers. Bailey estimates that by 1890 £60 million of British funds had been invested in the pastoral industry in the preceding thirty years, largely through the banks, the pastoral finance companies and, to a lesser extent, British insurance companies.[20] Pastoral development after 1870 was by and large intensive and concentrated on fencing, land improvement (stock carrying capacity) and innovative shearing techniques rather than on pastoral expansion. The end of squatting and the leasing era with the large scale purchase of properties by squatters, often in conjunction with banking or pastoral finance firms, also inflated the demand for capital. Indeed there was some internal shift in the emphasis given to these matters over the years. Between 1865 and 1880 the squatters' main concern was securing his or her freehold against the predatory land selectors armed with the clauses of the Selection Acts. In the second period, when the heat of the selection

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[19] Hall, op.cit., p.130. It is probable that closer settlement also failed because the life was simply too lonely and the odds against success overwhelming.

[20] Bailey, J.D., A Hundred Years of Pastoral Banking. A History of the Australian Mercantile Land and Finance Company, 1863-1963, Clarendon Press, Oxford, 1966, pp.55-6.

offensive was dying fast, the replacement and improvement programmes tended to take precedence.[21]

Butlin seems to have established that "comparatively few corporate enterprises" were responsible for financing the New South Wales pastoral development between 1865 and 1900; also that in the course of this 'responsibility' these companies acquired control and direction over much of the pastoral industry by means of land-mortgage finance and, to a lesser extent, acquisition of the 'proceeds of sale' (wool). He concluded that the process was "merely another aspect of the large-scale inflow of British capital which, through the medium of banks, commercial and other financial institutions, provided the funds for the extensive growth of private enterprise after 1860".[22] The scanty evidence of the pioneers in this field of analysis suggests the process was similar at least in the other eastern states. In Queensland for instance, five such institutions controlled in 1894 a total area more than twice the size of England.[23] Butlin chose to quibble with Fitzpatrick over whether this control enhanced or impaired the squatters security of tenure. However it remained for Fitzpatrick to best sum up the outcome as the "subordination of the producers to the financiers".[24]

Droughts, poor prices and mortgage indebtedness in the nineties brought the long boom in wool to an end. The first decade of the new

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[21] Ibid., p.53.

[22] Butlin, N., "'Company Ownership' of N.S.W. Pastoral Stations, 1865-1900," Historical Studies Australia and New Zealand, Vol. 4, No. 14, May 1950, pp.110-111.

[23] Fitzpatrick, op.cit. p.403

[24] Ibid., p.143

century was committed to debt repayments rather than resuscitated growth; "the pattern of investment was one of increased demands in the seventies and eighties, distress in the nineties and repayment of, rather than additions to, outstanding debts in the early twentieth century".[25]

The depression of the early nineties marked the beginning of a relatively dry period for the intake of British capital. There were moderate revivals in 1896-7, 1900 and 1912-13, but overall the period 1890-1913 stands in sharp contrast to the seventies and eighties. In this abandoned state the Australian capital market developed quickly. For the first time it became a significant source of finance. The scope of Stock Exchange activities had broadened whilst trading banks and insurance companies now lent more readily to colonial treasuries; a slightly bank-shy public did the same. An index of the change here is the portion of the public debt raised in Australia in 1900 and 1913: in the first instance this was 14.1 per cent; in the second, 30.5 per cent.[26] The tendency continued after the war, despite heavy borrowing abroad in the twenties. By 1928, 48 per cent of the public debt was domiciled in Australia; the period had ushered in a substantial growth in the autonomy of the Australian economy with respect to the process of capital formation.

This development was parallelled by a steady multi-lateralisation of Australian trade relations and reduced dependence on both the British market and British manufacturers. Between 1887 and 1906 exports to the United Kingdom declined from 74.7 per cent of the total commodity outflow to 46.1 per cent. Similarly imports from the United Kingdom

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[25] Hall, A.R., op.cit., p.131

[26] Wood, G.L., Borrowing and Business in Australia. A Study of the Correlation Between Imports of Capital and Changes in National Prosperity, Oxford University Press, 1930, p.153.

fell from 70 per cent to 58.5 per cent of the total over the same period.[27] Trade with Britain clearly remained most important but it was no longer comparable with its earlier stature. Nevertheless the pre-war period differentiates itself from that after the war by the expanding absolute volume of British exports to Australia and the lack of effective import substitution by Australian producers. British manufacturers were still able to remain firmly committed as a group to the traditional division of labour between their own country and Australia.

At the same time as British trade and capital became relatively less important to the Australian economy, there were also changes in the investment priorities of British capitalists. Banks had become quickly insignificant as domiciles for new overseas investments after 1893, and not until 1907 could they successfully reapproach London for fresh capital. Finance, land and investment companies also lost ground. British investors had lost heavily in 1892 when "the unreal structure of land values brought down the first urban-land mortgage companies".[28] The pastoral finance companies had also sunk into a dark period shadowed by decimated flocks through a series of droughts and fluctuating prices for wool. Profits for even the strongest agencies were very low. They tended to move steadily downwards throughout the decade and into the twentieth century. Over the same period a wave of foreclosures intensified the centralisation process whereby ownership and control of pastoral runs fell into the hands of a smaller number of financial institutions. Bailey acknowledges the period as one in which station ownership became a 'primary object' in

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[27] Fitzpatrick, op.cit. p.313

[28] Hall, op.cit., pp.175-6.

the business of the Australian Mercantile Land and Finance Company, one of the biggest British 'houses' in Australia.[29] What is more, it is doubtful that the rate of investment in the pastoral sector could have been maintained even with favourable conditions since much of the necessary capitalisation had already been effected in the seventies and eighties. During the 1890's some of the accumulated funds in the pastoral finance companies were diverted out of the country and into foreign and colonial government bonds and railway debentures in London. This was preferred to pastoral investment and provided a source of profits to offset losses on the land.[30]

In place of the banks, the finance, land and investment companies, mining ventures became the leading field of overseas investment. The general trend in mining output between 1870 and 1885 had been downwards, led by the fading out of gold mining in Victoria. However, with mining at Broken Hill from the mid eighties, with the revival of gold mining in Western Australia and with a silver boom around Zeehan on Tasmania's west coast, the mining sector resurged. For a few years after federation it displaced wool as the leading export earner, and a high level of output was maintained until the war.

In this sector the demand for British capital was not registered in significant proportions until the mid nineties when the gold boom in the west took off. There investments tended to be speculative gambling operations on a massive scale. The mines were overcapitalized but short on working capital, badly managed and geared to deception and fast profits on the London Stock Exchange rather than to the judicious extraction of their resources. It seems that the best mines,

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[29] Bailey, op.cit. p.157

[30] Ibid., p.158

at least initially, were developed by Australian savings. The boom, as a result of so much malpractice, was shortlived and lasted from 1895-1899.[31] But its significance to the Western Australian economy survived, giving life to a more open and diversified range of activities upon which British interests were quick to capitalise. Merchant business, land companies, electricity undertakings and coal mines, for instance, were all launched from London in the nineties, to operate in Western Australia.

Developments in other areas of mining and smelting, such as silver-lead-zinc, copper and tin, also matured in the years approaching and immediately after federation. These sustained, to some extent, the inflow of British capital after the Western Australian boom had died out. But they did not alter the new pattern of investment established in the nineties, nor did they notably affect the deteriorating scale of total inflow after 1900.[32] The period however, 1904-11, was a prosperous one marked by reduction of the private debt owed to Britain rather than additions to it. Not until 1911 did a renewed heavy immigration programme and a related building boom combine to revive the traditional pattern of boom and accelerated capital imports.

It remains in this section to briefly examine the function of immigration in relation to British investment in the Australian economy. The export of capital and people to Australia was typically closely related. For just as the colonies intermittently functioned as major outlets for surplus British capital, so too they provided a population dumping ground, long after the end of transportation, to ameliorate

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[31] Hall, op.cit., pp.177-8.

[32] Boehm, E.A., Twentieth Century Economic Development in Australia, Longmans, Camberwell (Victoria), 1971, pp.108 and 211.

overcrowding, unemployment and other social problems in Britain. Moreover, the movement of capital and migrants was to some extent interdependent. The major bursts of overseas investment, that of the seventies and eighties and of the nineteen twenties were in large part responsive to developments in which migrants played a leading part: in the first instance the urban building construction boom and in the second the Bruce-Page land settlement and manufacturing programmes. To a lesser extent the same relation is apparent in the period of intermittent borrowing between 1904 and 1911.

The chief objection to immigration (which came from the trade unions) was that it provided labour market competition and undermined established wage standards. But their protests fell on the deaf ears of colonial governments competing for capital and labour in pursuit of rapid growth. The peak years of migrant inflow during the long boom -1863, 1877 and 1883 - coincided with periods of vigorous government assistance in immigration.[33] The migration flow of both the nineteenth and early twentieth century was financed very largely by British loan capital which was used to assist directly those too impoverished to pay their own passage. Indirectly, it provided an economic infrastructure, generating work and production through its multiplier effects. There is also some uncorroborated evidence to suggest that surplus value expropriated in India was directly applied to the financing of the British migrant flow to Australia.[34] This, of course, would reinforce the contention that the Australian colonies shared a relatively privileged position, as colonies, in the imperial

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[33] McGhee, R., "The Long Boom, 1860-1890", in Griffin, J. (ed.) Essays in Economic History of Australia, 1788-1939, Jacaranda Press, Brisbane, 1967, pp.141-42.

[34] Gough, K., and Sharma, Hari, P., (eds.), Imperialism and Revolution in South Asia, Monthly Review Press, New York, 1973, pp.48, 51.

economic network. However, it does not alter the argument put forward here that immigration was an integral part of the expanded reproduction process within Australia and of the exploitative role of British capital.

Fluctuations in private capital formation in the late nineteenth century probably followed very closely in line with unassisted immigration flows and hence moved with private overseas borrowing; similarly, public capital formation which grew steadily throughout the 'long boom' was contingent on a migrant inflow. This failed, as it happened, to match the demand for labour and thus the colonial governments intermittent fervour for assisted migration. In the same way, the thousands of migrants who crossed to Australia in the nineteen twenties were to provide much of the necessary labour for land settlement schemes and industrialisation, both of which utilised British capital through large scale related public works programmes and private investment.[35]

The Gold Standard

Having discussed the main trends in overseas investment it is appropriate now to briefly outline the economic process which ensured that British investment would be a profitable affair - that is, that more wealth would flow out of Australia than was put into it. This process expressed itself through the trading banks' gold standard mechanism. Effective exploitation necessitated the colonial acceptance of this standard as a legitimate institution and of the trading banks as the arbiters of fiscal policy.

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[35] Butlin, N., Investment in Australian Economic Development 1861-1900, Cambridge University Press, 1964, pp.390-98.

The gold standard mechanism will be discussed in detail in chapter four in the context of its demise during the great depression. It is sufficient here to point out that it effectively secured the property rights attached to the commodities and capital that flowed into Australia. That is to say, it was the mechanism which gave Australia's creditors abroad first call on wealth produced in Australia.

Under the gold standard the money supply was tied to the value of gold holdings in the country. When the balance of payments tightened and Australia's volume of gold holdings declined, the trading banks took the appropriate measures to ensure that the economy adjusted to this outflow of wealth, namely credit contraction and consequent deflation to reduce imports.

The two variables which threatened internal economic stability in a dependent situation such as this, were the rate of capital inflow and the economic returns from exporting in the primary sector. In a period when the rate of inflow was high, credit would expand, price levels go up and imports as a proportion of exports increase. As the balance of payments became more unfavourable as a result, the trading banks through the gold standard mechanism, would initiate the appropriate domestic money supply and cost-price adjustment. That is, they would take deflationary measures to right the balance of payments. However these measures could be most devastating under the circumstances of a declining rate of capital inflow and deficient export receipts. In prosperous periods a high rate of capital inflow would offset the payment of overseas debts. High export earnings had the same effect. However, where deficient export returns coincided with the tailing off period for capital inflow and a period of maturing debt and interest payments, the Australian debt was paid for by unemployment, declining real wages, retarded growth in the social infrastructure and in the rate of capital formation. The economic and social consequences of the depressions of 1892 and 1929 were a product of this 'toll'.

The Growth of Manufacturing I

The course of economic development in Australia was fundamentally different to that in, for example, the Latin American colonies of Chile or Brazil. One of the landmarks in this contrast has been a burgeoning secondary industry whose importance to the Australian economy as a whole has grown markedly after the 1870's. In short, Australia industrialised; many other British colonies did not. Why? What were the basic conditions for industrial growth in the colonies and, secondly, how were these conditions fulfilled?

A critical distinction to be made here is that between lands with a large indigenous, and pre-capitalist mode of production which could not be wiped out but had to be ruled indirectly and, lands where the pre-capitalist mode <u>was</u> wiped out (e.g., Australia) and capitalism itself instated. Thus the Spanish and the Portuguese over-ran Latin America in the fifteenth and sixteenth centuries in search of bullion and other treasures, and incorporated the indigenes into a resilient feudal mode of production. When Britain took over on that continent in the nineteenth century it inherited a well-established, heavily populated <u>feudal</u> society. There was some slave labour, but this was not the dominant mode. On a global scale capitalism was ascendant and with it trade was expanding and intensifying. Feudal modes - such as those colonised in Latin America - were quickly sucked into capitalist world market relations. A world division of labour ensued, based on the exchange of manufactured goods for food and raw materials. This division of labour between metropolis and periphery was maintained - in Latin America - by an alliance of British capital with an import - export coalition in the periphery built around a feudal comprador class. Thus in Chile and Brazil, for example, agriculture was both feudal and geared to the British market. Capitalist 'pockets' that did emerge (such as nitrate mining in Chile based on wage labour) were similarly overseas oriented.[36]

It is in this alliance that we find the nineteenth century conditions which retarded development and industrialisation in Latin America. The essential conditions of primitive accumulation and incipient capitalism - that is, the separation of labourers from the means of production and the possibility of an independent livelihood - were not present. Historically this separation has entailed the destruction of feudal estates and shift in servitude from landlords and guild masters to industrial capitalists. Consequently, there were vested interests, both British and 'native', in restraining development in these countries. And the emphasis here must be on restraint as there was no shortage of attempts to industrialise.[37]

In other parts of the world these restraints were not present (as in Australia), or at least not dominant. British capital encouraged development throughout the nineteenth century, though its patronage was impermanent and shifted several times. The major shift was from Europe to the U.S. and the Dominions. This occurred in the 1870's and

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[36] For a discussion of the conditions of underdevelopment see Frank, Andre Gunder, Capitalism and Underdevelopment in Latin America, Historical Studies of Chile and Brazil, Monthly Review Press, New York, 1969; also Barratt Brown, M., The Economics of Imperialism, Penguin, Harmondsworth, 1974.

[37] Frank, op.cit., ch. 1. Frank argues that a nascent industrial bourgeoisie mushroomed across Latin America in the 1830's and 1840's but that its attempts to industrialise all failed, ending in foreign intervention, coups or civil war. As late as 1890 in Chile, a concerted governmental attempt to industrialise culminated in a coup financed by British and local funds.

coincided with massive emigration from Britain and the severe crisis in the British export industries, discussed earlier. The changing orientation of export capital corresponded to a switch in the overseas distribution of export goods and especially of capital goods. In 1854, 23 per cent of British capital goods exported went to the empire; by 1913 the value of these had grown from £22 million (1854) to £109 million and the share of empire had likewise grown to 42 per cent. The Dominions and India alone accounted for this growth.[38] In other words the increased export of capital goods to the Dominions was a function of their increased purchasing power arising from the expanded inflow of loan capital.

The rate of accumulation in Britain, suffering after the 1860's from a chronic export crisis, was the basic cause of the synchronised export of capital and capital goods to the Dominions, and in this way it contributed to the generation of early industrial development in the colonies.

The debate on 'growth' in the late nineteenth century colonial economies brings the nascent industrialisation process into focus. In the 1940's and 1950's the widely accepted view was that put forward by Fitzpatrick. Australia, he argued, functioned as no more than a sheep run for the British manufacturer. His analysis overlooked the importance of the manufacturing sector in imperial economic relations. A 'new wave' of economic historians followed Fitzpatrick's pioneering footsteps. They were led by Butlin and armed with statistics. Butlin's estimates of G.N.P. suggested "the secondary and tertiary

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[38] Barratt Brown, op.cit., p.180 and 196. In the case of India the intensified export of capital goods was almost entirely for development related to the export industries and did not coincide with a rising capital inflow comparable to that in the Dominions.

industries grew much faster than the wool industry in the 1870's and 1880's, so much so that activities grouped under the heading of manufacturing made at least as great, and probably greater, contribution to the gross national product as wool".[39]

The significance of the cities, not simply as coastal centres for the pastoral export trade, but as the burgeoning basis of a shift to an industrialised economy is something Fitzpatrick did not come to grips with. The main market for Australian manufacturers was in Australian cities. The urban sector was not a mere appendage of the countryside. As a result of the protracted period of Fitzpatrick's influence, this new emphasis on urbanisation as economic growth came as something of a surprise.

The development of manufacturing in the 1870's and 1880's was forged on a relatively narrow basis, geared principally to the building and construction boom. Butlin argued that the buoyancy of the Australian economy was as much dependent on the non-export industries at this time - residential building and railways in particular - as it was on overseas trade. Residential capital formation in the late nineteenth century accounted for about one third of total capital formation and was the leading field of investment throughout the second half of the nineteenth century.[40] British capital participated vigorously in land speculation and related manufacturing ventures. Many of the leading enterprises at the end of the century had humble origins in the 1860's and 1870's. They may have begun as a colonial partnership based on the skill of the founders; or as a family firm venturing into some relatively undeveloped area of

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[39] Sinclair, W.A., 'Rewriting Our History', Dissent, No. 3, Vol. 3, Spring, 1963, p.20.

[40] Ibid., pp.20-21.

economic need. On some occasions the passion for technical innovation and the pursuit of mechanisation was the means of destroying a major competitor; on others it was the impetus behind a merger and co-operation. In such cases new enterprises might hive off from the strengthened parent company, and expansion lead to other States. Where large scale industries dominating a considerable portion of the market faced one another in savage but indecisive battle, it was not uncommon to negotiate a trust agreement on prices and spheres of influence. The amalgamations which produced the giant firms were less often the fruits of successful competition than mergers (or agreements) formed to escape it.

British capitalists usually entered this process at some stage, either as a supplier of funds, technology (capital goods) or 'know-how'; as a competitor, or as a partner.

It is useful to examine the course of one successful manufacturing venture that had its origins in the 1860's and was based on the building and construction market. Johns and Waygood Limited began in a small way as a structural steel business, dependent largely on supplies from Britain; it diversified into light machinery and the hydraulic lift business in the 1870's. The lift section encountered stiff competition from a British company which set up in Melbourne in 1888. This itself was a joint venture in which the subordinate partner was a Melbourne clothing company. Competition became intense; the British owned company - at first very successful - became over-extended and was absorbed by Johns during the depression of the early 1890's. The company moved into cranes and other more sophisticated machinery. Here it drew its inspiration from U.S. enterprise and technology. Between 1903 and 1907 it advanced into the production of electrical lifts, leaving behind the hydraulic era and, as previously, technological development was overseas inspired, through a merger with another British firm which supplied the machinery and the blueprints. At the same time intense competition came from a British owned venture which had set up in South Melbourne, in the structural steel business. Johns and Waygood fought through this battle entering into an alliance with Carnegie's (U.S. steel suppliers) whose product and prestige bolstered the standing of the local company, enabling it to survive and further expand. Similarly in their electrical lift venture, Johns and Waygood found their strongest competition came from a Sydney based joint venture of U.S. and British capital which made a determined bid to monopolise the Australian market, developing a number of important innovations and forcing the company to sophisticate their own product. This they were able to do successfully. British capital had intervened - in one form or another - at every significant stage in the early development of the structural steel and the lift business in Australia.[41]

Clearly, manufacturing development in Australia was not, as Fitzpatrick's analysis might suggest, inconsistent with or extraneous to British imperial expansion in the colonies. Indeed it was tied closely to this expansion. Nevertheless it remained, at least until 1914, a subordinate feature of British investment interests in the Australian economy and, therefore, narrowly-based and primitive. The role of British capital in manufacturing development to 1914 is pursued at greater length below.

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[41]Blainey, G., One Hundred Years Johns and Waygood Limited, 1856-1956, Caulfield and Sons, Melbourne, 1956.

The Growth of Manufacturing II

The overall course of industrial development in the eastern centres and in South Australia was dominated by the growth of manufacturing in New South Wales and Victoria, the richest and most populous of the colonies. Whilst expansion in Victorian enterprises generally outpaced that in New South Wales it seems their respective development followed a similar course.[42] Manufacturing arising from demand for urban housing and other construction led the way; new enterprises sprung up around the demand generated in the railway boom, in shipbuilding and the provision of other communication facilities, not least of which was the Johns and Waygood lift; a substantial textile industry arose, based largely on the sweat of female labour, though this industry was increasingly centred in Victoria which eventually produced more than half the total Australian output. On the other hand, the food, drink and tobacco industries were better and more widely established in New South Wales by the turn of the century as was the metals and machinery sector, though this was by no means inconsequential in Victoria where the pace of agricultural settlement underwrote a thriving industry in agricultural machinery.[43]

Manufacturing's share of the gross domestic product rose steadily (in real terms) from 5.3 per cent in the 1861-65 period to 12.6 per cent in 1900 though the rate of growth was much faster in the first

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[42]Butlin, N.G., Investment in Australian Economic Development, 1861-1900, Cambridge University Press, 1964, ch. 3, pt. V, pp.201-220.

[43]Employment in agricultural implement works (1907) gives some indication of Victoria's prominence. Out of a total for Australia of 3131 employees, the agricultural implement works of Victoria occupied 51.67 per cent of these. In New South Wales they occupied only 15.93 per cent and in S.A., 26.41 per cent. (Calculated from figures given in the Report from the Royal Commission on Strip Harvesters and Drills, Commonwealth Parliamentary Papers, 1909, Vol. 2, pt. 2, p.1505).

20 years than in the last.[44] The number of factories in New South Wales and Victoria combined rose from 1,132 in 1861 to 6,197 in 1891 and 6,616 in 1901. Simultaneously the work force employed in these factories expanded. It numbered 33,500 in 1871 and 132,600 in 1901.[45] In Queensland, too, manufacturing grew at a healthy pace between 1861 and 1900. Moreover, about 50 per cent of this growth was urban-oriented and not connected with the production and processing needs of the rural sector. In the nineties the manufacturing sector continued to develop, driven forward by 'linkage' influences from the sugar industry, the new frozen meat trade, the revival of mining and by a range of consumer good demands. This impetus played an important part in lifting Queensland from the depths of depression.[46]

Notwithstanding this growth, the manufacturing sector was still quite immature and non-dynamic at the turn of the century. Between 1881 and 1900 it accounted for only 8.15 per cent of gross domestic capital formation whilst the primary sector, excluding mining, accounted for 37.1 per cent. Enterprise at that time was widely dispersed, typically small scale and operating under primitive and inefficient conditions. The areas of production which accounted for the greatest number of enterprises were clothing and textiles, food and drink, metal works and machinery; wood working; vehicles and fittings (including saddlery and harnesses); printing; and the treatment of agricultural and pastoral produce. It should be added, how-

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[44] McGregor, L., 'The Development of Manufacturing in Australia', in Drohan, N.T., and Day, J.H., (eds.), Readings in Australian Economics, Cassell, Melbourne, 1965, p.302.

[45] Fitzpatrick, B., op.cit., pp.262-3.

[46] Laverty, J.R., 'The Queensland Economy, 1860-1915', in Murphy, D.J., Joyce, R.B., and Hughes, C.A. (eds.), Prelude to Power The Rise of the Labour Party in Queensland 1885-1915, Jacaranda Press, Brisbane, 1970, p.39.

ever, that textile production was comparatively unsophisticated by world standards, metal works depended heavily for their position on the old industries of coaches and wagons, nearly all metal production was for export and, machinery produced was of the simplest kinds.[47]

Outside of this fairly simple range of industries it was "highly doubtful that Australia's small and dispersed population could provide a sufficient market for even one plant of efficient size".[48] Moreover the lack of significant external economies held back investment in new areas at least until 1914. Financial institutions, as we shall see in chapter four, were not interested in backing venturesome manufacturers; the stock exchanges, though their operational spectrum broadened and encompassed manufacturing after the 1890's were not an important source of funds until the 1920's and foreign capital, to the extent that it did invest in manufacturing tended to settle in the established areas of production. At the same time the supply, service and marketing industries necessary for new manufacturing developments were themselves primitive and inadequate.[49]

After 1900, and in somewhat altered circumstances, the manufacturing share in gross domestic capital formation grew rapidly and largely at the expense of the primary industries as indicated by the following table:

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[47] Forster, C., 'Economics of Scale and Australian Manufacturing' in Forster, C. (ed.), Australian Economic Development in the Twentieth Century, Australasian Publishing Company, Sydney, 1970, p.131.

[48] Ibid., p.150. For a case study of the problems of market size and economies of scale at this time see also pp.146-150.

[49] Ibid., pp.155-6.

TABLE 1[50]

Years	Past/Ag (%)	Manufacturing (%)
1881-1890	37.7) (37.1)	7.7) (8.15)
1891-1900	36.5)	8.6)
1901-1910	18.3	13.6
1911-1920	20.8	19.6
1921-1930	16.1	19.3
1931-1940	19.6	16.6

The most remarkable feature of the chart is the 'wholesale' re-orientation of financial resources over the period 1900-1920. This was followed by virtual stabilisation in the twenties and a slight relapse in the manufacturing share of the thirties. The same growth is reflected in labour statistics: between 1903 and 1918 the manufacturing work force grew from 195,810 to 340,475, an increase of 73.9 per cent.[51] As a proportion of the total labour force, manufacturing accounted for 16.8 per cent of employment in 1901 and 21.2 per cent in 1921. In these respects - all vital to the economy's expanded reproduction - the opening decades of the twentieth century can be seen as a sort of bridging period which took the Australian economy to the threshold of modern industrialisation.

Economic growth between 1900 and 1914 was closely connected with preceding developments in the nineteenth century and was essentially a new phase in a long term process: the period was one of steady if not unprecedented expansion. It was marked neither by the tumult of economic boom nor by a spectacular downturn. Wood described this time as one of "stability and soundly based prosperity" with the

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[50] Butlin, N.G., Australian Domestic Product, Investment and Foreign Borrowing, 1861-1939, Cambridge University Press, 1962, pp.20-21.

[51] Commonwealth Bureau of Census and Statistics, Production Bulletin, No. 6, 1902-11, p.65; No. 18, 1913-14 - 1923-24, p.105.

exception of three "difficult periods" in 1903, 1907-1908 and 1912-13.[52] Overall the period was endowed with rising export prices, favourable weather and good export receipts.

The 1890's depression hastened important structural changes in the economy <u>within</u> the basic industrial categories: in the pastoral industry the decline of wool returns were offset by increasing meat and dairying exports whilst in the secondary industries construction declined and was overhauled by the rise of manufacturing. The growth industries from 1900 were clearly in manufacturing, wheat, meat and, on a smaller scale, dairying. In the absence of capital inflow in the 1890's and with relatively moderate overseas borrowing in the 1900's it was new techniques rather than large scale investment that underwrote this diversification.

The growth of manufacturing was at least partly derivative in that wheat and dairy farmers tended to spend a much greater proportion of their savings at home than did the grazier; relatedly, they were a better market for locally produced machinery than were the graziers. However, there were other factors at work that were independent of rural section influence. The Australian common market which arose from the federation of the colonies was a direct stimulus to expanded industrial production, though, as the years of federation went on, the advantages were increasingly weighted to the stronger manufacturers of New South Wales and Victoria. In Queensland, to take an instance, the combined effect of drought and federation halted manufacturing growth for six years and thereafter restrained the rate of growth. Federation exposed the State to unmitigated competition from larger

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[52] Wood, G.L., <u>op.cit.</u>, p.154

southern firms whilst the droughts flattened the primary produce and food processing industries. In addition the Queensland government's rural development schemes diverted funds away from manufacturing in the 1900's. The long term effects of the advantages which federation bestowed on the stronger States were expressed graphically in the fact that by 1915, the number of factories in Queensland had still not climbed back to the 1900 level and though the gross value added had more than trebled, the rate of growth was now lagging far behind that of Victoria and New South Wales and new enterprise was heading back into rural connected manufactures.[53]

As was the case with wool and the rise of the new export industries, the partial exhaustion of investment possibilities in urban construction after the eighties permitted the channelling of idle funds (and an elastic supply of labour) into new manufacturing ventures. These were largely in the metropolitan locations where the urban construction which had preceded it was to be found. It is Sinclair's view, well supported by Butlin's statistics, that this new growth in the export industries and in manufacturing was repressed by investment priorities between 1860 and 1890 and thereafter 'released' in the wake of economic depression.[54] This is a rather circumspect way of explanation and misses entirely the 'imperial' aspect of these developments. Firstly, the decline of British agriculture late in the nineteenth century had placed new demands on the Empire for

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[53] Laverty in Murphy et al (eds.), op.cit., pp.41-2.

[54] Sinclair, W.A., 'Aspects of Economic Growth 1900-1930', in Boxer, A.H., (ed.), Aspects of the Australian Economy, Melbourne University Press, 1965, p.107.

food supplies, notably grain, meat and dairy products.[55] Secondly, heavy remittance payments due in London between 1893 and 1910 were met by an export surplus in which the new export industries played a vital part.[56] Finally, as competition between Britain and other major powers intensified, fortifying the brittle walls of 'empire trade' became a matter of increasing importance. One of the measures taken entailed the increased processing and manufacture of raw materials in Australia, prior to export, in order to minimise exorbitant shipping costs.[57] This was also taking place in the mining industry and was partly responsible for expanded milling and smelting operations in the 1900's, which, as we shall see in chapter five, provided the necessary lead-in to greater industrialisation.

A principal source of funds for manufacturing development in this period was the countryside itself since industrialisation was partly dependent on the existence of a transferable surplus in the pastoral, agricultural and mining sectors of the economy. Favourable terms of trade for the exporting industries provided the necessary excess savings, 1860-1890, thus helping the Australian economy to sidestep underdevelopment. Thereafter a number of influences diminished opportunities for rural and mining investment and the principal tendency in the flow of private capital became the movement

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[55] Crouzet, F., 'Trade and empire: the British experience from the establishment of free trade until the first World War', in Ratcliffe, B.M., (ed.), Great Britain and Her World 1750-1914. Essays in Honour of W.O. Henderson, Manchester University Press, 1975, ch. 9, pp.178-209.

[56] Wood, G.L., op.cit., p.94.

[57] For a discussion of the disadvantages suffered by British manufacturers due to shipping costs see Morgan, B.H., The Trade and Industry of Australasia. Being a Report on the State of and Openings for Trade, and the Condition of Local Industries in Australia and New Zealand, Eyre and Spottiswoode, London, 1907, ch. 2.

towards the cities and industry. These influences were discussed earlier.

At the turn of the century a substantial transfer of savings from the pastoral and mining sectors of the economy was under way. Particular instances are not hard to find: the engineering and paper industries of Herbert Brookes derived from a family background of extensive pastoral holdings.[58] The John Fairfax Press did the same. Bowes Kelly, a director of B.H.P. for more than half a century, was the owner of numerous sheep stations and his initial purchase of mining shares was financed from pastoral receipts. Though his origins were in wool, he died an opulent urban dweller and head of a mammoth steel enterprise. Such a movement - from farm to factory - was not atypical, though the scale and success of the Kelly transfer had few peers.[59]

British capital acted cautiously in Australia after the 1892 depression. Not until the mid 1900's did it begin to flow freely once more and it is likely that the new inflow had considerably more to do with manufacturing than it had in the past. The contrast before and after 1908 is particularly sharp. From 1901-1908 loans raised by the private sector in London totalled only £3.76 millions, whereas from 1909-1913 they came to £12.955 millions.[60] In Professor Wood's opinion the rising volume of loans was symptomatic of a diversification of British interests not only through loans but through portfolio and

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[58] Rivett, R., Australian Citizen, Herbert Brookes 1867-1963, Melbourne University Press, 1965.

[59] Sketches of Bowes Kelly and his interests can be found in G. Blainey, Gold and Paper. A History of the National Bank of Australia Ltd., Georgian House, Melbourne, 1958; and The Steel Master. A Life of Essington Lewis, Macmillan, Melbourne, 1972.

[60] Calculated from figures in Wood, op.cit., p.155.

even to a lesser extent, direct investment. British money now flowed into "manufacturing of all kinds but especially textile industries".[61] At the same time the old partnership between (renewed) capital inflow and immigration was revived. British migrants were at least partly absorbed in jobs created by British capital. By most conventional measures, the rate of growth in the manufacturing sector was at least twice as fast in the last half of this period, from 1907, as it was in the first.[62] Immigration between 1891 and 1911 was a meagre 100,000 compared with 234,000 between 1911 and 1914. More than twice as many migrants had entered Australia in four years as had done in the previous twenty.

With the wool building and mining industries no longer making the demands they did in the previous century British capital increasingly flowed into the manufacturing sector. However the surge of British overseas investment from late in the 1900's was a world wide phenomenon - it also surged in Canada, South America, the United States and India. It was characterised by the tendency of British capital to invest beyond the traditional scope of its activites. The electrical industry became important and "investment in manufacturing and industrial enterprises was developed rapidly".[63] Increased outlets through a broadening of scope in investments became necessary as British industry entered one of its lowest periods in the history of industrial relations. It was characterised by a rise "in the will and power of organized labour to resist management" and by unprece-

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[61] Ibid.

[62] E.g., Gross Value Added; Share of Manufacturing in Gross Domestic Product; share of work force employed.

[63] Hobson, C.K., The Export of Capital, Constable, London, 1914, pp.241-2.

dented "resistance to changes in methods and the use to the full of labour-saving equipment".[64] From 1908 British industry was crippled by strikes. More than 10 million working days were lost in 1908, 1910 and 1911; and more than 40 million in 1912. Investment at home dropped sharply; British capitalists increasingly invested overseas. From 1905 to 1914 they invested 7 per cent of the national income abroad compared with 5 per cent at home. The rate of increase in total investments abroad, 1885-1909, averaged 21.53 per cent. Between 1909 and 1913 it was 61.36 per cent.[65]

The growth of manufacturing in Australia was again affected and favoured by economic problems at the centre. At the same time the State governments in New South Wales and Victoria revived assisted immigration (1906 and 1907 respectively) whilst the chief statutes in the 'New Protection' arrangement were implemented between 1906 and 1909 thus providing the necessary climate for an expanded rate of manufacturing development after 1907. Intensified trade and investment rivalry with other industrial powers also began to prompt British capitalists to further strengthen their foothold in the economy. A representative of the Manufacturers' Association of Great Britain toured the Commonwealth in 1905 partly to assess the prospects for investment in Australian manufacturing. Amongst his conclusion was the contention that,

> It would be highly dangerous to our trade interests if we ignored the fact that factories will be established in increasing numbers during the next few years, and it is most essential to British trade that they should be established with British capital rather than with German or American. We do not want to see in Australia a repetition of our experience with Canada.[66]

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[64] Glyn and Sutcliffe, op.cit., p.19

[65] Ibid., pp.19-21.

[66] Morgan, op.cit., p.64.

Britain's embittered class conflict in the late 1900's had driven capital out of the country in unprecedented quantities and coincided in the Australian experience with opportunities for a broader scope of investment. These were facilitated by relatively stable economic conditions and state support in the form of assisted immigration and 'New Protection'. The pace and course of economic development evolved out of the historical conjuncture between the state of the British economy and the interaction of its needs, as expressed abroad, with conditions in Australia.

Despite considerable expansion and some diversification, the secondary industries remained essentially 'domestic' in character prior to the first world war. "On the whole", noted Hughes "industrial development up to 1913, with the exception of the foundation of the iron and steel industry, was more remarkable for the steady development of existing industries than for striking changes in, or additions to the industrial structure".[67] The primitive pattern of manufacturing was perhaps most clearly revealed by the absence of certain industries. These included the more technologically sophisticated sphere of textiles production; steel production; machinery and equipment with notable exceptions and modern chemicals. Similarly, the production of motor vehicles and most electrical products had not begun. In other words, the basic outline of a mature industrial economy had still not appeared.

This is a point of sharp contrast to the post war period when Australian manufactures were considerably diversified and import

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[67] Hughes, H., 'Federalism and Industrial Development', Australian Journal of Politics and History, Vol. 10, No. 1, 1964, p.328. For an account of the New Protection policy, which played a constitutive part in manufacturing growth at that time, see Macarthy, P.G., 'Labour and the Living Wage, 1890-1910', Australian Journal of Politics and History, Vol. 9, No. 1, 1967.

substitution became a serious problem for some British producers. Indeed the problems confronting British capital changed dramatically after the war. These are the subjects of the next chapter. They combined to compel British capitalism into support for and collaboration in the growth and diversification of manufacturing in the Australian economy. It will be argued that the very logic of Australia's changing dependent status gave rise to this support: the rising proportion of Australia's primary exports being eaten up by debt re-scheduling; the growing realisation by Australian capitalists that the sheep's back was too narrow to support higher population and per capita production levels, all encouraged a shift in economic policy towards manufacture and import substitution which British capital could not afford to oppose.

CHAPTER III

BRITISH IMPERIAL EXPANSION AND MANUFACTURING IN AUSTRALIA, 1914-1939

"Your frankness makes it obvious that yours is essentially a protectionist organisation. That is, of course, a matter entirely for yourselves... If you say that by that way your prosperity can be built up, then by all means carry out the system you desire... Your views on protection are quite consistent with the patriotism of the Empire. Your love of Empire is shown in many ways".

The Rt. Hon. Lord Emmott, British Under Secretary for the Colonies, at the Annual Dinner of the New South Wales Chamber of Manufacturers, 1913. Quoted in C.R. Hall, *The Manufacturers. Australian Manufacturing Achievements to 1960*, Angus and Robertson, Sydney, 1971, p.282.

In this chapter our theme is carried forward into the inter-war period. The principal objective is to examine the role of manufacturing in the expanded reproduction of the British interest in the Australian economy. It is argued that the continued decline of British imperialism around the world engendered a greater dependence on and integration with empire countries. Amongst these, a conjuncture of historical factors rendered Australia a centre of rapidly increasing importance for British capital abroad.

Contrary to orthodox treatment of this subject, and in keeping with our analysis of the preceding period, the expansion and reproduction of British interests in the Australian economy incorporated the three major areas of productive enterprise, agricultural, pastoral and manufacturing, into a system of exploitation in which all three were interdependent. The lop-sided view of British capital as exclusively 'pastoral' or 'industrial' oriented is quite incorrect and represents a fundamental misunderstanding of imperialism.

After the 'Great War' British capital's expanded activity in the Australian economy became contingent upon the extensive diversification and growth of manufacturing and upon urbanisation in general. The expansion and development of rural production was also in harness. This is in marked contrast to the preceding period, 1870-1914, when manufacturing development was more severely restricted by the economy's client status.

Industrial Growth, 1914-1939

For Australia's secondary industries, the period between the war is one of extensive development and diversification. Manufacturing was consolidated as the dynamic sector of the economy; it drew most heavily on the capital and labour available to private enterprise and it was responsible for the production of more wealth than any other sector. The growth and expansion of secondary industries made them the pulse of the economy; other sectors depended increasingly upon them as a source of realisation and continuity.

The first world war brought fundamental structural changes to the industrial base. It engendered the demand which launched the metals and engineering industries; it boosted the manufacture of clothing and associated textiles and it led to some diversification in chemicals, leather, saddlery and boot manufacturing. However, manufacturing as a whole did not expand as many industries, notably building and construction, suffered acute neglect during the four years of conflict. Indeed, employment in manufacturing was lower in 1917-18 than it had been in 1913.

After the war, Australia experienced a high rate of growth in manufacturing until 1926. The annual rate of change in the value of capital equipment in this period was never below 10.4 per cent on buildings and 10.3 per cent on plant and machinery.[1] Post-war demand arising from war time shortages and immigration, the emergence of new industries during the hostilities, the Massey-Greene tariff of 1921 and reasonably buoyant conditions (at least until 1923-4), all contributed to an unusually high demand for industrial equipment. These conditions were produced by moderately inflationary government expenditures, the relaxation of price and capital issue controls and high prices for wool and wheat. After 1924-5, the rate of growth slowed considerably as overseas competition intensified and the earlier stimuli, particularly export earnings, vascillated. In addition, over-investment in capital stock in the early 'twenties had, by the middle

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[1] Forster, C., Industrial Development in Australia, 1920-1930, Australian National University Press, Canberra, 1964, p.11.

years of the decade, exhausted many avenues of new growth.[2] The value of plant and machinery in the factories of the Commonwealth had grown by 82.3 per cent between 1919-20 and 1924-5. Thereafter, until 1927-8, it grew by only 10.9 per cent.[3] With a saturated market in motor vehicles and electrical goods, with similar conditions in building and construction, and with indifferent conditions in the rural industries generating little demand for machinery and implements, depression in the manufacturing sector was evident as early as 1927.[4]

The impact of world depression in 1929 deepened this crisis. Manufacturing employment dropped from 450,000 (1928-9) to 337,000 (1931-2) and thousands of factories were forced to close their doors. The value of plant and machinery in the manufacturing sector manifested the widespread destruction of values or rationalisation engendered by the slump. It fell from £121.23 million (1927-8) to £107.53 million (1933-4).[5] At the same time however, the slump enforced major policy changes at the political level, and relatedly, fundamental structural changes in the economy, which consolidated manufacturing as the leading sector.

The acute balance of payment problems which arose in the

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[2] Schedvin, C.B., Australia and the Great Depression: A Study of Economic Development and Policy in the 1920's and 1930's, Sydney University Press, 1970, p.52.

[3] Commonwealth Bureau of Census and Statistics, Commonwealth Year Book, No.14, 1921, pp.422-3; No.22, 1929, p.831.

[4] Hughes, Helen, 'Federalism and Industrial Development in Australia', Australian Journal of Politics and History, Vol.10, No.1, 1964, p.332.

[5] Commonwealth Year Book, No.14, 1921, pp.422-23; No.22, 1929, p.831. From 1925-27 there were 5827 bankruptcies in the Commonwealth, whereas from 1928-9 to 1930-31 (the following 3 year period), there were 9958 bankruptcies. (Commonwealth Year Book, No.21, 1928, p.490; No.25, 1932, p.398).

depression as a direct consequence of Australian economic dependence on British capital and commercial 'services' (e.g. shipping), engendered a series of severe corrective measures, notably high tariffs, a massive devaluation and exchange rationing, all heavily protective in effect. In addition the real competitive position of many manufactories were improved by wage cuts and reductions in the cost of raw materials. A 'cheap money' era began with the Premier's Plan in 1931 and this too underlined the expansion of manufacturing in the thirties. Indeed, the outstanding structural feature of the economic recovery was the growth of the manufacturing sector and its dynamic role in reviving ~~revivifying~~ other parts of the economy.[6] The level of investment or capital formation was lower in this decade but the annual rate of growth in capital equipment in the non-farm sector was considerably higher than that of the mid and late twenties.[7]

Several features of Australian manufacturing in this period distinguish it from those which preceded. The first was its growth relative to other sectors. Only in the 1920's and not before did manufacturing's share of the gross domestic product exceed that of all other sectors, and not until the 1930's did it rival (and sometimes exceed) the share of the pastoral and agricultural sectors.[8] Similarly, it was in the twenties that capital formation in manufacturing was, for the first time, greater than that in rural (pastoral/agricultural) production.[9] Australia's secondary industries absorbed more

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[6] Schedvin, <u>op.cit</u>., p.271

[7] It averaged 24.4 per cent, 1931-2 to 1937-8; Computed from R. Wilson, 'Public and Private Investment in Australia', A.N.Z.A.A.S. Papers, 1939, p.34.

[8] Butlin, N.G., <u>Australian Domestic Product, Investment and Foreign Borrowing, 1861-1938/39</u>, Cambridge University Press, 1962, p.13.

[9] See Chapter II, Table 1.

capital and labour and produced more wealth than any other sector after 1918. Their development is also distinctive for the rising concentration of industrial power in New South Wales and Victoria, incorporating the consolidation of heavy industry in New South Wales. The share of all other States in factory plant and machinery declined from 29.6 per cent (1919-20) to 23.9 per cent (1937-8).[10] Finally, the diversification of manufacturing marks off this period from that before the war. In metals, incorporating engineering of many kinds, automobiles and electrics, in drugs and chemicals, textiles and clothing, there was extensive progress. Thousands of small, derivative industries arose to supply the major enterprises in these areas of production; they too were responsible for considerable diversification, in areas such as leatherware, glass, rubber products, paint, woodwork, printing and advertising.[11] Holden's for instance bought locally produced supplies to the value of £27,000 in 1924 and £1,125,000 in 1928.[12]

The diversification and extension of secondary production altered fundamentally the structure of trade relations with the outside world, and later in the chapter it is argued that this diversification was underpinned or made possible by the infrastructural role of British capital in the Australian economy. This in turn had most important implications for British trade.

Secondary industry in Australia had remained narrowly based until

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[10] Commonwealth Year Book, No.14, 1921, p.426; No.32, 1939, p.730.

[11] The number of factories in Victoria and New South Wales increased from 14,610 to 17,646 between 1923-4 and 1935-6, about 80 per cent of which employed less than 20 hands (Commonwealth Bureau of Census and Statistics, Production Bulletin, No.18, 1913/14-1923/24, p.92; No.30, 1925/26-1935/36, p.66.

[12] Forster, op.cit., pp.39-40.

the Great War. The greater part of industry was located in those areas naturally sheltered from import competition (e.g. perishable goods), those associated with primary products, and local production with origins in the building and construction boom of the 'eighties.[13] The import competing industries as defined by Schedvin held only about 40 per cent of total market supply in 1910. Following the war and after the depression, manufacturers were able to hang on to what gains had been made, but only in some instances to expand on them at the expense of importers due to the revival of intense competition from abroad. The contribution of imports to market supply in the main import competing sectors dropped from 59 per cent to 46 per cent (1913-20), to 43 per cent by 1928-29 and to less than 30 per cent late in the depression.[14] That is to say, imports share of the Australian market, which expanded considerably in absolute terms, was halved in the space of two decades.

Having briefly considered industrial development it remains in this chapter to examine how it affected or was effected by the British interest in the Australian economy. It has been argued that British capital was the leading or dominant fraction of the propertied classes in Australia; that is to say, dominance was asserted indirectly through Australia's position in the imperialist chain and directly through

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13 For the viewpoint of British manufacturers on the state of development of secondary industries in Australia in 1907 see Morgan, B.H., The Trade and Industry of Australasia: Being a Report on the State of and Openings for Trade, and the Conditions of Local Industries, in Australia and New Zealand, Eyre and Spottiswoode, London, 1907, p.66, 150.

14 Schedvin, op.cit., pp.54-5, 302-09. The main import competing sectors were iron and steel, machinery and engineering, textiles, clothing, paper and chemicals.

specific forms of exploitation (such as direct investment), and this had dictated the general pattern of growth to 1914. The question therefore arises, does industrial development after 1914 - a qualitative change in the pattern of growth - constitute a continuation of the dominance of British capital?

It is proposed to answer this question in three stages. Firstly, to look at Britain's changing place in the international economy and then, secondly, at the implications of this change for Australia's place in the sphere of British imperialism and for the role of British capital in Australia. It will be argued that the expanded reproduction of British interests necessarily incorporated, and was dependent on, the development and diversification of Australia's secondary industries. Relatedly, the final section of the chapter deals with the effect of industrialisation on British trade with Australia. This reinforces the compatability outlined above and elaborated in the following pages.

Britain and the International Economy

After the war the balance of payments crisis in Britain worsened and, accordingly, the volume of trade and investment abroad was greatly reduced. As Britain's rivals grew relatively stronger, so did British trade and capital become less competitive in foreign markets, forcing a greater emphasis on the markets of the empire and on development there. The empire, as we saw in the previous chapter, was effectively a dumping ground and secondary field of investment for when the rate of profit and markets in European and other fields (e.g. America) turned sour. In the twenties and the thirties the empire succeeded foreign centres as the main area of British overseas investment, whilst Britain's empire trade, buttressed by imperial preference in the thirties, expanded relatively to its total trade.

The stagnation of exports, the related slump in the balance of payments, the simultaneous decline in overseas investment and the escalating dependence on production for the home market, all imposed their influence on the pattern of economic growth and industrial development within Australia.

In the preceding chapter it was shown that the long-term problems of British industry had germinated within the mature capitalism of the U.K.: the recurring crises of overproduction after 1873 had compelled the export of British capital in unprecedented quantity which had given rise to the rapid growth of foreign productive forces and, hence, to the secular deterioration of Britain's competitive position in world trade. This was exacerbated in the twentieth century by the competitive advantages, shared by Britain's industrial rivals, in the new forms of power and technology and their related industries. Coal and iron and steel, the backbone of Britain's commodity export trade, no longer held their unique position in world capitalist technology. Oil, electrical power and the light metals, for instance, were now just as important. The British economy, with an oversupply of labour and other resources in the declining areas of production - a factor worsened by the shortlived replacement boom after the war - was unable to adapt to the world demand emanating from these changes.[15] It was Britain's rivals that did best from the export trade in the new technology and related industries, the most outstanding example being the automobile. This was the era of the model 'T' Ford. A contemporary situates the relative progress of both the old and the new industries in Britain: "what is significant", noted Professor Allen in 1933, "is that this country shared in an exaggerated degree in

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[15] Sayers, R.S., A History of Economic Change in England, 1880-1939, Oxford University Press, 1969, p.51.

the depression which existed in some trade and failed to advance as much as the rest of the world in the industries which grew most rapidly".[16]

Between 1901 and 1929 British exports grew at a much slower rate than the average for the other major industrial nations, whilst in the 1930's they contracted more severely.[17] From 1913 to 1937 the quantum of British exports declined by 28 per cent and their share of world exports dropped from 14 per cent to 9 per cent.[18] The decline of the 'staple' exports was absolute; that of the newer industries, as we shall see later, was only relative.

The deterioration of exports brought about changes in the British economy that qualitatively mark off the period after 1918 from that before the war. Between 1850 and 1914 the British economy had paid for its imports with an equivalent export of merchandise, leaving 'free' or uncommitted a substantial surplus in its trade in invisible items. These included the mounting income from past investments, shipping, insurance and other commercial and financial services, all of which constituted credit abroad that was available for foreign investment. This in turn had stimulated trade with Britain at the same time as it nurtured the productive powers of other nations, which eventually rivalled and then superseded those of Britain. In short, British expansion had given rise to the necessary conditions

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16 Allen, G.C., British Industries and their Organisations, Longmans, London, 1951, p.24. (Reprint of 1945 edition).

17 Between 1901/5 and 1926/29 British exports (quantum) expanded by 22 per cent and those of its major rivals by an average 65 per cent. From 1926/29 to 1936/38 the degree of contraction was 22 per cent and 12 per cent respectively. (League of Nations, Industrialisation and Foreign Trade, Geneva, 1945, p.93, 95).

18 Glyn, A., and Sutcliffe, B., British Capitalism, Workers and the Profits Squeeze, Penguin, Harmondsworth, 1972, p.17.

for, and the eventuality of, British contraction. The balance of merchandise trade worsened; it was covered however, in the years leading up to 1914, by the extraordinary share of the world's shipping, insurance and other commercial services controlled by British capital. But this situation could not last, for just as other countries had developed a manufacturing base, so too did some eventually provide their own extensive and highly competitive international transport and financial infrastructure. As early as 1905, American rivalry in these fields was causing alarm amongst British manufacturers.[19] The available surplus for investment abroad was diminished by 60 per cent (in real terms) between 1907/13 and 1927/29.[20] The export of British capital contracted accordingly after the war. Indeed, the net value of British overseas investment was slightly lower in 1930 than it was in 1913.[21] The City of London was forced to restrict dramatically its foreign investments; overseas issues as a portion of total issues declined from 75.6 per cent (1910-13), to 53.6 per cent (1921), 39.9 per cent (1925) and 37.2 per cent (1929).[22]

It is this sharp turnabout, this 'retreat' of British capital, which qualitatively demarcates the imperialism of Britain before and after the 1914-18 military confrontation. And it altered fundamentally the significance to the Mother Country of the imperial nexus with the Australian economy.

The long-term trends that undermined the British export trade

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[19] Morgan, op.cit., Ch.II.

[20] Kahn, A.E., Great Britain in the World Economy, Pitman and Sons, London, 1946.

[21] Glyn and Sutcliffe, op.cit., p.21.

[22] Royal Institute of International Affairs, The Problem of International Investment, Oxford University Press, London, 1937, p.134.

were deepened and accentuated by other factors during the war and its aftermath. The disruption of trade caused by the hostilities hastened import replacement in many countries whilst the demands of war on the British economy further undermined its deteriorating balance of payments forcing the sharp reduction in overseas investments after 1918. On the other hand, the war had a "hot-house" effect on the American economy and intensified its post-war challenge to British trade.[23] America emerged in 1919 as the leading creditor nation and the U.K., for the first time in modern history, was heavily in debt to another nation and unable to compete with the lending rates of New York in the non-empire parts of the world. At the same times, the decimated and increasingly protectionist markets of Europe offered less opportunities for British exports whilst those of the far east were now more receptive to other industrial powers. Similarly the primary producing countries were entering a period of over-production, low prices and economic contraction. As a result British exporters, who were heavily dependent on these regions suffered more than their rivals. In 1929 for instance, only 35 per cent of British exports went to other European countries; this compared with 74 per cent for Germany.[24]

The economic policies of British governments further increased the difficulties of exporters in the 1920's, since these were formulated

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[23] Public access to files of the U.S. National Archives has recently revealed a set of contingency plans for war with Britain. These were drawn up by the U.S. military in 1929, in response to Britain's aggravation with American economic expansion in the empire. (_Canberra Times_, 11 December 1975, p.1).

[24] Allen, _op.cit._, p.30.

in a futile attempt to restore Britain's international financial leadership, a strategy at odds with both reality and the exporters: stringent public economies were implemented during the decade when industry would have benefitted considerably from a higher level of government spending; the maintenance of excessive interest rates to attract foreign funds and maintain reserves restricted capital formation and consumption; and the restoration of the gold standard in 1925 with the pound revalued by 10 per cent, only worsened the competitive position of manufacturers who were in dire need of a substantial exchange devaluation. The gold standard lasted until 1931 and, in the interrum, intensified the export crisis and heightened industrial conflict by forcing employers to depend solely on wage restraint to improve their competitive position in overseas markets.

Only within the empire did the U.K. retain an artifical advantage in investment and trade abroad after 1928. There the Colonial Stock Acts and Imperial Preference, both implemented at the turn of the century and symptomatic of British imperialism's decline, gave British capitalists an edge. These measures did not repel the penetration of the empire by the U.S. and other capitalist powers, but they did facilitate the concentration of British trade and investment increasingly in colonial and Dominion possessions. Investments in the empire as a portion of total overseas investments grew from 43.32 per cent (1910-13) to 58.62 per cent (1926-30) and then to 86.35 per cent in the 'thirties (1934-38).[25] Similarly, the outstanding feature of the changing distribution of British trade over the same period is the growing importance of the empire markets. The Empire's

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[25] Kahn, op.cit., p.139.

share of British exports, 1913-29-37, rose from 23.8 per cent to 29.7 per cent to 38.3 per cent, respectively. The relatively heavier 'load' born by colonial and Dominion markets was due to trade losses in the far east and in Latin America; the loss of trade in Europe was less significant.[26] It was increased purchasing power in the younger empire countries such as South Africa and New Zealand, and to a lesser extent, Australia and Canada, that partially compensated for these losses, and largely explains the shift of British exports.

As with exports, the outstanding feature of British imports in the period 1913-39 was a greater dependence on the empire.[27] Australia, Canada and New Zealand became particularly important in this respect, despite the serious, contemporary challenge from Scandinavian dairy products and Argentine beef.[28] The greatest net gains in the British market between 1929 and 1933 were made by the food producing Dominions and thereafter, in conjunction with the economic reovery in Britain, by the major raw material producers of the empire (Canada, India and the Colonies).

These changes were of considerable benefit to the British economy. The terms of trade turned against the primary producing countries from 1927, thus making heavy British investment in their development a highly fortuitous venture, since the economic recovery in Britain was floated on this advantage. Between 1927 and 1933 the United Kingdom's food supplies got cheaper and cheaper and this saving in the cost of reproducing labour-power was rechannelled into the housing boom of the 'thirties and further development in the new industries, particularly automobiles and domestic household utensils and appliances.

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[26] Kahn, *ibid.*, p.210.

[27] *Ibid.*, p.215.

[28] *Ibid.*

The depression of 1929 interrupted this process by further curtailing the demand for British exports, but by 1932 when world demand ceased to fall and there were no further wage cuts or tax increases, "British industry could again feel the benefit from rising margins over subsistence needs", as food prices continued to fall.[29] Arndt estimates that between 1931 and 1935 a representative unit of British commodity exports purchased a volume of imports 20 per cent greater than before the slump, and it was this new advantage that was primarily responsible for the substantial increase in the real income of employed consumers in the thirties. "The windfall of an almost unprecedented improvement in the terms of trade would not by itself have stopped the slump or produced a recovery. But coupled with devaluation, protection and cheap money...it may be said to have provided that initial stimulus to recovery".[30]

The recovery of the 'thirties was predominantly a home market one. This was in sharp contrast to past experience. The volume of industrial production rose by 50 per cent between 1932 and 1937 whilst that committed to exports declined simultaneously from 22 per cent to 15 per cent. The newer industries that were geared to home consumption tended to expand at a rate well above the average; the recovery was marked by striking changes in the structure of the economy and the distribution of resources. These were aided by the tariff, a 'cheap money' era instituted from 1931 which also stimulated the housing boom and, most importantly, by the domestic application of credit recalled from abroad. As Sayers has pointed out, not until the 'thirties did Britain begin to actually live on, rather than

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29 Sayers, op.cit., p.57.

30 Arndt, H., The Economic Lessons of the Nineteen-Thirties, Cass, London, 1963, p.131.

re-export, its overseas earnings.[31] Unlike the American experience, opportunities for investment were widespread. They had not been exhausted in the speculatory euphoria of a "roaring 'twenties" boom.[32]

British Investment and the Australian Economy

Prior to world war two there were no official figures of capital movements into the Australian economy. Private capital inflow could be determined very roughly as the difference between the balance of payments on current account and the changes in the international reserves for a given period.[33] However, this figure is not very informative, nor easily broken down into its constituents. To add to these difficulties there is no way of distinguishing the ratio of short term to long term funds in the inflow. The available statistics tell us very little, in other words, about the nature of incoming overseas investment.

Subsequent research has filled in these statistical gaps for the pre-world war one period, notably A.R. Hall's monograph.[34] But no comparable work exists for the inter-war years. Since it is not the task of this thesis to provide such an analysis - a thesis in itself - the resources used in this chapter will differ in some respects, from those used in the preceding one. The outline of British capital's activity in the private sector will be necessarily more descriptive and impressionistic at times.

In examining British investment in Australia, its bearing on

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31 Sayers, op.cit., Chapter 9.

32 Arndt, op.cit., pp.26-7.

33 Wilson, R., The Australian Balance of Payments, 1928-29 to 1948-49. Commonwealth Bureau of Census and Statistics, Canberra, 1950.

34 Hall, A.R., The London Capital Market and Australia 1870-1914, Australian National University, Canberra, 1963.

industrial development and on the growth of the economy as a whole, the orthodox economic historiography covering the period has not been helpful. The 'men, money and markets' thesis which has dominated this 'corner' of imperial history suggests that British capital was narrowly committed to rural development in Australia in order that the economy could absorb British migrants and thus alleviate unemployment at 'home'. The corresponding industrial development in the decade is presented as an excrescence, a superflous growth, unrelated to the 'pastoral bias' of British imperialism. The Australian economy becomes a jig-saw of more or less unintegrated pieces; some fit into the imperial schema, others do not. Nor has marxist historiography escaped this shortcoming. One account, for instance, argues that the 'twenties saw merely an extension of the nineteenth century 'colonial' division of labour between the U.K. and Australia; it sticks closely to the 'men, money and markets' thesis.[35]

A widespread, complementary approach, more concerned with the internal influences on economic development, has emphasised the over-zealous commitment of Commonwealth and State governments to the expansion of rural production and the resulting waste of resources through reckless borrowing in London and reckless expenditure thereafter. Sinclair has argued that public and private capital formation were pulling in separate directions: that governments were attempting to

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[35] Clark, D., 'Australia: Victim or Partner of British Imperialism', in Wheelwright, E.L. and Buckley, K., (eds) Essays in the Political Economy of Australian Capitalism, Vol. 1, Australia and New Zealand Book Company, Sydney, 1975. Clark specifically argues that the 'men-money-markets' scheme "constituted an attempt to maintain the international division of labour on which British late nineteenth century growth had so conveniently rested", p.65. Similarly Richard Cotter, in a more conventional account, has argued that "an industrial dominion was outside the scope of the imperial purpose". (See 'War, Boom and Depression' in Griffin, J., (ed.), Essays in Economic History of Australia, 1788-1839, Jacaranda Press, Brisbane, 1967, p.251.

effect a rural-biassed orientation to private capital formation at a time when urban capital had become the dynamic sphere of economic activity. This approach has obscured the purposeful, meaningful character of rural public expenditure, much of which was issued in London, since it focusses on the 'ill-conceived' or wasteful excesses of the rural programmes. It also throws up an artifical contradiction between 'town and country' by suggesting that government expenditure in the rural sector was to the detriment of urban/industrial development.[36]

An alternative approach, the one favoured here, takes as the starting point, the derivative and dependent status of the Australian economy: it suggests that all sectors of the economy evolved as a part of, or in close association with, British imperial expansion in Australia. The industrial sector, no less than the primary exporting sectors of productive enterprise, was integrated into this expansion. For the pre 1914 period this thesis was established in Chapter II. It also applies to that between the wars.

The methodological weakness of other accounts is expressed in the tendency to compartmentalize the sectors, attempting to understand them in isolation and, consequently, in the failure to conceptualise the economy as a unified, integrated totality which derived its coherence from its relation to the centre. Fitzpatrick for instance writes about industrial development in the twentieth century as though it were unrelated to British imperialism; that is, unrelated to a system of exploitation which fed off all productive sectors of the economy. The connections between the changing world order and

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[36] Sinclair, W.A., 'Capital Formation', in Forster, C., (ed.), Australian Economic Development in the Twentieth Century, Australasian Publishing Company, Sydney; 1970.

development in the Australian economy are not explored.[37]

It was argued in section two that the outstanding characteristic of post-war British imperialism was its retreat from the foreign capital markets of the world to the confines of empire and the contraction of its overseas investments due to the balance of payment crisis. Forty seven per cent of British overseas investments were located within the empire in 1913 whereas in 1930 this had increased to 59 per cent. Similarly, from a total of £1,423m of overseas issues floated in Great Britain, 1920-34, 64 per cent was on behalf of empire investors.[38] Thus British capitalists after the war became increasingly dependent on the empire as a field of overseas investment.

In this setting Australasia ascended to the dubious status of Britain's number one debtor. The empire was absorbing a greater proportion of London's overseas issue but the spread of indebtedness was increasingly uneven and concentrated on the south seas. Between 1911-13 and 1925-28 the proportion of British overseas investments in government securities accruing to Australia grew from 19 per cent to 43 per cent of the total. That is, almost half of London's public overseas lending was consumed by Australian governments. This rise was effected at the expense of all other parts of the world, including Europe and America. The only exception was New Zealand whose share grew from 3 per cent to 12 per cent.[39] An eminent British study

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[37] Fitzpatrick, B., The British Empire in Australia, 1834-1939, Macmillan, Australia, 1969, pp.286-298.

[38] Royal Institute of International Affairs, op.cit., pp.144-45.

[39] Schedvin, op.cit., p.100.

group concluded in 1937 that,

> Investments in Australia and New Zealand which in 1914 were less than those in Canada and Newfoundland, have since the war increased by £200 million, making Australasia the chief debtor of Great Britain. One third of the outstanding capital now invested in Australia and New Zealand has been exported since 1914.[40]

Overseas investment in the 1920's stands in sharp contrast to that in the following decade, both in terms of volume and composition. Three times more capital flowed into Australia in the first of these decades. Most of it took the form of gilt-edged securities whilst, in the 'thirties overseas investment was very largely in the private sector. Capital inflow averaged about £36 million per year between 1920 and 1928 of which two-thirds went to government and a third to private enterprise. In the depression decade (1931-2 to 1938-9) it averaged only about £8 million annually. There was an annual net outflow on government account of about £1 million and the entire positive account of £9 million annually was private investment.[41] Thus the striking contrasts are firstly the reduction in volume and secondly the reversal of the public/private ratios. Whereas government borrowing abroad was more important in the first period, it was negligible in the second. Private investment, on the other hand, was largely sustained.

In the 'twenties the bulk of these funds were borrowed for the purpose of State government public works in the urban and the rural sectors and whilst expenditure in both spheres was heavy it seems that the provision of an urban infrastructure was quantiatively of "far

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[40] Royal Institute of International Affairs, op.cit., pp.144-5.

[41] Gilbert, R.S., The Australian Loan Council in Federal Fiscal Adjustments 1890-1965, Australian National University Press, Canberra, 1973, pp.105, 193.

greater importance".[42] The demand for urban facilities preoccupied State governments after federation and was primarily responsible for the relative increase in public capital formation from 48 per cent of the total (1861-1891) to 62 per cent between 1900-1901 and 1938-1939. "Government action, in the twentieth century, effectively from about 1910 and most particularly during the twenties, was stimulated by the demand to cope with a long time lag in the provision of urban facilities".[43]

The new urban activities were of course closely linked to the rapidly changing private capital structure, principally the growth of manufacturing industries. This engendered structural changes within public expenditure itself. Municipal activities acquired an unprecedented importance corresponding to the growth of the cities and the early, sprawling thrusts of urbanisation. This process reached a peak in the twenties when municipal borrowing in London was approximately twelve times larger (1920-1928) than it was between 1905 and 1914.[44] The expansion of gas production, the distribution of electritiy and the provision of other modern urban facilities (sewerage, water supply and improved roads) added considerably to municipal and State government commitments.

The approach to urban development manifestly corresponded to the prevailing economic conditions. Whereas the social welfare aspects of town planning thought tended to dominate in times of economic hardship and depression, the artificial buoyancy of the 1920's had generated

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[42] Schedvin, op.cit., p.68.

[43] Butlin, N.G., 'Some Structural Features of Australia Capital Formation, 1861 to 1938/39', The Economic Record, Vol.35, No.72, December 1959, p.395.

[44] Computed from Cooke, S.R. and Davenport, E.H., Imperial Finance, Pelican Press, London, 1929 (Pamphlet), p.16.

a reckless commitment to 'expansion' at all costs. In New South Wales and Victoria the chief emphasis in urban planning and development was on financial benefit and its application along 'sound business principles'. Slum reclamation was foremost in the 'thirties; in the 'twenties it was traffic congestion, 'high-rise' and communications. 'Growth' was the god and restraint was contrary to its will.[45]

The coming of the motor car was particularly demanding. Late in the nineteenth century expenditure on communications, principally the railways, accounted for some 60 per cent of government works. Expenditure on roads was much smaller, declining from 20 per cent to 10 per cent in the 'eighties. In the twentieth century the trend was reversed: the roadway expenditure of State governments grew from 7 per cent to 8 per cent early in the 'twenties (at the outset of the auto boom) and to 23 per cent in 1931-1932. Correspondingly, railway expenditure declined in relative terms, though the absolute outlay continued to grow, also in response to urban requirements. Loan expenditure by the States on roads and bridges grew from £793,115 in 1919-1920 to £1,931,100 (1923-1924) and £4,423,020 (1928); between 1920 and 1928 it totalled £24,404,149 compared with £2,844,248 in the previous decade (1910/11-1917/18).[46]

However, it was the electrification of urban Australia that constituted the major new public activity in the twentieth century. Rural electrification lagged behind this by two decades in some

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45 For an excellent account of the early evolution of town planning theory and practise, see Sandercock, L., Property, Politics and Power: A History of City Planning in Adelaide, Melbourne and Sydney since 1900, Unpublished Ph.D. thesis, Australian National University, Canberra, 1974.

46 Commonwealth Year Book, No.18, 1925, p.105; No.23, 1930, p.48. See also Butlin, op.cit., p.402.

respects.[47] The growth process of public electricity undertakings took shape soon after federation. It entailed first the consolidation of inner city areas at the expense of the gas companies; then the more gradual extension to the suburbs and the absorption of private electricity firms.[48] Large-scale industrialists were quick to recognise the importance of electricity and actively bustled government into the field.[49] In the 'twenties generating plants were installed in the major towns of the eastern states and in the main cities extensive additions to existing plants were effected, to cope with the electrification of the railway systems, the installation of telephones, and the growth of industrial and domestic usage. City Councils' actively encouraged businesses to use electricity by hiring out electric motors to dampen changeover costs.[50] They were also active, with the appropriate electricity commissions, in popularising the use of little-known domestic electrical appliances.[51] The provision of the economic

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[47]The Rural Reconstruction Commission considered in 1944 that 'to give every farm which is not too remote the opportunity to use electricity", was a national objective that was still unachieved. (A General Survey, Canberra, 1944, p.46). See also Holt, R.J., Wheat Farms of Victoria A Sociological Survey, School of Agriculture, University of Melbourne, 1946, p.122.

[48]One exception in Adelaide, a private firm, the Adelaide Electricity Supply Company, dominated the power scene until 1946. See Wakelin, D., The Adelaide Electricity Supply Company Limited. Fifty Years of Progress 1896-1946, Adelaide Electricity Supply Company Limited, Adelaide, 1946.

[49]The Collins House mining-manufacturing syndicate, with 'family' influence inside the Victorian government was instrumental in the formation of the State Electricity Commission in 1918, to operate at Yallourn. See Blainey, G., (ed.), If I Remember Rightly. The Memoirs of W.S. Robinson, 1876-1963, Cheshire, Melbourne, 1970, pp.107-09.

[50]Anderson, G., Fifty Years of Electricity Supply. The Story of Sydney's Electricity Undertaking, Sydney City Council, 1955, p.34.

[51]See the Industrial Australian and Mining Standard, 20 September 1928, p.270; the Argus, 17 September 1927, p.39; Anderson, Ibid., pp.108-9. The Commonwealth Census of 1911, 1921 and 1933 carry no information on the use of domestic electrical appliances.

infrastructure was paralleled by a widespread and costly educational programme.

The value of plant and machinery in the Commonwealth employed in the production of electricity grew from £7,085,022 (1919-1920) to £22,345,161 (1928-1929) and the total value of output almost trebled, in factories and in general use. At the same time, telephone mileage increased by 156 per cent from 473,031 miles in 1920 to 1,212,439 miles in 1929; that is, enough mileage was added in the 'twenties, in predominantly urban areas, since the figures cited exclude trunk lines, to cross the east-west span of Australia about 246 times.[52]

State governments borrowed heavily for the purposes of electrification in the 1920's and the City of London increasingly lent abroad for this purpose.[53] The economic infrastructure was the necessary pre-condition for the local production and importation of the new consumer goods and technology connected with this form of power. It will be argued later that this trade was the major factor restraining, the decline of British goods in the Australian import market. Not surprisingly, then, the British government was eager to hasten the electrification process in Australia.[54] Indeed the provision generally of an urban infrastructure was the raison d'être of the expanded export of capital to Australia and it was the necessary pre-condition

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52 Commonwealth Year Book, No.14, 1921, p.633; No.23, 1930, p.235. The number of telephone instruments in use in the Commonwealth rose from 191,406 (1918) to 317,520 (1924) and 476,700 (1928). (Commonwealth Parliamentary Papers, 1929, Vol.2, p.2050).

53 Royal Institute of International Affairs, op.cit., p.153.

54 For instance, the Imperial Government contributed £500,000 towards the construction of the Tasmanian Hydro Electricity Works. (The Times Imperial and Foreign Trade and Engineering Supplement, 31 January 1920, p.509).

for much of the inter-war trade with Britain and other countries. Appropriately, British legislation and engineering skill was turned to the task of facilitating electrical power development in Australia, using British technology.[55]

In funding public works for urbanisation, British capital also stimulated secondary industry and created opportunities for some private investment. The British dominated metals sector, for instance, was heavily reliant on government contracts. Its progress was "closely dependent on the magnitude of expenditure on public works and expenses".[56] Both B.H.P. and Metal Manufacturers, the largest metal corporations in the country, depended on government contracts for the bulk of their work. Forster estimates that government contracts generated about one quarter of the finance for industrial growth between 1920 and 1930.[57] Thus British capital was able to fund public works for urban

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[55] The British Government made special provisions for the encouragement of overseas power resources. Under the Trade Facilities Act, the Treasury guaranteed the principal and interest of capital issues for the purpose of power development abroad, if the plant used was manufactured in the U.K.; and through the Overseas Credit and Insurance Act, the Government guaranteed Bills drawn against the shipment of British manufacturers where comparatively long credit was needed. (Elaborated in "Proceeds of the First World Power Conference", Engineering (London), Vol. 118, 11 July 1924, p.37).

In Australia, the Director General of Posts and Telegraphs from 1923 until 1935, was a leading British engineer in the fields of telegraph, telephone and electrification. H.P. Brown worked for private enterprise in Great Britain prior to 1914 and during the war was responsible for the Post Office telephone plant of the country. He played a major part in ensuring that the electrification of Australia was effected with the maximum usage of British capital goods. (Rydge's Business Journal, 1 August 1936, p.599).

[56] Windett, N., Australia as Producer and Trader, 1920-1932, Oxford University Press, 1933, p.184.

[57] Forster, op.cit., pp.17, 21.

development and to dominate the major private industries connected to it.

Whilst the provision of urban facilities constituted the leading market for British capital in the twenties, it did not greatly exceed the scope of borrowing for rural programmes. Indeed the development of rural resources was necessary if industrial development was to continue. Moreover, the conservative legislatures of the Commonwealth and States tended to believe that Australia had a secure future as the 'food-bin' of the world.[58] Prime Minister Bruce asserted in 1926 that Australia's natural resources, "if brought to full development would probably solve most of the economic problems that face the world today".[59] On another occasion, in London, he expressed a view - nothing short of the grandest delusion - that Australian exports were more and more in demand, and that alternative sources were "drying up" due to population explosion and shortages all over the world.[60] This was on the eve of the greatest economic crisis ever experienced by the capitalist world; and one underpinned by the world-wide overproduction of primary products.

It was in such grand delusions that the 'men, money and markets' scheme for rural development took root. The origin of the scheme, however, was a material one. Heavy British investment in the Australian economy required a corresponding expansion of rural production

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58 Sandercock has argued that rural conservatism held sway in the State politics of the 1920's and 1930's, and to this extent was able to constrain the development of systematic planned urbanisation. The rise of the Country Party she contends, was a most important factor here. (op.cit., Ch.4).

59 Commonwealth Parliamentary Debates, 1926, Vol.113, p.2462.

60 Bruce, S.M., The Financial Position of Australia, Wickes and Andrews, London, November 1926, p.9.

for export, in order to pay off mounting interest and dividend charges on the capital inflow. And in Britain this scheme was adapted to domestic economic difficulties.

To combat the twin problems of unemployment and the loss of export markets facing Britain, an imperial policy had emerged in the twenties aimed at an efficient re-allocation of capital and labour abroad. The solution, it was thought, resided in a calculated migration of British people to the Dominions. There, the expanded population, gainfully employed in agricultural production, would constitute an increasing demand for British manufactured goods. This 'imperial vision' was contingent on an export of capital to effect the pioneering of the new agricultural horizons, whilst a preferential tariff in the Dominions and the Mother Country would repel foreign advances into the empire. Advocates of the scheme, full of false hopes, believed it would regenerate empire solidarity and self-sufficiency and, like a great flywheel, steady the tottering industrial process at 'home' by giving it a new momentum.[61]

The state governments borrowed heavily in London for rural programmes through the 'twenties. Indeed the intensity of their competition for London funds was a major factor which brought the Commonwealth Loan Council into being in 1927. The rural expenditure went into three major spheres of activity. It was used, firstly, to

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[61] For a comprehensive account of the emergence and attempted implementation of the 'imperial vision', see Drummond, I.M., British Economic Policy and the Empire, 1919-39, Allen and Unwin, London, 1972, Ch.2.

finance land settlement for migrants and returned soldiers.[62] Between 1919 and 1929 the States collectively spent £44.4 million on the purchase of land for rural settlement. In the same time the amount outstanding on their advances to settlers grew from £10.4 million to £40.7 million, of which more than half was located in New South Wales and Victoria.[63] Secondly, government expenditure was poured into the country's most expensive and, in some cases reckless, water storage and irrigation programmes. An additional 300,000 acres of land was irrigated in the twenties (two-thirds in Victoria) and water storage capacity in New South Wales and Victoria was increased by over 2 million acre feet compared with an increase of 147,470 acre feet between 1887 and 1916.[64] Finally, the state governments provided the necessary communications and distribution facilities for the expansion of wheat, dairying and fruit growing enterprise, the growth

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62 Between 1921 and 1930 a total of 306,083 European migrants arrived in Australia of which 253,179 or 82.7 per cent were British. Half of these were assisted, for the purposes of closer settlement. (Marie de Lepervanche, 'Australian Immigrants, 1788-1940: Desired or Unwanted', in Wheelwright and Buckley (eds.) op.cit., p.93.

63 Shaw, A.G.L., The Economic Development of Australia, Longmans, Croydon, 1965, p.146.

64 Davidson, B.R., Australia Wet or Dry? The Physical and Economic Limits to the Expansion of Irrigation, Melbourne University Press, 1969, p.75.

industries in the primary export sector.[65] This involved the extension of railway networks into new agricultural areas, the provision of upgraded railside loading facilities and some degree of electrification principally for the extension of the telegraph and public lighting.[66] With the growth of automotive transport, expenditure on the construction and improvement of roadways in the countryside also acquired a new importance. Most of the large pastoral finance companies for instance acquired fleets of trucks in the 'twenties and the local movement of farm provisions and livestock by this means become commonplace in the space of a decade.

The growth of rural production, and of agricultural exports in the newly opened areas, was made possible by these government programmes. The relatively greater significance of the 'growth' exports was also related to external influences in international trade, for example the challenge of synthetics to the wool industry and the greater consumption of dairy products in countries where the standard of living had improved after the first word war, (e.g. France). Between

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65 Agricultural exports increased in value from £13,161,287 (1917-18) to £29,771,412 (1927-8). The contribution of the main terms were as follows:

Major Agricultural Exports	1917-18 £	1927-28 £
Fresh Fruit	45,909	1,818,624
Dried Fruit	520,095	2,086,312
Wheat	5,990,298	14,629,899
Flour	4,419,185	5,229,463
Wine	93,286	1,058,462
Sugar-Cane	-	3,968,631

Source: 'The Budget, 1929-30' Commonwealth Parliamentary Papers, 1929, Vol.2, p.442. Dairy products were not included in this category.

66 Holt, A.J., op.cit.,p.122.

1906-10 and 1916-21 agricultural exports (principally wheat) increased in value by 240 per cent, dairy exports by 154 per cent and pastoral exports by a mere 56 per cent. The volume of agricultural exports also rose by 78 per cent whilst that of pastoral commodities declined by 9 per cent. In the later, second period of expansion to 1928-29, the same trends were evident though less marked.[67] In other words, the rural areas of production into which British capital was channelled between 1900 and 1930, particularly in the 'twenties, were the same areas in which the overwhelming growth in primary exports was located. The importance of this growth to British imperialism, that is, to the dominant form of 'foreign' exploitation in Australia, must now be examined.

The oft-quoted 'significant' change in Australia's export trade was the reduced dependence of its pastoral and agricultural commodities on the British market. Seventy four per cent of exports were consumed by the U.K. between 1887 and 1891 (average); 45.14 per cent (1909-1913); 51.0 per cent (1920-1921); 42.67 per cent (1924-1925), and 38.09 per cent (1928-29). Whilst the degree of dependence fluctuated quite sharply between 1887 and 1920 the overall trend was downwards and the rapid disengagement from Britain in the 'twenties was largely irretrievable.[68]

The growth of Australian exports to non-empire countries almost totally offset the declining significance of the British market; dependence on trade with other British possessions was in fact reduced, the most important new markets being found in Western Europe, where

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[67] Between 1913 and 1928-29 the value of agricultural exports increased by 156 per cent, of dairying exports by 60 per cent and of pastoral exports by 8 per cent. (Commonwealth Year Book, No.15, 1922, p.490; No.23, 1930, p.143.

[68] Fitzpatrick, op.cit., p.312; Commonwealth Year Book, No.15, 1922, p.477; No.23, 1930, p.120.

direct shipping links boosted twentieth century trade, in Japan and in the United States.[69]

Did this disengagement represent simply the weakening of ties with the British economy or does it have another significance? Economic historians, notably Fitzpatrick and Cain, have indicated the correctness of the first proposition and overlooked the second.[70] Their neglect arises from the tendency to compartmentalize and isolate different aspects of economic relations rather than looking for their significance in the inter-relations of these aspects. Their methodology has not presumed a highly integrated system of exploitation; even Fitzpatrick examines the Australian economy as though it were a combination of disjointed sets of economic relations and spheres of activity. Consequently, the empiricism of compartmental observations is substituted for the complexities of Australia's client economic status. How then should disengagement be viewed?

With the notable exception of the United States, Australia's growing trade with foreign countries provided the means for payment

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Australian Exports. Their Distribution (%)

Destination	1899-1903	1904-8	1909-13	1920-21	1924-25	1928-29
U.K.	49.56	46.88	45.14	51.0	42.67	38.09
Europe	15.09	23.29	28.96	13.07	27.46	26.98
Other Foreign	7.43	5.22	4.32	9.91	12.84	11.98
British Posessions	23.68	19.92	15.84	19.61	10.38	14.42

Source: Commonwealth Year Book, No.15, 1922, p.477; No.23, 1930, p.120. These figures do not represent the entire Australian export as the category 'Other Foreign' only accounts for the major buyers.

70 Cain, N., 'Trade and Economic Structure at the Periphery: The Australian Balance of Payments; 1890-1965' in Forster, C., (ed.) Australian Economic Development in the Twentieth Century, Australian Publishing Company, Sydney, 1970, pp.81-2; Fitzpatrick, op.cit., pp.310-316.

of equity and interest commitments in London. Since these grew considerably in the first three decades, culminating in the borrowing 'orgy' of the twenties, the overseas earnings of the export sector became a vital factor in maintaining the solvency of the economy. Australia experienced a growing trade with, and a net export to foreign countries over this period. The growth of exports to Western Europe was the principal factor in the new balance. Belgium, France, Germany and Italy all had a consistently unfavourable trade exchange with Australia between 1921-1922 and 1927-1928.[71] Exports to these countries and 'industrial Continental Europe' as a whole were three times greater than Australia's imports from them in the twenties.[72] This surplus was the major source of earnings for servicing the public and private debt in London. The League of Nations study, Industrialisation and Foreign Trade, has suggested that this was a pattern of exchange shared by a number of primary producing countries. It argued,

> The primary producing countries financed their expanding purchases from the United Kingdom in part by sales to younger industrial countries in which the demand for raw materials (had) increased rapidly. But the trade movements we have examined were also greatly influenced by financial transactions. The proceeds from the growing net export from primary producing areas to industrial countries other than the United Kingdom were used chiefly to meet interest and dividend payments on European (particularly British) capital investments.[73]

Thus the rapid expansion of rural production and the rapid growth of Australia's trade with foreign countries was not a manifestation of

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71 League of Nations, Memorandum on International Trade and Balance of Payments, Vol.1, 1912-26, p.68; 1926-28, p.30.

72 Computed from League of Nations, The Network of World Trade. A Companion Volume to "Europe's Trade", Geneva, 1942, p.169.

73 League of Nations, Industrialisation and Foreign Trade, Geneva, 1945, p.108.

disengagement from Britain, though ultimately, when the relations described above broke down in the 'thirties, it became so.[74] Until the depression, this trade was a necessary pre-condition for the continuation of close association with and dependence on Britain. The profitable export of capital to Australia, and to a lesser extent of British goods, was financed by the sweat of the wool growers, the new wheat and dairy farmers, the fruit growers and the meat breeders of the early twentieth century.

In a number of ways the growth of rural production and the export trade under these circumstances complemented economic development in other sectors. Firstly, the multiplier effects of high export values in the 'twenties underwrote the spread of the manufacturing sector giving the period a somewhat artificial buoyancy.[75] Secondly, the growth of rural productivity over the period 1900-1930, due to mechanisation and other factors, created the need for jobs elsewhere and manufacturing provided these whilst immigration defused the possibility of a serious shortage of labour by creating a 'reserve army' in both sectors.[76] In fact the complementary growth of rural output and manufacturing was crucial to the ongoing reproduction of British interests in Australia. The heavy export of capital and people from the United

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[74] _Ibid_.

[75] The principal mechanisms in the multiplier effect were the expansion of rural income before 1925 and its growing orientation to domestic manufacturers; also the tariff and land tax.

[76] Hughes, 'Federalism and Industrial Development in Australia', _Australian Journal of Politics and History_, Vol.10,No.1, 1964, p.330. Trade union unemployment in 1921 was 11.4 per cent and unemployment in the primary producing sector was 8.47 per cent. Trade union unemployment between 1901 and 1939 was never below 5.2 per cent. ('Report on Unemployment and Business Stability in Australia', _Commonwealth Parliamentary Papers_, 1926-28, Vol.5, p.694; see also McFarlane, B., 'Australia's Role in World Capitalism' in Playford, J., and Kirsner, D., (eds.) _Australian Capitalism: Towards a Socialist Critique_, Penguin, Ringwood 1972, p.36).

Kingdom in connection with the 'grand delusion' of Prime Minister Bruce and the 'Imperial Vision' of the House of Commons, placed new demands on the economy that hastened the major structural changes developing within it. The growth of manufacturing was increasingly necessary to support higher population and per capita production levels at a time when the farmer's plough and the sheep's back were more and more committed to servicing the growing overseas debt. It is understandable, consequently, that British funds were available, in exceptionally large quantities by contemporary world borrowing standards, for the provision of the necessary economic infrastructure in both spheres of production.

Since so much British investment in the public sector was predicated on industrial expansion, it is not surprising that British capitalists were ready to take part, directly, in financing the establishment of secondary industries. At least 67 British companies set up plants in Australia between 1920 and 1929, whilst large Australian firms had little trouble selling portfolio stocks on the London money market.[77] In major areas of manufacturing growth - electrical goods, the rubber industry, steel production, non-ferrous metals, chemicals and textiles - the largest firms were British owned by the end of the 'twenties.[78] Forster estimates that overseas investment in private manufacturing enterprise totalled about £25.3 million in this period, most of which was British.[79] This represented a minor but important contribution. It constituted about 11.4 per cent

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[77] Forster, Industrial Development in Australia, 1920-1930, pp.230-32.

[78] These were, Australian General Electric Co., Dunlop-Perdriau Rubber, Broken Hill Proprietary, the Collins House mining enterprises, Imperial Chemical Industries (I.C.I.) and Yarra Falls Textiles respectively.

[79] Forster, op.cit., pp.201-02.

of the total net finance for manufacturing between 1920 and 1929. However, it involved only a very small, even negligible proportion of British manufacturers who traded with Australia.[80] Clearly some had been persuaded to transfer production, but it is equally clear that the overwhelming majority continued to depend on trade. The same can be said of American manufacturers. Like the British, some were setting up factories in Australia. But American capitalists tended to view the economy as a rural based one with a rural future.[81]

A number of restraints prevented more British firms from setting up in Australia, prior to the depression. Many interested companies simply did not have the necessary funds; the economic depression in Britain had fed heavily on the 'free capital' of such enterprises. There was also concern about the labour movement and Labor governments in Australia, though this does not appear to have been an immovable prejudice.[82] And there was a good deal of feeling against some sorts of manufacturing development in Australia, notable equipping the

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[80] Ibid., pp.202, 206.

[81] The Electrical World, a leading American business journal, noted in 1922: "In Australia, some apparatus has been made for a number of years...but the volume is small and industrial conditions and local problems are such that no extensive manufacturing is justified at the present, nor are the domestic manufacturers able as yet, as a rule, to produce such high class equipment as can be imported". (2 September 1922, p.478) See also the speech of U.S. financier Col. Birch Belms, Australasian Insurance and Banking Record, Vol.49, No.1, 25 January 1925, p.47.

[82] This evidence is taken from the diary notes of J. Hume Cook, who took part in a mission to London in 1922. This was on behalf of the Victorian government. Its mandate explicitly authorised "negotiations for the establishment of new industries" in Victoria and Australia. (Hume Cook Papers, National Library of Australia, Canberra, M.S. 601).

country to produce its own sophisticated capital goods.[83] Such 'progress' smelt too much of independence. However, it was the clear cost advantage of production in Britain (principally much lower wages), the added restraint of British preference and the lagging, ineffective tariff in Australia, which ensured that most British manufacturers would continue to rest content with their role as exporters.

The motivation behind the direct investment which did occur in this decade was primarily pre-emptive. That is, it was geared to holding off American and other foreign economic intervention, and to co-opting the 'Buy Australian' fervour of the 'twenties. One leading British manufacturer put it this way: "the logic of the position had to be faced...it was probably wiser to establish what we called 'Branch Houses' rather than allow them to be furnished by America or some other country".[84] British participation in Australian industry also ensured the use of British technology. In this way it enhanced trade and perpetuated the dependent ties that linked Australia to the British economy. As the Times Trade Supplement argued in 1919: "it is highly necessary that British industry should make certain of being and remaining the first and strongest influence upon the young

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83 Ibid., pp.45-6. Hume Cook reported the views of A.D. Bremner, the Director of the British Engineers Association, as follows: "he frankly recognised Australia's right to seek and obtain a high position in manufactures; and very much appreciated the fact that she was to give Britain a first preference. At the same time, speaking from a manufacturers point of view, it was not entirely agreeable to Britain that Australia - or Canada for the matter of that - should want to enter into the skilled business of manufacture. It was much more pleasing, for example, to sell Australia manufactured goods, rather than the tools or equipment for the making of those in Australia".

84 Ibid.

industrial communities overseas. The education of the coming overseas captains of industry - upon British lines - can effect much".[85]

The operations of Australian General Electric, a British subsidiary based in Sydney, are typical of the pre-emptive role of much direct investment in the 'twenties. Production was confined to small and unsophisticated electrical products, and there was no attempt to broaden it at the expense of the parent companies' exports.[86] The parent company argued that "with the exception of the output of the Australian workshops, and of an insignificant number of specialised articles, for which demand in this country has not yet justified manufacturer here, all the products sold by this group are at present, and will continue to be entirely manufactured in Great Britain".[87] It was common for British companies to move into Australia on a relatively small scale, shop around for other British and local firms interested in amalgamation, and then come together. Australian G.E.C., Yarra Falls Textiles and I.C.I., for instance operated on this pattern. It usually enabled the group to achieve co-ordinated production in several States and a nationwide distributing network, whilst the securing of local participation permitted the business to be "naturalised"

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85 The Times Imperial and Foreign Trade and Engineering Supplement, 13 December 1919, p.331.

86 Industrial Australian and Mining Standard, 25 April 1929, pp.293-4.

87 Ibid., 10 January 1929, p.12. (Emphasis Added).

rather than leave it exposed as a 'foreign subsidiary'.[88]

Whilst British investment in Australian manufacturing tended to be pre-emptive, this was by no means the exclusive motivation. In heavy industry production, for instance, it was profitability which compelled British capital to develop a highly sophisticated metallurgical industry. The cost of shipping ore to Britain forced the leading mining syndicates to process locally, the first stage of manufacturing; the war then compelled processing and metal production within Australia. Next, poor overseas markets in conjunction with growing demand from government, and from rural and urban producers, hastened these interests into the production of a wide range of metal products, largely capital goods. By 1930 the foundations of the base metals industry were solidly laid and, in all spheres of production, British capital predominated. Its role in the mining-cum-metals sector is dealt with later, in Chapter V.

The economic slump in a capitalist society functions, objectively, to restore the profitability of capital and thus re-invigorate the expanded reproduction process. Since crisis expresses itself in the over-production of values it follows that the solution in the crisis is their widespread destruction. Plant idleness, the centralisation process, bankruptcy and technological innovation all have the effect

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88 Reader, W.J., Imperial Chemical Industries: A History, Oxford University Press, 1975, Vol.1, pp.197, 207-08. There were of course distinct technological and other advantages for local capitalists who joined with foreign firms. The evidence of F.G. Carr before the Tariff Board in 1937 makes this clear: "it is quite impossible for any manufacturer of commercial or domestic refrigeration in this country to keep abreast of world development without a foreign tie-up that will enable them to have the benefit of the Research and Investigation Departments of the foreign organisation. (Tariff Board, Australian Archives, B.1, 818).

of either putting capital temporarily out of action or destroying it altogether.

But there is more to the crisis than simply destruction. The economy after the crisis is not analogous with the individual after a diet. In the depression which began in 1929 and reached its base late in 1931, the financial and trading relations of the world were completely shattered, cartelisation and the artifical maintenance of price and production levels was intensified whilst international capital flows slowed irrepairably for more than a decade and the balance of lending power shifted further away from the United Kingdom. Nationalism thrived in these difficult conditions, and with the complex web of realignments between the world's major capitalist groupings, carried the leading powers into the ultimate alignment of 1939 - for the redivision of the world.

Nor did the Australian economy escape the fundamental structural changes in world capitalism engendered by the crisis. It shared, most notably, in the tendency for reduced dependence on overseas capital generally and on gilt edged securities in particular; it broke from the gold standard to avoid social chaos and cut itself off from world trade, thus hastening the import-replacement process and consolidating, for the first time, the heavy industry base of manufacturing. Indeed, as shown earlier, the economic recovery after 1931 was achieved by a major structural change in the economy towards manufacturing.

In short, the great depression ushered in a period of intense rationalisation and reorganisation in world capitalism; it altered fundamentally the nature of property and exchange relations in the international economy. Thus it is necessary, at this point, to reassess the economic setting for our theme: manufacturing development in the expanded reproduction of British capital in Australia.

The external equilibrium of the British economy was subjected to a severe crisis during the depression. This was due to a number of factors. The balance of payments was now barely positive; there was widespread repudiation of debts amongst the client nations of Latin America and elsewhere; and the risk of fluctuating exchanges without an international monetary standard was a destabilising influence on the export of capital. In these conditions the total volume of British overseas investment dropped sharply. Overseas issues in London were four times smaller in the 'thirties than they were in the preceding decade.[89]

The composition of overseas investment was also subject to fundamental change, notably, the decline of the new issue market. Preference now went to other forms of investment, particularly direct investment, here defined broadly as the penetration of foreign markets by means of production within them. It marked a new stage in the history of export capital and capitalist development. Prior to the Great War both the British and U.S. investor had shown a definite preference for the financing of foreign or colonial government, municipality or private enterprise securities; those publically issued in London or New York got most attention. After the war there was some important changes in this pattern. British investors increased relatively and absolutely their holdings in government securities and greater attention was paid to the development of raw materials in connection with new industries (e.g. oil, rubber, aluminium). Simultaneously, foreign investment in the generation of hydro-electricity thrived. These investments underwrote an entirely new set of

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[89] Kahn, op.cit., p.139.

markets in international trade and partly foreshadowed the rationalisation process during and after the depression.[90]

The growth of direct investment with the economic crisis was brought about by a number of factors: the breakdown of multi-lateral trade, economic nationalism and tariffs, increasingly necessitated the transfer of production overseas in order to retain markets; the intensification of imperialist rivalry for 'third markets' had the same effect, as did some changes in demand (e.g., empire defense requirements in the late 'thirties). Exchange uncertainties also forced involuntary investment upon foreign companies where 'blocked balances' were employed in the purchase of plant and equipment instead of being remitted. This was a motivating factor, for example, in General Motors Holden's investment in Australia in 1931.[91] For Britain the major change in the nature of its investments abroad from world war one onwards, was the increasing emphasis on loans for Dominion governments (until 1929) and, thereafter, the increased investments of British firms engaged in the overseas production of raw materials and manufacturing enterprises.[92] The Royal Institute of International Affairs reflected on the trend in 1937: "Direct investments in overseas companies by firms which wish to develop their export markets have been increasingly important in recent years and may be expected to become even more so".[93]

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[90] Royal Institute of International Affairs, _op.cit._, pp.40,156.

[91] Hartnett, L., _Big Wheels and Little Wheels_, Gold Star, Melbourne, 1973, p.59.

[92] Royal Institute of International Affairs, _op.cit._, pp.43-4.

[93] _Ibid._, p.45.

This transformation was perhaps most sharply manifested in the Australian experience: overseas borrowing by the State governments became negligible and was replaced by "the sop of conversions only",[94] whilst private capital inflow largely retained the scale of the 'twenties and thus, totally replaced public expenditure as the arena for overseas investments.

In contrast to the heavy borrowing and growing indebtedness of the previous decade, the only new government loans effected in London during the thirties were of little consequence.[95] Effectively, the entire loan raising programmes of the Commonwealth and State governments relied on domestic savings and these loans totalled £132.5 million between 1932-1933 and 1938-1939, a very small scale of borrowing compared with the previous decade.[96] The allocation of loans, too, had fundamentally altered and was, after the depression, far more 'defensive' in character. Now it was concerned with meeting debt commitments and revenue shortages, with public works for the unemployed, with loan funds for hard-hit rural producers and for slum reclamation and housing projects in the cities.[97]

From 1932 the City of London permitted a series of conversions of the Australian debt to a lower rate of interest, thus easing the strain on Australia's balance of payments and on the taxpayer. Gilbert estimates that conversions of £stg 198 million of overseas securities were effected in London between 1932 and 1936, representing

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94 Gilbert, _op.cit._, p.196.

95 _Ibid._, p.191.

96 _Ibid._, p.223.

97 See footnote 44.

about 80 per cent of Dominion conversions and 60 per cent of total conversions. Australia, in other words, acquired a disproportionate share of the city's leniency during this period.[98] London's inaccessibility for new loans is understandable in the prevailing economic circumstances but its readiness to convert old ones on such a large scale needs greater elaboration. Firstly, it should be remembered that both the Scullin and Lyons federal governments had orchestrated the interests of propertied groups and other classes in the crisis giving priority to those of the British rentier. Domestic creditors to the government, for instance, were forced to accept substantial conversions in 1931, whilst wage and salary earners took a sharp cut in incomes before the necessity of conversions in London was pursued. Moreover, London was fully conscious of the good treatment it was receiving in Australia and played a major part in securing this treatment.[99]

Scullin's envoy to the Bank of England was advised: "Inform your government to pay to the last shilling. When and only when they have done that can we give them any help. They will not ask in vain. London will be generous".[100] The consequences of any form of default or repudiation were expressed through a variety of mediums, such as newspapers, delegations and inter-governmental cablegrams: every contact of Australian finance with the outside world would be more difficult; private interests would be starved of overseas capital and trade would be further inhibited as private credit from London from importers and exporters, would come at considerably higher

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[98] Gilbert, op.cit., pp.190-91.

[99] Ibid., p.189.

[100] Blainey (ed.) op.cit., p.147.

rates.[101]

At the same time British creditors recognised a number of persuasive compensations to be gained from the conversion of Australia's overseas public debt. Firstly, the majority of debtor nations had, by 1932, repudiated at least some of their commitments whilst Australia, on the contrary, had continued down the path of 'respectability' and 'soundness' towards the last shilling. From the British point of view Australia was a paradigm for other countries and there was economic advantage in this representation. The City of London did not want to drive Australia into repudiation. Secondly, conversions were a necessary measure to ensure the political status quo after 1932; that is, to keep the newly formed United Australia Party under Lyons in power and the A.L.P. out. The U.A.P. had promised to secure conversions in London during the 1932 election. If it failed most members of the Lyons cabinet believed the people would turn to the Labor Party and Lang's repudiationism gain widespread approval. Both Lyons, the Prime Minister, and S.M. Bruce (Lyon's appointee in London) believed in 1933 that the public's hostility to British bondholders could get out of hand. Bruce for instance, believed that "as Australia had cut everything but overseas interest, there would be a debtor's

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101 The delegation to Australia from the Bank of England in 1930 advised, "Australia owes £36 million in London and most probably it hopes when conditions have improved to go on the market again for developmental loans. Because of this, Australia must not do anything now, difficult as times are, that will leave a lasting, unfavourable impression on the mind of the British investor". (Australian Insurance and Banking Record, Vol.54, No.11, November 1930, p.953).

revolt if this were not done".[102]

Apart from seeking relief in London the governments of Scullin and Lyons adopted a series of internal economic policies to ensure the balance of payments. The implementation and maintenance, respectively, of an exceptionally high tariff wall and exchange rate were the principal measures, in conjunction with the 10 per cent wage cut of the Arbitration Court in February, 1931. These measures, and the near exhaustion of sterling exchange "produced a substantial shift in demand for imported manufacturers to the local product".[103] Imports were, by and large, arbitrarily locked out and substantial internal economies were effected at the same time: the average price for manufactured goods fell by 37 per cent between 1929 and 1932 whilst manufactured imports rose by 6 per cent. Other production costs apart from labour power, had also fallen considerably.[104]

In short, the meeting of debt commitments in London and the maintenance of national 'solvency' necessitated a dramatic shift towards reliance on locally produced rather than overseas goods. The manufacturing expansion of the 1930's was, in this important sense, a reflect of Australia's financial dependence on the City of London. The overseas debt as a portion of merchandise exports was unusually high in the inter-war period, averaging 28 per cent annually, and

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102 Edwards, C., Bruce of Melbourne: Man of Two Worlds, Heinemann, London, 1965, p.215. Interest commitments on London must have been pressing very heavily on rural producers too as some leading businessmen in the U.A.P. in May 1933 feared a Labor Party-Country Party alliance if substantial conversions of the overseas debt were not effected. (Fraser Papers, Melbourne University Archives, 1/82/1).

103 Schedvin, op.cit., p.302.

104 Ibid.

33.2 per cent in the thirties.[105] It was largely built up in the 1920's and the 'pay-off' largely effected during and after the depression. Net capital inflow amounted to £305.3 million between 1920-1921 and 1928-1929. The outflow on account of property income was roughly the same, £302.1 million. In the thirties however, the outflow on account of property income (£385.9 million) was about six times greater than net capital inflow (£64,9 million) between 1930-1931 and 1938-1939.[106] The magnitude of these overseas commitments was bolstered by their high proportion of fixed public debts (approx. 70 per cent) which could not be adjusted as could dividend rates, according to the economic climate.[107] In this context the capacity of export earnings to support high levels of import consumption and at the same time pay off the overseas debt, was largely obliterated. Financial dependence on the City dictated the necessity to cut imports sharply and to ensure an export surplus totally committed to meeting the overseas debts as they matured one after the other. It is from this nexus with Britain that the compulsion for import substitution and manufacturing development to absorb the unemployed was derived.

Australia's part in and response to the Imperial Conference held in Ottawa, Canada in 1932, can be explained meaningfully within the framework above. The Ottawa Conference is worthy of closer scrutiny since it was one of the most important policy land marks in British

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105 Computed from Boehm, A.E., Twentieth Century Economic Development in Australia, Longmans, Melbourne, 1971, p.116.

106 Computed from McLean, I., 'The Australia Balance of Payments on Current Account 1901-1964/65', Australian Economic Papers, Vol.7, No.10, June, 1968, pp.84-6.

107 In the 1890's depression the proportion of overseas debt at fixed rates was about 50 per cent.

imperial history and since so much controversy has surrounded the interpretation of its effects. Much to the dismay of local manufacturers, the Australian government agreed at Ottawa to give increased tariff preference to British manufacturers and increased opportunity for fair competition in the Australian market.[108] However, this was carried through largely by increasing tariffs against non-empire countries, thus widening the preferential margin, rather than directly lowering tariffs on British products.[109] Australia maintained a surplus of exports with Britain throughout the 'thirties, and, on balance, with the world as a whole. Some tariffs on British goods were lowered but these were selective and consistent with the pursuit of lower production costs through the admission of cheap capital goods from abroad. Here the Tariff Board played a vital part in consolidating the dynamic role of manufacturing capital in the economic recovery. Its annual report in 1932 concentrated on the high cost in Australia of essential plant and raw materials. The Board claimed that for some lines, especially plant and machinery, there were many items that could only be produced in Australia at excessive comparative cost.[110] The following annual report stressed the cost advantages of British manufacturers in large and sophisticated capital goods and determined to remove tariff duties on these. In crude oil engines, for instance, protection was afforded the local industry for engines up to 70 horse power. The more powerful ones were henceforth admitted duty free from England.[111]

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[108] Schedvin, op.cit., p.368.

[109] Ibid.

[110] Tariff Board, Annual Report, Commonwealth Parliamentary Papers, 1932-4, Vol.3, p.322.

[111] Tariff Board, 'Report on Crude Oil Engines', C.P.P., 1932-4, Vol. iii, pp.619-630.

Between 1932 and 1938 over 300 items were steadily admitted from Britain at lower rates.[112] These were predominantly in the form of capital goods. The Australian Association of British Manufacturers acknowledged the changes arising from the Ottawa agreement and indicated that the new opportunities in trade with Australia were to be found only in'machinery and equipment', 'electrical machinery and equipment' and motor vehicles.[113] In the well-established industries such as textiles, iron and steel, and non-ferrous metal products, there was little hope for expanded trade.

Thus, whilst the principal feature of Australian trade in the thirties was reduced dependence on the outside world, there were, at the same time, real concessions to some British exporters, which began with the Ottawa Agreement. This is reflected in trade statistics: the British share of Australian imports improved by 2 per cent between 1932 and 1938 whilst the value of these purchases rose by some 76 per cent per head.[114]

Preferential favour in trade with Britain was restricted by the logic of Australia's overseas debt commitments, but there was a sense in which this logic compelled small preferences, since trading concessions were viewed by some as a tactical contribution to the pursuit of conversions in London. "At a time when the burden of overseas debt is very onerous", wrote Giblin, Lyons academic confidante, "and relief by favourable conversions very urgent, Australia may easily

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112 Shaw, A.G.L., op.cit., p.163.

113 Australasian Association of British Manufacturers, The Australian Market, 1932, pp.15, 19, 21. (N.L.A.). Lyon's persistance with 'high protection' after Ottawa was at the very root of the rift between the Country Party and the U.A.P. between 1932 and 1934.

114 Australian Industries Protection League, The Ottawa Agreement, 1936. (Hume Cook Papers, Pamphlet, 601/7).

reap rewards in the London money market from such a revision of the tariff".[115] James Hume-Cook, a member of the Australian group at Ottawa, shared the same views and suggested preferences "up to the point of exclusion of other nation's products of a like kind" in order to win conversions.[116] However, the fundamental change engendered by the depression and maturing debts in London was the pursuit of recovery through a set of policies that placed greater dependence on and demand for locally manufactured goods. It remains now to look at the response of British capital to this development.

The response, was embodied in the phrase 'complementary industrial production'. This in fact was a strategy which aimed at co-ordinating industrial development in the empire. It gained widespread political approval during the depression and replaced the 'imperial vision' of the 'twenties which was totally inappropriate for a period in which multi-lateral trade had broken down, tariff walls gone up around the world, and capital flows dried up. Within the rationale of its proponents it was argued that Britain was "over-industrialised" and the Dominions, the other major actors in the new strategy, "over-agriculturalised". The readjustment of the ~~balanced~~ balance was called for.[117]

The backbone of the campaign for this policy came from the Federation of British Industries, the largest and most powerful body of producers in Britain. It defined 'complementary industrial

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115 Copland, D. and Janes, C.V. (eds.), Australian Trade Policy: A Book of Documents, 1932-37, Angus and Robertson, Sydney, 1937, p.22.

116 Hume Cook to Hon. F. Forde, 17 September 1930. (Hume Cook Papers, 601/6).

117 See the definitive speech of Lord Malchett on this subject. Daily Telegraph (London), 28 November 1929.

production' as "the concentration of Dominion industrial effort upon those branches of each industry for which the conditions are suitable".[118] A report issued by the Federation discussed Australia specifically and called for the removal of tariffs on British goods which could not be efficiently and economically produced or developed in Australia.[119] Another report, issued a few months prior to the Ottawa Conference, stressed the need to complement this trading plan with heavier direct investment. "In the realm of foreign of external investment", the report argued, "the direction of the flow of new capital (is recommended) so as to guide it into British owned enterprise abroad".[120]

This advice echoed that of the MacMillan Committee on Finance and Industry (1931) which had assessed the economic crisis and come to a similar conclusion. It recommended that "in the realm of foreign investment it is primarily toward British owned enterprises that we should wish to see out energies and capital turned rather than merely towards foreign Government and municipal loans, which absorb our available foreign balance while doing little for our industry and commerce".[121]

The press too fell behind the new stategy for the Dominions. The Times (London) believed it was a promising line of approach and singled out Australia for special reference: "Australia is rightly anxious to develop the electrical industry, but while there are many products of that industry that she can manufacture economically herself,

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118 Age, 15 June 1932.

119 Ibid.

120 Federation of British Industries, Report on Industry and Monetary Policy, April 1932, p.15. (Pamphlet, N.L.A.).

121 Ibid., cited on p.21.

there are others demanding so expensive an installment, for which the local market is so restricted, that the cost of manufacturing in Australia is much more than the article is worth". The solution advocated was "a working alliance with the British electrical industry, by which the British partner refrains from competing in lines appropriate for manufacture in Australia and co-operates with its technical and other resources in building up the industry in Australia, receiving, in exchange, the assistance of the Australian partner in placing on the Australian market those goods which it is not yet possible to manufacture profitably in the Commonwealth".[122]

The limited evidence available suggests a wide range of British (and American) manufacturing interests moved into Australia in the 'thirties. It is highly probable, in view of the depressed state of the rural industries and the drought in government borrowing abroad, that the most important area of overseas investment in Australia was for the first time, the manufacturing sector. In automobiles, Ruskins Motor Body Building and General Motors are known to have set up; in paper manufacture an Anglo-Australian syndicate established a fine paper monopoly, A.P.P.M. (Australian Pulp and Paper Manufacturers); in textiles, the British Calico Printers' Association constructed a large plant to produce woven and knitted fabrics and the new synthetic fibre "terylene"; Imperial Chemicals established an Australian-based alkali industry after the depression, whilst Kelvinator of the U.S.A. set up a refrigerator assembly line in Sydney. Finally, the rumblings of war in the mid and late 'thirties compelled a series of defence ventures in Australia that were underwritten by British and American capital. I.C.I. moved into a wide range of

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[122] Quoted in the Argus, 23 March 1932.

explosives production at its new plant in Deer Park near Melbourne, and aeroplane manufacture was launched by a syndicate of British, American and Australian firms.[123]

The structural barriers to international commodity trade thrown up in the economic crisis gave direct investment a new meaning and purpose in Australia. It rendered the pre-emptive factor - to beat foreign producers to the Australian market - all the more important. And it compelled the acceptance of a new era in world capitalist relations; that is, an era in which the transfer of production abroad would rival the export trade as the principal means of international exchange. As early as May 1930, the Electrical Review (London) recognised the dramatic changes impending: "The old conditions have passed and those British companies which are not prepared to investigate the question of manufacture in Australia must face the inevitable".[124] Taking Imperial Chemicals as an instance of the 'inevitable', it has been argued that the transition to production in Australia was initially "less profitable and more troublesome" than exporting, "but in an increasingly protectionist world it was becoming the only way to do business overseas on a scale large enough" for a big company.[125]

British Trade and the Australian Market

In the preceding chapter a crisis in British capitalism was identified in domestic economic stagnation after 1873 and in the related decline of the export industries on which Britain's industrial growth

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123 An account of the British/American negotiations leading up to the formation of the Commonwealth Aircraft Corporation (1938) can be found in Blainey, G., (ed.), op.cit., pp.174-6.

124 Electrical Review, 7 March 1930, pp.434-5.

125 Reader, op.cit., Vol.2, p.203.

had traditionally depended. This was a profitability crisis, with its origins centred in overproduction or excess capacity in the capital goods industries. The era of export capital which begins with Britain in the early 'seventies was a direct reflex of languishing domestic capital formation. The interdependence of economic crisis and overseas investment in this instance was complementary in the sense that export capital sustained the absolute growth of British exports until 1914. However, British overseas investment also gradually contributed to the growth of foreign productive forces which gave rise to the secular deterioration of its competitive trading position. Britain's relative share of world trade declined sharply between 1870 and 1914. After the War deterioration continued and British trade suffered an absolute decline.[126] The quantum of British exports dropped by 28 per cent between 1913 and 1937.[127]

The absolute decline in British trade after 1913 was centred in the old export industries of coal, iron and steel and textiles. There the value of exports fell from £236.3 million in 1913 to £188.1 million in 1930 and £133.3 million in 1938. Allowing for an approximate rise of 60 per cent in comparing prices in the 'thirties with those of 1913, the full meaning of the export decline can be gauged.[128] It was partly cushioned, however, by real increases in exports from the new industries, for instance, machinery, vehicles and aircraft and electrical goods. These were valued at £47.8 million (1913) £81.8 million (1930) and £98.8 million (1938), an overall increase of

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[126] Kahn, A.E., op.cit., p.130.

[127] Lewis, W.A., Economic Survey, 1919-1939, Allen and Unwin, London, 1953, p.79.

[128] Sayers, op.cit., p.20.

106.69 per cent.[129] And sales of these products became increasingly dependent on empire buyers, as the rate of consumption of British goods in continental Europe and the U.S. slowed. After the war this tendency was exacerbated by the reduced purchasing power of western and central Europe, by protectionism and the greater autonomy of the ascendent industrial nations. British manufacturers were forced to continue to compensate for their great losses in these markets by selling a larger share of their merchandise to the primary producing countries of the world, amongst them Australia. An examination of this shift in emphasis shows that the Australian market was in fact a remarkably effective compensating factor since it was absorbing the manufactures of British capitalists at a greater rate than the primary producing countries and world markets as a whole.

TABLE 2

BRITISH EXPORTS AND WORLD MARKETS

U.K. Exports; Consignments To	1911/13 £m	1926/29 £m	% inc. %	U.K. Exports Consignments To	1932 £m	1938 £m	% inc. %
Industrialised Countries[a]	222.9	268.5	20.5	Total World Markets	416.1	470.9	13.77
Primary Producing Countries[b]	265.5	435.3	64.0				
Australia	33.4	59.6	78.4	Australia	20.6	38.2	85.44

Sources: League of Nations, Industrialisation and Foreign Trade, Geneva, 1945, p.110; League of Nations, Memorandum on International Trade and Balance of Payments, Vol.1, 1931-2 and Vol.1, 1938; Mitchell, B.R., and Deane, P., Abstract of British Historical Statistics, Cambridge University Press, 1962, pp.305-06.

[a] Includes Central and Western Europe, United States, Canada, Japan & Russia.

[b] Includes Australia.

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[129] Computed from Mitchell, B.R., and Deane, P., Abstract of British Historical Statistics, Cambridge University Press, 1962, pp.305-06.

Clearly British trade was advancing more rapidly in Australia than in the world as a whole. Even in the 'thirties when the capacity of the primary producing countries to import was minimal, the Australian performance, on behalf of British goods, was quite extraordinary. From 1911-1913 to 1938, the genesis period in Australia's modern industrialisation, and during the 'thirties in particular when the manufacturing sector became indisputably the dynamic factor in economic growth and revival, the Australian market was absorbing British goods at an unparalleled rate. Relatedly, the British balance of trade with Australia was not typical of the aggregate trade balance. Whereas after 1913 the capacity of total British exports to pay for imports declined sharply, British exports to Australia, as late as 1920 to 1928, still accounted for 94.28 per cent of imports.[130] Moreover, it is estimated that the quantum of British exports was sustained in Australia between 1911 and 1930, whereas it declined steadily on a world basis from 1913 onwards.[131] Thus the Australian market accounted for a greater share of British exports after the war than it did before it. In fact, in 1913 it accounted for 6.56 per cent of British merchandise sold abroad, 8.37 per cent in 1922, 8.28 per cent in 1924 and 7.69 per cent in 1928.[132] Between 1913 and 1938 Australia was consistantly amongst the top four markets for British goods. It

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[130] Ibid., p.326.

[131] British exports to Australia rose in value by approximately 63 per cent comparing 1911-1920 with 1921-1930. They dropped in value approximately 60 per cent, comparing 1921-1930 with 1931-1939. This was roughly in line with the price increase of manufactured goods, 1911-1930 and the drop in price of the thirties.

[132] League of Nations, Memorandum on International Trade and Balance of Payments, Vol.1, 1911-26, pp.812-13; 1926-28, p.251.

was rivalled only by India, Germany, the United States and South Africa, and its consumption per capita was naturally much higher than each of these nations.

It can only be concluded that in the formative stages of an advanced industrial structure in Australia, the economy was a relatively better market for British goods than was the international market as a whole. However, no connection between industrialisation and these positive aspects of British trade necessarily follows. It may have been that without a growing, diversifying secondary industry, the prospects for British manufacturers would have been better still. On the other hand, they may have been worse. It therefore remains necessary to examine the connection.

The growth of secondary industries in Australia generated, until the mid-twenties and from 1932 onwards, a growing demand for producer goods from Britain; a demand that was considerably stronger than that for British goods as a whole. The trade in producer goods was, as a result, a major restraint on the relative decline of British trade in the Australian market, an important factor in sustaining the volume of imports from the Mother Country until 1929 and in their remarkable revival, by world standards, in the 1930's.

Conventional statistical categories (e.g., production and trade categories in the Commonwealth Year Books) are not very useful for the purposes of this particular analysis and consequently the major categories used here - producer goods and new producer goods, consumer goods and new consumer goods - have been constructed, and filled out by computation from other sources. Nevertheless, the conventional categories are themselves corroborative of the argument which follows. For instance, the blanket category of 'Metals and Metal Manufactures including Machinery', constituted an increasingly larger portion of British exports to Australia, growing from 30.9 per cent (1919-1920) to 40.05 per cent (1935-1936), whereas over approximately the same period the export of base iron and steel products to Australia, a major component in this category, declined from 8.56 per cent of British trade (1920-1921) to 2.16 per cent (1936-1937).[133] This is suggestive of the growing prominence of machinery in British exports, to Australia. A more precise estimation of the importance of Australia's trade in machinery to British manufacturers ratifies this conclusion. In 1913, electrical and motive power machinery from Britain, which constituted the bulk of machinery traded, represented only 1.33 per cent of total British imports.[134] This compared with 2.28 per cent (1920-1921), 8 per cent (1928-1929), 4.33 per cent (1932-1933) and 12 per cent 1937-1938.[135]

In differentiating between the four categories of British trade with Australia there is, firstly, a clear difference in the fortunes of the old and the new consumer goods. Trade in the former category declined sharply in absolute terms during the inter-war years. This was largely due to import replacement as foreign trade suffered to the

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133 Computed from Commonwealth Year Book, No.16, 1923, p.254; No.30, 1937, p.533. Also, Commonwealth Bureau of Census and Statistics, Overseas Trade Bulletin, No.22, 1924-25, p.760; No.34, 1936-37, p.666.

134 Overseas goods played the major part in equipping manufacturers between the wars. Forster estimates that 59% of gross additions to capital equipment were imported between 1922-3 and 1929-30. Wilson reckoned the figure for the period 1930-31 to 1937-38 was at 57.7%. (See Forster, Industrial Development in Australia, 1920-1930, p.23; R. Wilson, Public and Private Investment in Australia, A.N.Z.A.A.S. Paper, 1939, p.20).

135 Computed from Commonwealth Bureau of Census and Statistics, Trade and Customs and Excise Revenue of the Commonwealth of Australia, 1913, pp.134-37; Overseas Trade Bulletin, No.18, 1920-21, pp.136, 138; No.26, 1928-29, pp.354-69, 385-93; No.30, 1932-33, pp.229-42, 251-56; No.34, 1936-37, pp.274-91, 303-309.

same degree.[136] In the new consumer goods, illustrated below by taking five of the largest constituents, the trade performance is far more satisfactory. It will be recalled that British capital played the major part in this trade through loans to the State governments and municipalities for the provision of the requisite urban/suburban infrastructure. Table 3 compares the two categories of trade from 1920-1921 to 1937-1938.

The deterioration of trade in the old consumer goods is, after 1920, largely continuous until 1937-1938. On the other hand, trade in the new consumer goods, grows steadily in the early and mid-twenties, then drops away until 1932-1933 and, after the depression, makes a substantial recovery such that the total value of trade in the latter period is greater. Moreover, the rate of recovery is faster than that for trade generally and the total trade in British goods. However, if we consider consumer goods as a whole, it is clear that import replacement effected in the 'old' commodities sent from Britain, most notably the decline of iron and steel and the textile trade, is not fully compensated for by the growth of trade in the new consumer goods. For consumer goods en-toti, British trade is on the decline. These comparisons are apparent in the constituents itemised below; there was some growth in the new consumer goods; there was a greater, offsetting decline in the old ones.

The fortunes of British producer goods, looking here at the bulk of factory machinery and some related equipment imported into

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136 For example, British exports of textiles (cotton and linen) to Australia declined by about 63 per cent in volume between 1920-21 and 1928-29; over the same period total Australian imports of these products dropped 61 per cent. A similar pattern in the other leading 'old' consumer goods, woollens and iron and steel is also evident. Overseas Trade Bulletin, No.22, 1924-25, p.755; No.27, 1929-30, p.715).

TABLE 3

BRITISH EXPORTS TO AUSTRALIA: CONSUMER GOODS

(£)

Old Consumer Goods	1920-21	1924-25	1928-29	1932-33	1936-37
Apparel (Socks/Stockings)	1,277,047	1,407,902	525,752	4,245	28,579
Textiles (Cotton & Linen)	13,659,395	9,544,517	6,536,776	4,371,142	3,792,833
Iron & Steel[a]	6,579,082	5,838,362	4,939,612	1,939,078	2,867,536
Woollen Piece Goods	5,702,073	2,946,129	1,231,991	97,548	249,053

New Consumer Goods	1920-21	1924-25	1928-29	1932-33	1936-37
Automobiles	828,136	2,114,282	1,489,012	762,697	2,655,980
Non-Industrial[b] Elec. Appliances	402,175	686,964	231,303	134,918	281,329
Floor Coverings	1,993,720	2,782,333	2,148,925	756,900	1,525,979
Silk/Rayon	335,748	722,565	1,197,984	739,432	1,210,481
Instruments (Surgical; Optical)	465,441	825,334	595,265	338,256	417,478

Source: Overseas Trade Bulletin, No.22, 1924-25, pp.754-66; No.27, 1929-30, pp.714-26; No.34, 1936-37, pp.656-70.

[a] Iron and Steel categories increased in number after 1928-29. These additional categories have been included in the figures above.

[b] Only those electrical categories that were cleary domestic in their application have been included in the figures above. A more precise breakdown of Australian imports from Britain was therefore necessary to construct this category. (See Overseas Trade Bulletin, No.18, 1920-21, p.446; No.23, 1925-26, pp.176, 181; No.26, 1928-29, pp.363, 368; No.30, 1932-33, pp.229-242; No.34, 1936-37, pp.274-291).

Australia, were considerably better than those of consumer goods as a whole, and in some respects, of the new consumer goods. The value of electrical and motive power machinery imported from the United Kingdom grew from £631,562 in 1913 to £5,251,222 in 1924-1925. It then declined slowly to £4,559,880 in 1928-1929 and dropped sharply to £993,378 (1932-1933). By 1937-1938 however, it had revived to the mid-late twenties level, being valued at £4,845,061.[137] The growth rate of this trade in the early and mid-twenties and in the 'thirties is considerably faster than that of the new consumer goods. Even if we single out the best performed of these (automobiles), the comparison is unchanged: automobile imports grew by 162.5 per cent in the early 'twenties and 271 per cent after 1932-1933. Imports of British machinery on the other hand, improved by 225 per cent and 422 per cent respectively. Now, recalling that British exporting to Australia fares considerably better after 1913 than its trade with other parts of the world, and taking into account the relative importance of the categories compared above, it seems clear that capital goods became more and more significant in British exports and played a major part in restraining their overall decline in the Australian economy. This decline was due in some areas to import replacement and, in others, to foreign competition. Moreover, urbanisation generally was most important to British trade as it underwrote much of the demand for

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137 Computed from Trade and Customs and Excise Revenue of Australia, 1913, pp.134-37. Overseas Trade Bulletin, No.18, 1920-21, pp. 136,138; No.26, 1928-29, pp.357-69, 385-93; No.30, 1932-33, pp.229-42, 251-56; No.34, 1936-37, pp.274-91, 303-09. The above figures represent only those trade items primarily industrial in their application. Both the electrical and motive-power sub-categories were subject to change and diversification over this period making the calculation of a thoroughly consistent and comparable series quite impossible. The figures cited are, however, satisfactory for the purpose of determining a general movement or trend over time.

capital goods and the new consumer goods, particularly in automobiles and electrical and other domestic equipment. It can be concluded that the growth of secondary industries in Australia and the concommitant maturation of the service industries and of an urban environment around them, was of considerable benefit to British manufacturers, who were at their greatest disadvantage with the traditional 'old' export commodities and with consumer goods as a whole.

The relatively greater importance of producer goods, or at least the major producer goods, in British trade with Australia, can be highlighted by comparing their share of the import market with that of imports from Britain as a whole.

TABLE 4

BRITISH PRODUCER GOODS AND THE AUSTRALIAN MARKET

Share of British Exports in Australian Import Market				Share of British Producer Goods in Australian Import Market in Producer Goods			
1913 (%)	1920-21	1928-29	1937-8	1913 (%)	1920	1928-29	1937-8
52.37	46.92	39.79	40.70	60.38	64.17	58.22	55.70

Sources: Computed from Trade and Customs and Excise Revenue of Australia, 1913, pp.134-37. Overseas Trade Bulletin, No.18, 1920-21, pp.136, 138; No.26, 1928-29, pp.357-69, 385-93; No.36, 1938-39, pp.295-312, 325-34. Commonwealth Year Book, No.16, 1923, p.255; No.25, 1932, p.186; No.32, 1939, p.537.

Clearly British producer goods exported to Australia were fairing considerably better than British exports as a whole in competition with other exporters. Their share of the Australian import market was declining over the period but was still much higher (and more resistant) than was the British share in all trade. In the first instance the share in trade declined by only 5 per cent compared with 12 per cent in the second. Moreover, it is in the new, modern forms of industrial power, in electrical machinery and equipment, that British trade does remarkably well. This is a further indication of the importance of industrialisation to British trade, since it was in those producer goods with an expansive technological future that the best export results were to be found.

TABLE 5

AUSTRALIAN IMPORTS OF PRODUCER GOODS AND IMPORTS OF BRITISH ORIGIN

	Imports of British Origin as a Percentage of Total Imports in Each Class					
	1913 (%)	1920	1924-5	1928-9	1932-3	1937-8
Elect. Machnry. & Equipment	46.90	57.33	69.17	71.53	53.51	74.43
Motive Power Machnry. & Equipment	74.50	79.62	43.97	30.76	65.26	30.84
	1913 (£)	1920	1924-5	1928-9	1932-3	1937-8
Value of Imports of British Origin:						
Electrical	251,002	1,087,416	4,342,002	3,773,534	761,140	3,692,349
Motive Power	380,650	668,166	909,220	786,346	232,238	1,152,712

Sources: As in Table 3. See also Overseas Trade Bulletin, No.23, 1925-26, pp.174-81, 197-204.

The two outstanding features here are the growth in the monetary value of this trade in each decade, and the inverse movement in the portion of the market held by the two sub-categories. By either measure, however, the trade in electrical machinery and equipment is far more impressive. This trade dominates the market by 1924-1925 (69.17 per cent) whilst, its monetary value in the mid and late'twenties and the late 'thirties constitutes it as one of the most important categories of trade.

Thus far the fortunes of British exports have been counted in a very negative terminology. There has been good reason for this. It has been argued that British trade had more success in the Australian market than elsewhere; on the other hand it was not prospering in its own right. Some commodities performed better than others, but these 'restrained the decline' instead of pioneering further expansion. In a sense the structural changes in British exports to Australia merely held back or slowed the total loss of trading hegemony.

The problems of British exporters were basically twofold: in the old consumer goods trade, local production was hastily replacing imports. Some of this production was artificial in that it gave rise to other import requirements, but overall the import competing industries made great advances. In the new consumer goods trade and that of producer goods, British trade was less effected by import replacement but was under relentless competitive pressure from foreign exporters. In these commodities, British manufacturers were faring better in Australia than elsewhere, generally speaking. But they were still not able, with the major exception of electrical machinery and equipment, to command a substantial and growing share of the import market. This was most apparent in the case uf automobiles, for instance.[138] The same can be said of motive power machinery. Thus

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138 Sales of British automobiles in Australia grew steadily in the early and mid-twenties and again, after the depression, from 1932. At no time however, did their share of the American dominated import market exceed 32 per cent.

industrialisation and urbanisation, which underwrite the demand for the new consumer and producer goods, plays a pre-emptive role against the ascendence of foreign trading powers. Nonetheless, the British position continues to weaken.

Indeed, from late in the nineteenth century disengagement from Britain and increasing dependence on imports from other sources is a pronounced trend that persists until the second world war. This disengagement was the source of considerable alarm in British business and political circles. It also raised doubts in the academic arena as to the assumed reciprocity between the export of capital to Australia and the economy's capacity to import British goods.[139]

The principal trading enemy was the United States. Between 1913 and 1928-1929 the British share of Australian imports dropped about 20 per cent whilst the American share rose 12.44 per cent and nearly doubled.[140] Britain's Senior Trade Minister in Australia, Mr. R.W. Dalton, spoke out on the severity of this competition in 1930. It was the U.S., he asserted, that "most frequently (was) securing the trade which Britain had not up to the present been able to obtain". The tariff was not an adequate excuse since "if foreign firms can succeed to such an extent in these classes of goods, it is obvious that it is not the tariff alone which is limiting Great Britain's trade". Dalton attributed these limitations to inferior salesmanship and marketing techniques; his report called for a marketing offensive in Australia.[141] As we have seen, British goods did make some inroads back into foreign trade in the 'thirties, but these arose from the

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[139] Cooke and Davenport, op.cit., p.5.

[140] Daily Telegraph (London), 16 January 1930.

[141] Ibid.

logic of Australia's financial dependence on the City of London, not from the vigour of British merchants.

Having examined the growth of manufacturing in relation to British capitalism, we can now turn to the process whereby other sectors of the Australian economy were integrated into industrialisation. In the following chapter, the role of banking capital is traced through its transition from a rural export oriented sector to a more balanced and broadened participation in the economy as a whole.

CHAPTER IV

BANKING CAPITAL : FINANCE FOR INDUSTRY ?

"London ... has wanted primary products from Australia, and, through the medium of her contributions to the capital and deposits of the Australian banks, was prepared to finance primary production".

MacKay, A.G.L., The Australian Banking and Credit System, P.S. King and Son, London, 1931, p.230.

Finance institutions have their origins in the need to amass money in a concentrated form in order to effect its redistribution as productive capital. The pooling of money resources was necessary for the development of capitalism and gave rise to these institutions - the instruments of capital concentration.

Not being directly engaged in the productive process, the financier was traditionally portrayed as the 'inactive' or 'parasitic' capitalist, but the distinction was somewhat artificial as both active and inactive capitalists shared in the same social surplus value (profits) extracted from labour in the course of production. For other reasons the distinction known as 'banking capital' must be pursued.

Rudolf Hilferding made the most extensive study of banking capital at the turn of the century, concluding the development of capitalism would culminate in the formation of Super Banks that would own and control industrial capital, thus eliminating anarchy from the industrial process.[1] Lenin too distinguished between industrial and banking capital and his work too prophesied the supremacy of the latter, the persistence of anarchy and the inevitable breakdown of the economic system.[2] In more recent years the relatively neglected concept of banking capital has been revived by Glyn and Sutcliffe in their study of the British economy.[3] This study contained the

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[1]Hilferding, R., Das Finanz Kapital, Vienna, 1910. The concept of banking capital is here distinguished from finance capital. Whilst banking capital refers to financial institutions such as trading banks and pastoral finance companies, the term finance capital has historically denoted a state of fusion between industrial and banking capital.

[2]Lenin, V.I. Imperialism. The Highest Stage of Capitalism, Foreign Languages Press, Peking, 1973, esp. pp.31-70.

[3]Glyn, A., and Sutcliffe, B., British Capitalism, Workers and the Profits Squeeze, Penguin, Harmondsworth, 1972.

recurrent theme of "the comparative separation of industrial from finance capital" in Britain, and the rivalry that has resulted from this separation, particularly in the years prior to the depression. Their analysis showed the necessity to consider this dichtomy and highlighted its significance to the political economy of Britain.

The integration of finance and industry since world war two has been a global phenomenon and has tended to discourage the evaluation of their comparative autonomy in some countries, particularly at earlier stages. "This strictly intra-capitalist affair is now largely a thing of the past for the fusion of industry and finance is so complete as to exclude a 'moral' distinction between them", noted the German economist Paul Mattick.[4]

The autonomy of finance and industry was a striking characteristic of Australian capitalism before the second world war. This study examines the relationship between the two from the perspective of banking capital. Essentially it is an account of the structural and ideological changes and initiatives made to accommodate the emergence of a stable modern industrial society. This took place amidst, and was symptomatic of, the declining influence of the British banks operating in the Australian economy. The changes in the relationship between finance and industry were expressed in the breakdown of what can be termed the pastoral bias of banking capital in Australia and, in the shift to a more autonomous national monetary footing centred on the stabilisation of employment and investment in secondary industry. The role of the trading banks is emphasised here as they were the decisive sector of banking capital in the evolution of these changes.

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[4] Mattick, P., Marx and Keynes, Merlin, London, 1969, pp.23-24.

Between the wars both 'high finance' (the trading bank leaders) and industrial big business became conscious of the need to co-ordinate their finance structure with the industrialisation process. The repetition of economic crisis in the nineteen twenties and thirties, and the growth of secondary industry necessitated this. Hitherto the relationship had been incidental and uncontrived. The emergence of a complex and vulnerable industrial economy put an end to this. Synchronisation became the order of the day.

The Pastoral Bias of Banking Capital

Finance institutions and industrial capital were autonomous before world war one. The twenty years that followed laid the groundwork for their fusion.

The banks did not believe it was their responsibility to provide long term loans to secondary industry and consequently they played little part in financing the purchase of capital assets for manufacturers. Some long term, non-rural loans were made by the banks but these were few and of limited amounts. On the other hand, long term loans to the primary sector were a characteristic of the trading banks' loan structure. This historical association had its origins in the exigencies of the capital market in the nineteenth century: Government expenditure was provided by British loan capital, but private investment was more dependent on the domestic market; here the only substantial alternative to self financing was the trading banks. "Much of their credit to primary producers", wrote Arndt and Harris, "was frankly, though never nominally, long term credit for the purchase of land and construction of buildings and other improvements".[5] The

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[5] Arndt, H.W., and Harris, C.P., The Australian Trading Banks, Cheshire, Melbourne, 1965, p.56.

association with the countryside was bonded by the belief that the primary sector was the key to prosperity and therefore support of that sector was of national importance.[6] The banks identified with pastoral capitalism and were linked with it through their investments, their attachments to the big pastoral finance houses at a board level, and their own extensive land holdings.[7] There was another, pragmatic consideration that favoured the unity of bank and land: the banking system insisted that loans be nominally repayable on demand, a security measure to ensure liquidity in hard times. In Australia, contrary to British practice, the banks had contravened this principle to some extent by lending on land which, they argued, was at least a readily saleable asset, unlike for example, a factory dealing in specialised production.

Until their demise in the 1920's, the authority of the leading British banks in Australia entrenched this pastoral bias. The rural sectors were the key to British finance interests in Australia since it was through rural exports that interest charges on British capital, largely from the City of London, were paid off. Close association with London had always been a feature of the finance sector in Australia which regarded itself as simply a geographical extension of the British financial order. Three of the nine trading banks were British owned and commanded about one third of the total issued share capital in the trading bank sector. Two of them - the Australasia and the Union - had shared the leadership of the banking system since

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[6] For example, see the statements of C. Darvall, General Manager of the Commonwealth Banking Company of Sydney, Royal Commission into the Monetary and Banking Systems, Minutes of Evidence, Commonwealth Government Printer, Canberra, 1937, Vol. 1, p.295.

[7] For a persuasive but impressionistic account of the extent of bank land holdings see Fitzpatrick, B., The British Empire in Australia, 1834-1939, Macmillan, Melbourne, 1969, pp.402-406.

their inception in the 1830's. As the Adelaide economist A.G.L. MacKay explained: "London ... has wanted primary products from Australia, and, through the medium of her contributions to the capital and deposits of the Australian banks, was prepared to finance primary production".[8]

Much of the demand for bank credit in the nineteenth century came from farmers seeking money for land purchases and improvements, as well as for livestock and current working capital.[9] The banks provided credit for these requirements, as well as for housing, commercial building, transport, public undertakings, the mercantile sector and industry. However this apparent diversity was somewhat deceptive due to the preponderance of their investment capital in the primary sector. Statistics illustrate the pastoral bias of the trading banks loan structure; they are sparse, but sufficient. Financial institutions have historically preferred to obscure their business dealings and have contributed minimally to public awareness of them. The figures in Table 6 show the allocation of trading bank advances over a substantial portion of the inter war years.

The most notable feature of these figures is the share of advancces going to the rural sector. During the twenties this averaged at approximately 40 per cent, whilst in the following decade it accounted for closer to half or 50 per cent.[10] The share in both instances was roughly in proportion with the rural sectors contribution to the

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[8]MacKay, A.G.L., The Australian Banking and Credit Systems, P.S. King and Son, London, 1931, p.230.

[9]Arndt and Harris, op.cit. p.55.

[10]Ibid., p.60.

TABLE 6

NINE TRADING BANKS - AUSTRALIA
CLASSIFICATION OF ADVANCES, 1927-1936

Advances	1927	1931	1935	1936
A. Manufacturing & Mining	11.9%	9.6%	8.3%	9.2%
B. Commerce, Transport	22.6%	20.4%	18.3%	18.0%
C. Finance, Insurance etc.	4.6%	4.6%	5.6%	5.9%
D. Agriculture & Pastoral Industries	41.5%	47.4%	49.8%	47.7%
E. & F. Miscellaneous	19.4%	18.0%	17.5%	18.2%

SOURCE: Royal Commission into the Monetary and Banking Systems, Minutes of Evidence, 1936, Vol. 1, p. 314.

national income: pastoral and agricultural production was 48.1 per cent of the total value of production in Australia, 1921-25; and 43.9 per cent, 1931-35. The decline in the rural sectors' relative value was shadowed by the banks' increasing 'stake' in it. The investment in 'manufacturing and mining' was strikingly disproportionate. This aggregate was composed on a 3:1 basis which means manufacturing alone was in receipt of approximately three fourths the total figure.[11] The total figure declined by more than two per cent, between 1927 and 1936; not quite 10 per cent of advances went to manufacturing and mining in this period. The contribution of these sectors to the total value of production in Australia between the wars was approximately 40 per cent. It seems the banks played little part in the rapid growth of the manufacturing sector between the wars; indeed their contribution appears to have declined slightly.

The traditional silence surrounding the financial structure of the individual banks was first impaired in 1927 by Sir John Grice,

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[11] Report of the Royal Commission to Inquire into the Monetary and Banking Systems at Present in Operation in Australia, Commonwealth Government Printer, Canberra, 1937, pp.352-53.

Chairman of the National Bank of Australasia Ltd. Grice's statement offered a glimpse of the National's assets which hitherto could only be guessed at: primary producers comprised 40.4 per cent of bank overdrafts; 3.7 per cent went to secondary industry; 24.7 per cent to merchants; 28.3 per cent to a vagary entitled 'professional and personal' and 2.9 per cent were classed as sundry borrowings.[12] Butlin's history, Australia and New Zealand Bank, cites only the agricultural and pastoral business of the Union Bank and the Bank of Australasia (before amalgamation). This increased from 37 per cent in 1927 to 50 per cent in 1935,[13] and is very close to the Commission's estimates for the bank as a whole.

The most detailed account of a bank's loan composition must be attributed to the work of R.F. Holder.[14] In 1934 three fifths of all Bank of New South Wales' advances went to the rural sector (33 per cent pastoral, 20 per cent agricultural, 7 per cent dairying). Commercial and industrial lending totalled 22 per cent, little more than one fifth. This structure was to change sharply after the war, but hitherto it was consistent with the general framework of capital for industry: heavy emphasis on the land with little emphasis on secondary production.

Finance for Secondary Industry

The pattern which divorced finance from industrial capital was not a complex one. It was the banks policy, generally, to advise

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[12] MacKay, op.cit., p.164.

[13] Butlin, S.J., Australia and New Zealand Bank. The Bank of Australasia and the Union Bank of Australia Limited, 1828-1951, Longmans, London, 1961, p.410.

[14] Holder, R.F., The Bank of New South Wales. A History, Angus and Robertson, Sydney, 1970, Vol. 2, p.799.

public companies with considerable capital to go to the Stock Exchange for long term loans, and those who wanted a house were given the name of a private lender or a savings bank.[15] The smaller companies in between these extremes were, in most cases, simply not welcome.[16]

Thus the sources of industrial capital were to be found elsewhere - or not at all. The logic here is ratified by Forster's account of the financing of manufacturing, 1920-30, which shows the role of creditors and banks to have been small, though not insignificant: public financing and ploughed back profits accounted for about 80.5 per cent of capital needed by large scale companies in the twenties; the remainder, 19.5 per cent, came from the banks and creditors.[17] The large, well-established enterprises had relatively few problems raising finance. They could turn to the share market for long term capital and for short term or working capital to the banks,

> Manufacturing or trading establishments have no difficulties in obtaining sufficient short term accommodation for their requirements, providing that they are strong concerns (E.W. Holden told the Royal Commission in 1937).[18]

Holden's contemporary, the commercial magnate and financier, Staneforth Ricketson, clarified the relationship between the banks and industry,

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[15] See Royal Commission, Minutes of Evidence, Vol. 1, p.105, for a statement to this effect by the Chairman of the Commission.

[16] For examples of this attitude see statements to the Royal Commission by leading officials from the Australian trading banks. (Minutes of Evidence, Vol. 1, pp.41, 50, 140, 169, 295, 343, 399, 522-23).

[17] Forster, C., Industrial Development in Australia, 1920-30, Australian National University Press, Canberra, 1964, pp.195-208.

[18] Royal Commission, Minutes of Evidence, Vol. 2, p.994.

> So far as short term credit is concerned (he commented) the trading banks and other great financial institutions appear adequately to fulfil the needs of large scale enterprises, which can usually depend on obtaining on overdraft any reasonable amount of temporary capital they may require.[19]

The commitment of large manufacturers to the banks was, it seems, a limited one confined largely to the repayment of short term accommodations. The issue of capital from other sources, specifically the share market and surplus funds, provided for long term requirements. Forster estimates their contribution in the twenties to have been 48.7 per cent and 31.8 per cent respectively.[20] This was an inter war characteristic of the relation between finance and industry that faltered during the depression only to revive in the mid 1930's. The revival was marked by a number of highly successful flotations in 1935-36.

Between the wars big business in Australia satisfied its capital needs largely without recourse to the banks and other financial institutions, in marked contrast to the course taken by industry in western Europe. Hilferding and Lenin had based their anticipation of financial oligarchies arising out of capitalism on studies of metropolis countries. Restraints on this process did not concern them. The orientation of banking capital at the periphery however, was diverted from this course by its commitment to the process of imperial appropriation through the export sector.[21]

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[19] Ibid., p.1088.

[20] Forster, op.cit., p.198

[21] "The Australian banks (noted Arndt and Harris) have never participated in the finance of industry to anything like the extent of German and other Continental banks". (Op.cit., p.56).

In Australia large scale industry was the heavy and powerful fortress atop a mountain of smaller concerns. The average capitalisation of industry in the Commonwealth, 1933-34, was under £10,000.[22] By this measure capital formation in the country was still nascent. The Royal Commission into the Monetary and Banking System (1936-37), devoted much of its investigation - and a large part of its report - to the capital structure of the Australian economy and to secondary industry. There was considerable emphasis on 'capital for industry' and many of the witnesses before the Commission were asked: "Do you engage in long term lending to industry? Do you consider that there is any need for the establishment of facilities for that purpose?" In some cases, bankers and other financiers were required to explain the extent of their business with small scale firms. The Commission's concern for other sectors of the economy was quite apparent. There was good reason for its concern.

Forster's conclusions on the financing of small scale industry between 1920 and 1930 were comparatively vague. He drew heavily upon a very limited set of 'classical' economic sources - the papers of two proprietary companies held by the Australian National University. From these he determined that outside sources of financing played a very minor part in the growth of small scale industry in Australia, whilst the importance of creditors and bankers declined up to and into the twenties.[23] The first of these conclusions is satisfactory; the second, not so: though unwelcome, some small scale industry did receive capital from the trading banks and evidence suggests it grew in proportion to the total capital requirements of small scale business

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[22] For a detailed, statistical account of the capitalisation of Australian manufactures see Census of the Commonwealth of Australia, Commonwealth Government Printer, Canberra, 30 June, 1933.

[23] Forster, op.cit., p.199

between the wars. The Royal Commission discussed industry "not large enough to approach the market in the normal way". W.I. Potter, a prominent Melbourne Stock and Sharebroker, told the Commission that analysis of a large number of these companies showed them to have become "more and more in debt to the banks". Potter claimed this was a post war phenomenon caused by the smallness of the average Australian industrial organisation which precluded access to the share market. The Chairman of the Commission suggested some of these businesses may have found it more convenient or cheaper to rely upon bank overdrafts than to provide their own capital.[24]

The access of these concerns to bank funds was limited however, and circumscribed by the reservations of bank boards and managers. The National Bank for example, sometimes carried small industrial borrowers until other arrangements could be made - a purely intermediary role.[25] Working capital could be obtained from the banks if the venture was a sound one, but the chances of securing a loan for the provision of fixed capital - particularly if it was for the establishment of a firm - were slim indeed.

There is some literary evidence of the severe constraints on the access of small industry to bank capital. For example, the attempts of Frank Beaurepaire to get a £3,000 loan from the Union Bank in 1925, seem to be representative: the Beaurepaire Tyre Service had the opportunity to extend its business by establishing new premises on a site in La Trobe Street, Melbourne. But the times were savage ones

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[24] Royal Commission, Minutes of Evidence, Vol. 2, p.1049

[25] L.J. McConnan, General Manager of the National Bank in Royal Commission, Minutes of Evidence, Vol. 1, p.140

in the tyre industry with ruthless price cutting wars and a web of black marketeering spun amidst the legitimate wholesalers.[26] For the smaller dealers, like Beaurepaire, profit margins were slim and survival precarious. After receiving a tentative agreement from his branch manager, Beaurepaire's application was finally rebuffed when put to the Union's head office in the city. He was forced to seek money from friends, a not uncommon alternative.[27]

Ricketson summarised the problem in his evidence to the Royal Commission,

> The Australian banks have played a notable part in the development of Australian industry, but it is not their function to provide an avenue for the raising of long term capital. Private sources of capital from time to time have been available to help small industrial units, but these sources are entirely unorganised and uncertain.[28]

He added that his own firm, J.B. Were and Son, had experience of the problem with applications to it for assistance, from small industries, which "have not known, really, where to turn to get money". It was imperative "that some organisation should be created whose function it would be to supply finance and other assistance for small but promising industrial units".[29]

In South Australia the depression highlighted the need for a diversified export market with an increasing industrial component.

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[26] Lomas, G., The Story of Sir Frank Beaurepaire, the Will to Win, Heinemann, Melbourne, 1960. See chapters 7 and 8.

[27] Beaurepaire's business subsequently expanded with the flotation of the Olympic Tyre Company in August, 1933. Amongst the 27 original shareholders was R.G. Menzies, 'a modest investor'. These 27 shared in a capital fund of 65,550, (ibid., p.103)

[28] Ricketson, S., (J.B. Were and Son, Melbourne), in Royal Commission, Minutes of Evidence, Vol. 2, p.1092.

[29] Ibid., Ricketson's evidence specified in some detail the type of credit facilities he would like to have seen implemented. He was one big businessman unusually sensitive to the importance of finance for small industry.

The state's rapid industrialisation thereafter illuminated the necessity for a reformation of credit facilities, particularly for small industry.[30] South Australia provides the most glaring example of the contemporary dissonance between finance and industry: the Industries Commission of the South Australian Chamber of Commerce made a detailed study of finance for industry and concluded the trading banks were inappropriate institutions,

> it is imperative that more reasonable credit facilities be provided for the expansion of small scale industries ... The business of advancing semi-permanent capital for the development of small scale industry must, in the opinion of the Industries Committee be conducted by an institution separate from the trading banks. It will supplement and not compete with them. It will be its programme to advise its clients to transfer their custom to the trading banks when the period of development is complete.[31]

By the mid thirties, the relationship between finance capital and small scale secondary industry had become patently disharmonious. Small scale industries had mushroomed feverishly since the war and the capital requirements of this sector grew at a rate which available creditors could not fulfil. There had been some structural adjustments in the finance sector, the most significant being the tremendous growth of investments in Government securities by the banks and insurance companies during and after world war one. But this worsened rather than helped the shortage of capital in the secondary industry.

Government Loans and Banking Capital

A major restraint on an earlier fusion with industry was the increasingly greater part played by banking capital in financing

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[30] The best account of the urgency that infused this realisation is K.C. Wilson, Capital for Industry - Its Relation to National Prosperity, Blennerhassett's Commercial Educational Society of Australasia, Adelaide, 1937.

[31] E.W. Holden (South Australian Chamber of Manufactures) in Royal Commission, Minutes of Evidence, Vol. 2, pp.994-5.

government spending after the 'Great War'.

In the 1920's, the Commonwealth and most State governments, co-operated in a plan for rural development on a grand scale. Their intention was active state intervention to encourage private capital formation in the countryside. This programme for rural development coincided with and was partly inspired by the British government scheme for Empire resettlement (the migration of 'surplus' Britons to the Dominions). To finance the programme Australia borrowed heavily from Britain. By 1929, it was amongst the largest debtor countries in the world. However the rapid absolute growth of overseas debt was matched by the relative growth of the national debt domiciled locally. In 1901 only 14 per cent of the national debt was owed within Australia. By 1911 this was 29 per cent and for 1927-28, 48 per cent.[32] It was the financial institutions that indulged in this widening field of investment as did no other sector. High, steady and secure interest rates from 1917 were the main influence, in conjunction with a marked drop in the efficiency (internal rate of return) of private capital between 1920 and 1928, from 7.4 per cent to 5.0 per cent.[33]

The traditional economic nexus between banking capital and countryside was accompanied after World War I by intensive investment in gilt edged securities. The unification of banking and industrial capital was retarded by the cost of the war to the government followed

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[32]Bruce, The Rt. Hon. S.M., The Financial Position of Australia, Wickes and Andrews, London, 1926. (Pamphlet held in Barr Smith Library, University of Adelaide).

[33]Wood, G.L., Borrowing and Business in Australia. A Study of the Correlation between Imports of Capital and Changes in National Prosperity, Oxford University Press, 1930, p.209.

by massive infra-structural commitments by the government thereafter, i.e., by intensified competition for funds from the public sector, to which banking capital responded eagerly. The changing credit structure of the major finance institutions illustrates the point:

TABLE 7

PROPORTION OF ASSETS HELD IN THE FORM OF GOVERNMENT AND MUNICIPAL SECURITIES

	Trading Banks	Life Assurance Companies
1910	4% (£15m)	32.10%
1916	10%	-
1920	20% (£37m)	58.29% (£45m)
1928	25% (£80m)	54.28% (£92m)

SOURCE: Compiled from Australasian Insurance and Banking Record.

Life assurance and savings bank funds invested in Commonwealth and State loans amounted "to about 30 per cent of the whole of the debts domiciled in Australia" between 1925 and 1928.[34] The national debt owed locally was otherwise evenly distributed. These solitary indications support the contention that banking capital became the largest and outstanding, local investment 'bloc' in Australia's national debt.

Change

The pastoral bias of the financial system was an historical characteristic that extended confidently into the period between the wars. The banks neither gave substantial help to secondary industry, nor did they believe it was their job to do so. But at the same time, there had occurred extensive contemporary adjustments in the structure of the Australian economy, embodied principally in the relative growth

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[34] Collins, J.R., The Public Debts of Australia, Nissen and Arnold, London, 1929, p.14. (Pamphlet held in Barr Smith Library, University of Adelaide).

of secondary industry. The inflated size and significance of this sector overshadowed development in others and undermined the more solid, nineteenth century foundations on which the unity of banking capital and the countryside had been based. This was the objective basis for the demise of the pastoral bias.

Symptomatic of the demise was firstly the declining authority of the British banks in Australia - their deposition from the leadership of the finance sector - and secondly, the unification (at the directorate level) of finance and industrial big business. S.J. Butlin has traced the former, whilst the bank histories of R.F. Holder and Geoffrey Blainey, read with a Who's Who near at hand, substantiate the latter proposition.[35] In the case of the Bank of New South Wales for instance, seven of the ten directors appointed, 1896-1917, were interested in the primary sector; only one had industrial interests (John Fairfax) and he too was a pastoralist. Of the following twelve directors appointed between the wars, six were industrialists and only three had direct pastoral or pastoral finance connections. The balance was clearly shifting, and with it were to come dramatic changes in the sphere of national monetary policy and banking 'outlook'; changes that marked the first stage in the deliberate co-ordination of banking capital and secondary industry. This was a significant development for Australian capitalism and the beginning of the end for the pastoral bias of banking capital. (Appendix 1).

The depression crisis hastened the process. Orthodox thinking on monetary policy that had prevailed for more than a century was cast aside, the autonomy of banking capital was severely curtailed by the

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[35] Butlin, op.cit., pp.377, 382, 420-21; See also Blainey, G., Gold and Paper: A History of the National Bank of Australasia, Ltd., Georgian House, Melbourne, 1958.

state and, within the state, the Tariff Board was politically ascendent. Finally, there were sections of 'high finance' itself which accepted and participated in these rapid changes, recognising that the new era demanded a new orientation and role for banking capital.

Banking Capital and Monetary Policy

Until 1930, two major economic problems - domestic stability and external balance - were conceived of as revolving around the control of the value of money. Fluctuations in the level of economic activity, output and employment were interpreted as fluctuations in the general level of prices. Thus the scope of legitimate monetary policy was confined to the stabilisation of prices. This singular function was 'played out' according to the rules of the gold standard, with sanctity to external balance over the internal cost-price structure. If this caused unemployment then labour was simply considered to be overpriced and further adjustments in labour costs were advised.[36] Monetary theory was concerned with prices and nothing else, Arndt explains this fixation:

> Throughout the nineteenth century and up to until about 1930, monetary policy can be said to have had one simple objective: to control the value or purchasing power of money. In classical and neo-classical thought, control of the value of money was all that monetary policy needed to aim at, and it was all that monetary policy could hope to accomplish.[37]

This traditional outlook was undermined by the economic conditions of the inter war years, leading to the subservience of external equili-

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[36] Joan Robinson has described the belief that lower wages increased unemployment as a "fallacy of composition". This is explained in her Collected Economic Papers, Blackwell, Oxford, 1961, Vol. 1, pp.135-36.

[37] Arndt, H.W., "The Role of Monetary Policy", Annales, University of Istanbul, 1955, pp.131-51.

brium and the priority of internal stability in monetary policy. The chronic trade cycle problems that afflicted the world after the war illustrated that fluctuating prices were only a symptom and not the cause of domestic instability. In this atmosphere attention shifted to the level of economic activity and mass unemployment. Increasingly, price instability came to be seen as merely a reflex of these economic aggregates. Consequently the part to be played by banking capital in establishing and maintaining a healthy domestic economy was subject to re-evaluation and heated controversy. The concept of a 'managed economy' gravitated to the centre of the debate in the early thirties and was still there, generating contention, in 1939. Should the banks have a responsibility to the preservation of economic activity and full employment? How should this responsibility be implemented? What would be undesirable in this unprecedented 'intervention'? These were the kinds of questions that financiers and economists puzzled over in the thirties.

The course of the debate was an exceptionally cautious one but by 1937 its ramifications had registered. National monetary policy was to play a conscious and vital part in the regulation of the economy. Its horizons extended beyond 'prices' to administration over the level of economic output and of employment. This was set out by the Royal Commission into the Monetary and Banking Systems in 1937:

> The general objective of an economic system for Australia should be to achieve the best use of our productive resources, both present and future. This means the fullest possible employment of people and resources under conditions that will provide the highest standard of living. It means too the reduction of fluctuations in general economic activity. Since the monetary and banking system is an integral part of the economic system, its objective will be to assist with all the means at its disposal in achieving these ends.[38]

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[38] Report of the Royal Commission, op.cit., p.201.

Guided by the persuasive influences of D.H. Robertson and John Maynard Keynes, there emerged in the glib years of the depression, some approval for this new belief in monetary management. It focussed on credit control theory, and interest rate manipulation. Keynes had argued along the line that "a flexible monetary policy, easy credit and cheap money in times of underemployment and depression, and tight credit and high interest rates in times of boom and inflation, seemed to offer the most promising approach to the problem of economic stability".[39] This advice was embodied in the MacMillan Report in Britain (1931), a report that became the blueprint for western monetary practice in the thirties.

Keynes believed the interest rate, i.e., the cost of borrowing money, had a profound effect on the "propensity to invest". The latter, he argued, was determined by profit margin. When this was slim interest rates had to be reduced to encourage the investor. This could only be effective if his profit margin was greater than the cost of his investment. Thus when profits were down, interest rates would have to come down to maintain the incentive for continued economic activity. Keynesian theory was based on the assumption that investment decisions were determined by considerations of the market rate of interest, an assumption that proved quite misleading in many countries - including Australia.

These new ideas gained widespread acceptance with ease, their reception in Australia fired by the strong populist belief in the twenties that banks were parasitic institutions, 'unproductive', 'squandering' and 'profiteering' with rates of interest that were too

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[39] Arndt, H.W., op.cit., p.134.

high, choking the economy and causing periodic stagnation. Bank populism was represented politically in the A.L.P., principally by the prominent figures of Frank Anstey and Ben Chifley. Its popularity was symbolised by the massive sales in the Commonwealth of Caesar's Column, an American tirade against the banks and 'interest-slavery'.

Parliamentary records show that Keynes' ideas had attracted the attention of Labor politicians at the onset of the depression. The debate on the Commonwealth Bank Bill (1929) contains several references to Keynes, specifically on the matter of interest-burden. It was an appropriate time for the matter to be foremost in political minds: Australia's national debt (the government's accumulated borrowings) had grown from £383 million in 1915 to £830 million in 1921; by 1928 it stood at £1.099 million. Interest paid on the debt was financed by continued borrowing and by taxes which reduced the incomes earned in the course of production. Commonwealth and State taxation as a portion of national income was 6.3 per cent in 1901-3 and 7.6 per cent in 1914-15. Thereafter it rose sharply to be 12.9 per cent by 1920-21 and in 1928-29, with incomes declining, it was still 11.5 per cent.[40]

High interest rates and increased government borrowings made the burden of interest payments in the depression a heavy one. With falling revenue from taxation and a tight liquidity situation (no more loans), the government became susceptible to insolvency, i.e., the inability to meet its interest commitments. The situation could be met by increasing taxation or converting it - a form of contract violation or repudiation; only extreme circumstances would prompt the latter, but the circumstances were extreme - the economic state of the

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[40] Clark, C., and Crawford, J.G., The National Income of Australia, Angus and Robertson, Sydney, 1938, p.82.

government called for the most savage of measures. The affluence of banking capital was hung in the balance: it was Keynes' belief that the "rentiers", as he called them, the banks, life assurance companies, other financial institutions and the investing public, were the "fat cats" of this period whose affluence would choke the economy and cause crisis, due to the impoverishment of workers through taxation for the national debt. A Labor parliamentarian quoted Keynes in the House of Assembly, late in 1929:

> Legislation is liable in these days of huge national debts expressed in legal tender money, to overturn the balance so far in the interests of the rentier that the burden of taxation becomes intolerable on the productive classes in the community.
>
> It means impoverishment to labour.[41]

The government was concerned at this time for the future of private enterprise. It was considered that should too much of the national profits fall into the hands of 'unproductive' capital, thus reducing the portion left to the 'productive' capitalists, this might dissuade the latter from further involvement.

Implementing these new ideas necessitated the expanded role of the state in monetary management and, concommitantly, reductions in the autonomy and managerial prerogatives of banking capital, whose activities were now constrained in accordance with the requirements of the domestic economy, specifically those of 'productive' capital. The severity of the depression concentrated this process into the space of only three or four years. The break from the gold standard (1929), exchange devaluation (1931), and the attack on interest rates in the Premier's Plan (1931), were the leading manoeuvres. They were

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[41] Commonwealth Parliamentary Debates, Vol. 122, 1929, p.607.

delicate and volatile. 'High finance' was frequently hostile and paranoid but it succumbed to the changes, deftly sidestepping blame for the crisis, and using its bargaining power to ensure its private status and to win guarantees that government budgets would be balanced. "The banks believed they should co-operative with the government and Commonwealth Bank to rehabilitate industry as long as the present monetary system was not impaired".[42]

The Gold Standard

Prior to the depression as we have seen, orthodox monetary theory gave unquestioned priority to the maintenance of the external balance of payments over internal economic balance. The gold standard mechanism which operated this priority was formulated during the 'laissez-faire' phase of capitalism in Britain and functioned to the advantage of that nation. It was held by 'sound' theorists that the monetary system was a natural, self-equilibrating mechanism in need of no human interference. The gold standard was supposed to maintain international monetary equilibrium, automatically, by appropriate changes in the domestic money supply and cost-price levels. According to this theory, "the rules of the gold standard", the government guaranteed to buy and sell gold at a given rate in exchange for the national currency. With an unfavourable balance of payments, the exchange rate, operating according to the law of supply and demand, moves against the nation concerned, i.e., its currency is effectively devalued or other currencies become dearer in terms of its own. But fixed to the gold standard this process is confined within narrow limits (the gold points) beyond which it becomes cheaper to buy and

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[42]Holder, op.cit., p.697 (Emphasis added).

ship gold to pay for imports rather than to purchase foreign currency through the banks. The resultant reduction of national gold stocks on which the note issue is based forces a credit contraction and a concommitant reduction of incomes; prices drop and the nation's competitive position improves - exports can be produced cheaper and their demand abroad increased, whilst the lower price structure will dissuade imports. By this procedure, the gold standard mechanism, it was believed, righted the balance of payments and with it the parity of the exchanges.

However, the gold standard's apparent neutrality was illusory; essentially it was a device for the flow of gold to nations with a favourable balance of payments from others with an unfavourable balance. The gold standard was an important part of the process by which Britain became the creditor nation of the world. "Its purpose", wrote Mattick, "was to express and secure the property claims attached to the commodities and capital entering the world market". In this it was highly successful, but as a mechanism for righting external disequilibrium, it was a total failure. "At times some nations experienced what seemed to be an unendingly favourable balance of trade and payments while others were not able to overcome unfavourable balances regardless of their deflationary policies".[43]

Despite this inbuilt favouritism, the gold standard proved highly durable and not until the depression was it forced onto the scrap heap in Australia. A catastrophic fall in the return on exports coincided in 1929-30 with heavy, maturing interest commitments to London. This placed tremendous strain on the London balances of the Australian

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[43] Mattick, op.cit., pp.175-77.

banks.[44] Gold flowed out of Australia to the 'mother country' at an unprecedented rate and the corresponding contraction of credit, according to the rules of the gold standard, threatened total economic stagnation and savage resistance from the trade unions. Consequently, the Scullin government was forced to take Australia off the gold standard.[45]

Legislation was passed in November, 1929, concentrating Australia's store of gold in the vaults of the Commonwealth Bank, giving the bank control over the export of gold, with the right reserved by the government of the day to veto any shipment of gold of which it disapproved. The 'success' of the Commonwealth Bank Bill must be measured in terms of the gold saved, as "it is at least probable that, under a freely working gold standard the whole of Australia's gold holdings and the annual production (of gold) would have been exported during 1929 and 1930".[46]

The banks saw the rationing of gold exports as a temporary exigency that would not, after the crisis, impede a return to the principle of "automaticity". Indeed these traditional loyalties convinced the Commonwealth Bank that the legislation was not even a temporary abandonment of the gold standard, though it surely was: the sanctity and unquestioned priority of external equilibrium was defied for the first time and thereafter domestic economic stability took precedence. The gold standard had proved to be a 'fairweather mechanism', unworkable in a severe deflationary crisis. Consequently

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[44] Mills, R.C., and Walker, E.R., Money, Angus and Robertson, Sydney, 1941, p.224.

[45] At the outset of the crisis total gold holdings for monetary purposes was £46 m. Even the move off the gold standard failed to prevent a decline to £16 m. by December, 1930.

[46] Mills and Walker, op.cit., p.246.

the banks loaned their support to the downfall of a practice they had followed dutifully for more than 100 years.[47] The legislation interfered sharply with their autonomy but they arrived at a unified acceptance as it was an exigency to ensure their survival. The Argus wrote at the time: "There had been rumours of serious interference with the functions of banks and the trading community was becoming apprehensive. After they had perused the bill, bankers and business people regarded the position more philosophically".[48]

Australia's economic dependence on Britain, for trade and capital, was expressed in 1929 in the form of a monetary crisis which the domestic economy could not accommodate. This forced the break from gold and the shift to a more independent monetary footing, geared primarily to the internal economy rather than the management of trade with England and the maintenance of external equilibrium.

The Exchange Crisis

Departure from the gold standard did not effect the widely held and accepted belief that the Australian pound was the same currency as sterling; consequently an attempt was made to confound the free play of market forces by pegging the two currencies as close to parity as possible (i.e. £100 sterling: £100 Australian). But the economic consequences of this "artificial parity" caused divisions amongst the bankers: the unfavourable balance of payments situation persisted into 1930 with importers continuing to place great strain on the London balances of the banks. These reserves had been drastically cut due to the fall away in export prices and trade and the banks could

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[47] Ibid., pp.246-47.

[48] Argus, 30 November, 1929, p.16.

not meet all the business of their importing clientele. The exchange rate on London had moved to £106.6s.3d. at March, 1930, but still the demand was not abated. As a result, the banks were forced to 'ration' their exchange holdings, i.e., provide exchange only to selected importers. The magnitude of the exchange shortage was compounded by the quota of sterling annually purchased by the Australian government to pay interest on the national debt. Government payments were given precedence thus avoiding repudiation, whilst the disgruntled importers searched elsewhere for foreign exchange.

These conditions engendered a flourishing 'outside market': exporting firms with a surplus of London funds were selling them to the importers at exorbitant prices. They took exchange business from the banks and confounded the attempt to maintain the solvency and good standing in Britain of Australian capitalism. The 'outside market' fostered a continued balance of trade deficit through its indiscriminate support for importers. The banks were outraged with these "unpatriotic activites', whilst Alfred Davidson, the general manager of the Bank of New South Wales, threatened to publicly release the names of "large importers privately negotiating with exporting firms to buy their sterling at a higher rate while the banks were obliged to ration".[49]

The conflict between the outside market and the banks seemed to represent business and profits against national credit standing and solvency; perhaps some bankers saw it crisply in terms of treachery versus patriotism. But it was more complex than this, for the banks too were inherently committed to competition for profit. They were privately owned and their directors were charged with the task of

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[49] Holder, op.cit., p.681.

expanding business and providing good dividends. It was contrary to the very essence of the trading bank system to acquiesce passively to the loss of good business or the growth of competitors. By December, 1930, there were moves afoot to unpeg the exchange, devalue the currency and compete with the outside market. These were initiated by Alfred Davidson, the general manager of the Bank of New South Wales.

At this point in the exchange crisis, a most important division appeared in the trading banks. It was a division that illuminated the fundamental contradictions between one national capital and another; between the British banks in Australia and the Australian banks. Both groupings placed the highest priority on economic stability and Australia's credit standing in Britain, but their solutions put them at odds. Towards the end of 1930, the bankers and financiers stood in two camps: the five banks in Melbourne formed a bloc, unified and extremely conservative. Three of them were British - the Australasia, the Union and the E.S. & A. The other two were the National and the Commercial Banks, who, with the Commonwealth Bank, "were somewhat under the influence of the three London based banks".[50]

Wreford, the general manager of the National "had a strong and sentimental faith in Great Britain and wanted the Australian pound to adhere as closely as possible to sterling".[51] He thought that devaluation would harm Australian credit and British trade; it would, he emphasised, increase the cost of meeting interest commitments in Britain. J.R. Drysdale, the general manager of the Commercial, played a less vocal part in the Melbourne bloc, but his bank too stood unequi-

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[50] Ibid., p.682

[51] Blainey, op.cit., p.330.

vocally with the National and the British banks. Their unity was expressed organisationally in the Associated Banks of Victoria through which the five banks would meet regularly to discuss matters of common interest and act as a united political force. "There is no association quite similar in any other capital city", noted the Royal Commission in 1937.[52]

Melbourne was the hub of British finance in Australia and the Associated Banks of Victoria was the institutional expression of its local influence. The Melbourne trading banks and the Commonwealth Bank, exhibited an intense loyalty to Britain and were firmly committed to the maintenance of exchange parity despite their loss of business and the aggravation of Australia's credit standing in London. The Melbourne bloc was loyal to the advice of Sir Otto Neimeyer and fearful of the response in London should the exchange rate be unpegged.

The British banks had a special reason for opposing devaluation; this has been overlooked in other accounts of the exchange crisis essentially because structural antagonism between one national capital and another has not been pursued. The relation of these to the foreign exchange mechanism was not the same: in a number of ways a shift in the exchange rate could have advantages for the British financiers and disadvantages for the Australian ones, or vice versa: devaluation in Australia involved great expense for the British banks (and other financial institutions) in remitting profits (cash bonuses and dividends) to their shareholders in Britain. A substantial devaluation, as was contemplated by the Bank of New South Wales, could detrimentally affect the business of British finance institutions in Australia

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[52]Report of the Royal Commission, op.cit., p.159.

through the heavy cost of remittance. This was a sound basis for the unification of British finance capital against the 'liberation' of the exchange rate: if the devaluation was 25 per cent, then they would have to pay that much more to remit profits to London.

This quandary affected the Australian banks too, but not to the same extent. British capital in the six Australian banks was only about 11.8 per cent of the total, with the remainder domiciled in the Commonwealth. About 64.3 per cent of capital in the three British banks was held in Britain.[53] The cost of remittance was crucial for these - devaluation was anathema.

The advantages of devaluation were, on the other hand, quite apparent. It would help primary producers since sales at a given price in sterling brought larger sums in the depreciated currency. In addition, it was an indirect form of protection for local manufacturers since the cost of imports would be effectively raised and perhaps the 'outside market' defeated. Late in 1930, with the annual wool sales pending and heavy losses threatened, devaluation of the Australian pound became increasingly popular for these reasons. Led by the Bank of New South Wales, the national currency was progressively depreciated settling at the rate of £130.5s. late in January, 1931. The new rate was victorious with the outside market unable to compete at that price and forced to subside.

Davidson and the Bank of New South Wales found staunch allies in the Bank of Adelaide and the Queensland National Bank, in primary producers' associations and in the Treasurer's department where Joe Lyons called the tune. The three banks had heavily financed rural

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[53] *Ibid.*, pp.155-56.

producers, and were keen to support the man on the land. But the Melbourne banking bloc was in a similar position; rural commitments, consequently, cannot account for the split in the banking community. The explanation lies elsewhere: in Melbourne the hegemony of British banking capital had prevailed, its belief in parity intensified not only by tradition, but the cold, hard economics of devaluation. Alternately, the Bank of New South Wales and its allies, independent of the Melbourne environment, found the economics of devaluation only to their advantage. Though slow and reluctant, the Melbourne bloc was forced to conform as the limits of its conservative resistance were circumscribed by the competitive element in the devaluation. They had to comply or lose business.

Throughout 1930 the Melbourne banks had acted in unison, consistently opposed to the measure that would in a small way stem the tide of falling prices. Their attitude to the national crisis was less constructive and flexible than Davidson's, and their role in the formulation of a national policy to counter the crisis was eclipsed by the feverish activity and involvement of the Sydney bank. The exchange drama cracked banking capital in Australia at a tactical level, consolidating the shift to a more autonomous and domestically oriented monetary outlook. Effectively, the action of the Bank of New South Wales marked a breakdown in the hegemony of the British banks in Australia, illuminating a fundamental and at that time severely aggravated contradiction in the economic system.[54]

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[54] The flurry of bank amalgamations between 1917 and 1931 seems to provide the background to the declining influence of the British banks. This period was characterised by vigorous rivalry in boom conditions for the banks and other sections of banking capital. Amalgamation became an efficient method of expansion and fortification. In the year 1917 there were 21 trading banks in Australia; by 1932 there were 9. But the leading British banks, the Union and the Australasia, had stood aloof from this process, and were by 1931, relatively weaker, particularly in relation to the Bank of New South Wales which emerged as the strongest bank in Australia. (See Butlin, op.cit., p.382).

Interest Rates

The Premiers' Conference of 1931 adopted a number of policies to combat the depression. Amongst them was the proposal for the conversion of the national debt owed within Australia to a lower rate of interest. The chain reaction in the following years progressively and markedly reduced all interest rates.

The conversion was perhaps the sharpest blow struck at banking capital during the thirties. The trading banks took it, fearing nationalisation or other coercive measures, and recognising the sacrifice as a societal exigency. Effectively, an era of 'cheap money' had begun. This was reinforced by the introduction of Treasury Bills in large volume during 1930, which were issued to cover deficits and to finance public works. Like the conversion they were an indirect form of credit expansion. With these mildly inflationary policies, the orthodox theory of deflation in times of economic inertia was seriously impaired, and its future thereafter in jeopardy. Some bankers began to consider whether monetary management had an important part to play in the future regulation of the economy. They considered passively the possibility - perhaps the necessity - of financing government (and industry) at minimum cost to the latter. Others, the majority, clutched niggardly to the fully fledged deflationary tradition, fearful of 'interference' with the economy and suspicious of its advocates.
In this contentious atmosphere, Alfred Davidson emerged to become the indisputable spokesman for high finance in the thirties. Whilst Wreford of the National Bank railed angrily at "the desperate quack remedies and stimulants" of the inflationists, placing all his emphasis on "thrift and sacrifice",[55] Davidson was turning approvingly towards the

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[55] Blainey, op.cit. p.333.

contrary set of ideas and policies. He would be instrumental in unifying the banks around the 'cheap money' policy. His own bank was to pioneer the breakdown of banking capital's isolationism - the beginning of its active, conscious involvement in the management of the national economy - and with this, the shift in perspective away from the man on the land towards the cities and industrialisation.

The policies which curtailed the autonomy and authority of banking capital aimed at support for industry and better economic management on behalf of productive, particularly industrial, capital. These policies were complemented, within the government, by the heightened authority and autonomy of the Tariff Board which, between the wars, mediated the provision of cheap capital goods to pastoralists, agriculturalists and manufacturers through the free admission of low cost overseas products. In conjunction with the rapidly declining autonomy of the banks at the height of the crisis in 1931, the newly elected conservative party pledged the Lower House to act in accordance with Tariff Board direction on all matters to do with the entry of overseas goods. The decline of the banks and 'unproductive' capital complemented the political ascendence of productive capital in the form of the Tariff Board.

Davidson's role in accommodating banking capital to this spate of changes was perhaps the most important individual contribution. Few men were more active; none more influential. In freeing the exchange rate he must be regarded as the catalyst for the practical break from British finance hegemony expressed in the traditional obeisance to parity. Similarly, he was a central figure in the Premiers' Plan: in the months that led up to the plan Davidson interacted with the leading economists with whom he had an unusually communicative and friendly relationship for a man of business, whilst his eminence in parliamentary circles transcended that of other bankers.

His rationale for the new monetary measures provides a rare insight into the ideological adjustment of high finance to the exigencies of the struggling Australian economy. With the unqualified support of his directors, he first advocated interest rate cuts early in 1931, arguing specifically that the income of classes living off interest payments had to be cut; shades of Keynes' "euthanasia of the rentier" proposal. In January, 1931, the Producers' Advisory Council to the Scullin government released to the press its recommendations calling for lower interest rates. "Davidson and possibly Shann had a hand in drafting the Council's press statement". This was done through the medium of Sir Adrian Knox, a director of the Bank of New South Wales and Chairman of the Producers' Advisory Council. Davidson was adamant that a 'cheap money' policy would be beneficial, stressing the need to short circuit "unemployment and unrest".[56]

Other banks were cautious; the banks in Melbourne were totally opposed. The Bank of New South Wales had strayed far beyond the pale of managing price fluctuations and was immersed in the application of monetary policy to the management of the economy and the stimulation of investment impulses.

The breakdown of banking capital's isolationism, its new and active intervention into the management of the economy, embodied the necessity to stimulate industrial activity with monetary measures. The rapid industrialisation of Australia in the previous decades had rendered secondary industry the key to the employment problem and the stability of the economy in general. Those influenced by Keynesian

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[56] For an account of the campaign to lower interest rates see Holder, op.cit., pp.695-714.

ideas believed capital costs were crucial to the level of investment and must be lowered in order to stimulate enterprise. Even prior to the devaluation of the exchange in January, 1931, Davidson had discriminated in the rationing of foreign exchange to importers according to the Tariff Board's criterion: priority went to the importation of raw materials and machines essential to production whilst less essential items "such as gramophones, pianolas, films, motor cars, etc" were to be severely curtailed.[57] This emphasis crystallised specifically into a penchant for lowering the costs of production in the export industries and the sheltered or protected industries. "A reduction of interest at the present time would be good business, good politics and good leadership", he asserted.[58]
In April, 1931, the Bank of New South Wales organised a meeting of "eminent industrialists and businessmen". The purpose of the meeting was to formulate a plan to keep business going, to reduce unemployment and restore profitable manufacturing to the economy. This was a far cry from the traditional, singular concern of bankers for the ironing out of price fluctuations. Davidson saw a need to release manufacturing from the narrow confines of the home market; a need stemming from Australia's over dependence on primary products sold overseas. This was a particularly stunted aspect of Australia's economic growth as evidenced by statistical data: Australian secondary industry export was valued at approximately four and a half million pounds in 1907. By 1929 this figure had not increased. There was no complement to the primary export industry. The meeting that took place has been referred to as the Conference of Reconstruction. Present were some of the

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[57] Ibid., p.699.

[58] Ibid., p.702

biggest industrialists in the country - R.W. Gillespie (also a director of the Bank of New South Wales), H. Darling, C.H. Hoskins, Essington Lewis, H.R. Lysaught, S. McKay - and two of the most eminent economists - Copland and Shann. The meeting was chaired by Davidson and little is known of the outcome. Its significance here is in terms of the Bank's objectives, its energetic penetration further into the sphere of productive capital.[59]

The Bank sent its general manager abroad in 1934 to study monetary policy and economic conditions in Europe. Davidson's tour entrenched his convictions; he returned convinced that a major shift in economic activity was afoot, "away from the man on the land to those classes which provided the amenities of civilisation". His concern was for the future of the economy in general and for that of the Bank of New South Wales in particular; the need for the integration of finance with the secondary and tertiary industries. The future of the Bank lay with these.

> It was an age of commodity surpluses (wrote Holder, describing Davidson's outlook) and the emphasis in the future would have to be less on primary production and more on the secondary and tertiary industries.[60]

A campaign to diversify bank assets followed. It was the culmination of four years of radical change in the outlook of high finance in Australia: the gold standard's redundance and the devaluation in 1931 expressed the emergence of a national monetary policy that gave priority to the stability of an increasingly industrial economy. This priority took the form, principally, of a 'cheap money' era and the active intervention of monetary authorities into the arena of economic manage-

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[59] Ibid.

[60] Ibid., p.799. For the earlier development in Davidson's thinking see his article "The New Conception of Money as Illustrated in Swedish and London Practice", Australian Insurance and Banking Record, Vol.56, No. 12, 21 December, 1932, pp.1048-49.

ment in the interests of industrial capital. Within this framework, the Bank of New South Wales pioneered the shifting perspective of the banks towards greater attention to secondary industry. In the years that followed, the transformation was quite startling: the share of manufacturing in bank advances rose from a pre-war average of 9.9 per cent to a 1948-49 average of 21.5 per cent. The share of the rural industries dropped from 46.6 per cent to 25.5 per cent.[61] The 1945 Commonwealth Banking Act gave legislative expression to the active part of banking capital in the regulation of the economy; in 1943 a Secondary Industries Commission was created, and in 1946 the Commonwealth Bank established an Industrial Department to provide credit for small industry. The transformation was under way.

In the following chapter we continue to examine the integration of other sectors of the economy with the industrialisation process. The role of monopoly mining capital in heavy manufacturing development in Australia is dealt with in detail. It contrasts with the role of the banks in that the leading mining interests played a vigorous and formative part in industrialisation. The circumscribing influence of the world economic crisis between the wars, and of declining British capitalism, are the necessary background in the analysis.

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[61] Arndt and Harris, op.cit., p.61.

CHAPTER V

MINING CAPITAL AND MANUFACTURING

"There is still lots of room for enterprise in this direction.... We cordially invite (British) manufacturers to study the Australian position with a view to commercial operations there".

W.L. Baillieu in The Times (London), 13 July, 1922, p.12.

"Our duty is not to find a formula to save the world industry, but to obtain as much protection as possible for the interests of our clients".

W.S. Robinson to Colin Fraser, Fraser Papers, Melbourne University Archives, 1/85/4.

Two mining groups dominated manufacturing development throughout the period between the wars. These were Anglo-Australian groups in which British capital predominated. The first was an alliance of lead - zinc interests which became known as Collins House; the second, the iron and steel manufacturer, Broken Hill Proprietary.[1] Their fortunes drawn from mines at Broken Hill, they were individually the wealthiest corporate groups in the Commonwealth. The scale of their operations set them apart from other manufacturers; so too did the monopoly position which they acquired and their exploitative relations with other sectors of the economy which flowed from this position.

My argument below deals with the specific contributions to manufacturing made by the Broken Hill Proprietary (B.H.P.) and Collins House. It situates their operations in the context of world capitalism and particularly British imperialism. The principal contention is that the constitution of manufacturing capital in Australia emerges more clearly from putting it in this context. Conventional historians attempt to explain this phenomenon in terms of a self-propelling dynamic that spun out of the Great War and was helped along thereafter by a protective tariff.[2] This is fundamentally incorrect. The dynamic, it is argued below, springs rather from the interaction of both domestic and international economic forces; specifically, the relative decline of British imperialism and economic developments in Australia that were symptomatic of the decline. These events were the necessary conditions for the consolidation of manufacturing

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[1] The lead-zinc group took its name from its headquarters in Collins House, 360-366 Collins Street, in Melbourne.

[2] The conventional view was dealt with in Chapter II and III.

capital. In Chapter III they were dealt with in more detail. The manufacturing forces unleashed by the war had previously been contained; thereafter, it will be argued, the exploitation of these forces was engineered by British capital through the takeover and expansion of the base metals manufacturing industry in Australia.

The first section of this chapter covers the international operations of Collins House. This permits an account of the Australian economy's role in the overall operations of the enterprise. The Broken Hill Proprietary receives a more summary attention later since its international operations were relatively insignificant and, moreover, its history has been well covered by other writers in sharp contrast to the dearth of material on Collins House.[3] Indeed it can be said that this chapter is the first comprehensive analysis on any aspect of Collins House history. The second part of the chapter covers the growth of manufacturing interests in the two corporate groups. This growth was manifestly responsive to the international economic crisis of the period. For Collins House a series of realisation crises on markets abroad compel vertical integration at home and increased dependence on the market there; for B.H.P., the

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3 The principal works here are, Hughes, H., The Australian Iron and Steel Industry, 1848-1962, Melbourne University Press, 1964; Forster, C., Industrial Development in Australia, 1920-1930, Australian National Univeriity Press, Canberra, 1964; Blainey, G., The Steel Master: Essington Lewis, Macmillan, Melbourne, 1972. The only specific work on any aspect of Collins House is the memoirs of W.S. Robinson, collected and edited posthumously by Geoffrey Blainey: If I Remember Rightly. The Memoirs of W.S. Robinson, 1876-1963, Cheshire, Melbourne, 1970. Warren, A.P., The Kingdom of Collins House, Sydney, 1939, is a short, populist account of this corporate group. The activities of the lead-zinc group abroad also figure in Cocks, E.J., and Walters, B., A History of The Zinc Smelting Industry in Britain, Harrap, London, 1968. One history which deals rather sweepingly with both the steel and the lead-zinc industries in Australia is Blainey's, The Rush That Never Ended, Melbourne University Press, 1963.

catastrophic state of the iron and steel industry in Britain and tariff sureties in Australia, combine to lure from abroad the enterprises which it eventually absorbs - in its own attempts to match overseas competition and ensure expanded reproduction. Finally, the second part deals with the relations of exploitation whereby the base metals edifice fitted into the Australian economy and 'skimmed off' surplus value produced by other sectors of capital, principally, land settlement, building and small scale manufacturing.

The history of Collins House is one of growth from speculatory mining ventures at the turn of the century into a huge self-sustaining manufacturer of metals. Its operations were international in character. Thus, the first part of the chapter examines its activities on the metal and capital markets of the world in the context of a volatile and basically depressed world economy. It is argued that these economic conditions compelled a persistent strategy for the centralisation of capital and the consolidation, in some instances 'construction', of markets abroad to beat off competitors. Repetitive slumps in the inter-war period, marked by a declining rate of profit in metals production, foreshadowed bouts of intense competition amongst the world's leading producers and in Collins House forced upwards the organic composition of capital. This was further hastened in Australia by the high cost of labour-power. The same economic conditions concentrated lead-zinc production exclusively in Collins House and the ascendent Mt. Isa group, since most other mining groups lacked the resources to weather such crises.

To summarise a long story: the international character of Collins House came to be expressed not simply through its exporting activities, but more importantly in its multi-national operations whereby its productive enterprises were distributed at home and abroad and integrated on a world basis. Moreover, this distribution was determined by the dictates of maximising the overall rate of profit, a factor which figures prominently in the account of Collins House' unique part in the development of Australian manufacturing.

I Collins House, Origins and Importance

The origins of the Collins House group arise from B.H.P.'s abidcation of the mining mantle at Broken Hill: on the eve of the Great War the Broken Hill Proprietary was smelting lead and silver at Port Pirie. However, its mine at Broken Hill was near exhaustion. Eighty per cent of its ore had been extracted by 1911. The end was in sight. To compensate, the company moved into iron and steel; mining at Iron Knob in South Australia and setting up a steel works at Newcastle in New South Wales, amidst the coalfields. This was preferred to the risky and costly process of exploration to the north and south of the original mine. There, others were to take the risks, defy the surface indications, sink deep and find a fortune. These dramatic shifts in the balance of corporate activity at the 'boomerang lode' - as Blainey has termed the Broken Hill field - were to take place soon after federation.[4]

W.L. Baillieu, a wealthy speculator in urban land settlement, had bought into North Broken Hill (N.B.H.) in 1905 and was a member of the syndicate which, at the south end, eventually became the Zinc Corporation (Z.C.). The latter, led initially by Herbert Hoover and the expatriate Australian Lionel Robinson, was established to cash in on the anticipated success of zinc flotation and recovery experiments. The company, between 1905 and 1910, barely survived the costly

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4 Blainey, G., The Rush That Never Ended, pp.271-76.

process of 'breaking in' these innovations but this misfortune was offset by its acquisition of the rich Broken Hill South mine (B.H.S.).

These new corporate forces at Broken Hill, 'interlopers' they have been called, formed into a loose alliance of British and Australian capital which later established its headquarters at Collins House in the heart of Melbourne. Their ownership and control was interwoven though the Australian investors were strongest at the north end and the British at the south. Their activities expanded rapidly prior to 1914. Baillieu and the chemist De Bavay had joined with the Cohen brewing interests to further develop zinc refining techniques;[5] there was an abortive investment in lead smelting at Port Pirie and this was followed by widespread share buying in copper mines. When the war began the alliance was already the biggest mining conglomeration in Australia.

The war visibly inflated the economic power of Collins House. North Broken Hill, Broken Hill South and the Zinc Corporation had been kept dependent on the quasi monopoly of the German smelters since those at Port Pirie could handle only half the Australian output. To rectify the situation the three companies bought into these smelters and then poured money and skill into their development. By 1925 their control had become complete ownership and Broken Hill Associated Smelters (B.H.A.S.) was amongst the largest lead producers in the world.[6] The vertical integration of the metals industry followed a similar pattern in zinc. Here again Australian producers were overly dependent on European consumers. The same problem as with lead, (cutting Germany, the enemy, out of the empire production line),

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5 Ibid., p.264.

6 Ibid., pp.278-79.

forced the Collins House group to join with other zinc producers in order to erect a zinc works, the Electrolytic Zinc company, in Tasmania. The leadership this time came from Herbert Gepp and the company Amalgamated Zinc which had a large flotation mill at Broken Hill but no mine. Production at Risdon, with the use of cheap electricity at subsidised cost from the Tasmanian government, began in 1921. For decades these developments acted as the heart of economic power in Collins House. Profits from the major mines were used to finance investments into many areas of the economy in the twenties and thirties, whilst the ores and concentrates physically fed the refineries of Port Pirie and Risdon and others abroad. In the late 1930's the alliance was 'chipped' when the Zinc Corporation broke away and severed its connection with Electrolytic Zinc, but otherwise it remained solid.

The sheer importance of their production role soon placed the leadership of Collins House in the ranks of the empire establishment. Men such as the Baillieu's, W.S. Robinson and Colin Fraser were incorporated onto boards in London operating businesses sometimes unconnected with their Australian interests. They were integrated, politically and socially with ruling class circles in Britain. Their activities figured in the 'Court Circular' of the London Times and the regular column on 'Commerce and Finance'. Some, such as W.S. Robinson, had more or less permanent residence in London running the empire end of business operations in Australia.[7]

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[7] Clive Baillieu for instance, was a director or shareholder of at least 27 companies as of April, 1933. He was a director or adviser on the London Boards of at least 9 of these. Such figures enjoyed the membership of exclusive clubs in both London and the colonies and they were not infrequently the mediating link between Australia and the London money market.

There were other outstanding features to this alliance. It enjoyed the ability and capacity to play a unique role in Australian manufacturing. No other mining group, with the exception of B.H.P. was in this position. A predominance in lead and zinc production, which strengthened to virtual monopoly in the inter-war period, rendered Collins House the backbone of domestic industrial growth; a position shared with B.H.P. Its mines were amongst the largest and most profitable on the globe and a distinguishing feature of the period was the repeated discovery of extended deposits in exploratory work. Similarly the lead smelters at Port Pirie and the zinc plant at Risdon were amongst the most efficient in the world. Finally, the investments of Collins House abroad, in Burma, Britain and continental Europe, constitutes this group as a unique phenomenon in Australia's ruling class that has no subsequent equivalent. (The activities of C.S.R. or Burns Philp in the South Pacific were not in the same 'league'). The distinctive position of Collins House is readily apparent in the setting of Australia's inter-war economy: strength and resilience permitted prosperity and expansion in economic conditions that otherwise tended to shower hardship and failure on mining capital; not even B.H.P. was completely out of the rain, as we shall see later. This is not to say that Collins House did not get wet but rather that it did not catch colds having done so.

International Markets and Growth

The bulk of profits in lead-zinc mining at Broken Hill came from overseas sales. This was always the case. Though refined metals from Port Pirie and Risdon were increasingly committed to domestic consumption after the Great War, it was the markets of continental Europe and Great Britain which consumed most of this output, in addition to exports of unrefined concentrates. The problem of realising the value of these commodities was essentially one of international dimensions. Thus a small band of specialists evolved from Collins House to handle dealings on the metal (and capital) markets of the world. These were led by W.S. Robinson whose aggressive imprint on the strategy of the enterprise was registered from its earliest days.

The first world war is a convenient place to begin an account of the economic forces, operative in the world economy, which shaped the history of Collins House: for it is in the war that Australia's base metals industry takes off into self-sustaining expansion. Indeed it was launched on a wave of war profiteering. The federal government's campaign against profiteering was directed at middlemen - wholesalers and retailers; a glance at Broken Hill's unparalleled prosperity supports the conclusion, drawn elsewhere, that this campaign was both ideological and diversionary.[8] In 1917, average prices on the London Metal Exchange for lead, zinc and copper were more than double those of 1912.[9] War's insatiable appetite for metals coupled with short-run inelasticity of supply at the prevailing capacity of allied refining and smelting plants, kept demand running ahead of production and, the producers were in no haste to alter the situation. By keeping output down, payment the pre-war rate of dividend and using profits for development works and equipment (thus dodging taxation), the lead-zinc alliance was able to establish itself as the wealthiest capitalist grouping in the Commonwealth. A fortuitous zinc deal

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8 This point was originally made in McQueen, H., "Hang the Profiteer! Australia, 1919", Unpublished Seminar Paper, Department of Economic History, Australian National University, 1975.

9 A list of average annual prices for metals on the London Metal Exchange can be found in The Mining Handbook of Australia 1939, Tait Publishing Company, Sydney, 1939, p.29. It covers the inter-war period.

with the British government was the icing on the cake. In 1917 the Prime Minister, Billy Hughes, and W.S. Robinson, secured with that government a 12 year contract for the supply of zinc and zinc concentrates - at war time prices. Between 1918 and 1930 this contract assured the sale of at least 25 per cent of the Australian output, at an estimated gain to the producers (in excess of gain at market price) of £4,667,000.[10] The contract was a comforting shock absorber when hostilities came to an end, markets shrank, prices slumped and labour troubles multiplied rapidly. Such difficulties were to be the stamp of the inter-war era.

In those years the international economy moved sluggishly through the base of the trade cycle. For the Broken Hill exporters, competition for markets reached a pitch of intensity not experienced before. The worst years were 1920-1922 and 1930-1932, but the entire period was one of uncertainty and bitter rivalry. The overproduction of base metals under conditions of rapidly-developing implementation of recovery processes and increasing numbers of producers, were the basic cause of these problems.

To solve them Collins House sought to secure markets through a series of alliances with other leading producers around the world; these were based on joint ownership at the mining or smelting level, the most notable instance being the takeover and control of Britain's National Smelting Company in 1923. The exception to this pattern was the part played by Collins House in the organisation of a sellers' cartel later in the decade. But these tactics were only part of the

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10 Commonwealth Engineering and Mining Review, 5 March 1929, p.231. For other details see 5 May 1918, pp.251-53. Reference to this journal will be abbreviated to C.E.M.R. henceforth.

stategy and were paralleled at home by a continual process of destruction and innovative replacement of capital which permitted continued profitability in conditions of falling prices for base metals. Finally, the development of the domestic market by Collins House, to be dealt with in the latter half of the chapter, was both a result of this profitability and a source of profits and stability itself. On the other hand, the limits to its contribution in this field arose from an internal contradiction between its exporting and local trade that was resolved in the interests of the former.

It was clear, late in 1918, that the price of lead and zinc could hold up for some little time to come but a gradual fall from war time peak levels seemed inevitable. The military devastation of Europe and the victors' demands for their pound of flesh in the form of reparations, in concert with rampant inflation in Germany and Austria, completed the pattern of immiseration in Europe. With this the market situation for base metals became acute and was worsened by the presence of large stocks in Europe and the United States. Production in 1919 was at about 60 per cent of world capacity. German, Belgian and French producers were out of action; the U.K. was working but at a very low level; so too was the U.S.[11] By 1921, the gradual fall anticipated in prices had become an avalanche. Those smelters operating in Europe were buying Chinese concentrates at a very low price and accumulated stocks were selling at below the cost of production in Australia.

Had labour in Australia been docile this situation could have been ameliorated by means of drastic cuts in wages to raise surplus value.

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[11] C.E.M.R.,5 July 1921, p.345.

However, this was not to be. Profits were threatened by both the slump in the international markets which reduced prices to pre-war levels and, the cost of labour-power at home which rose in real terms throughout the twenties.[12] Here it was the Broken Hill companies that were, in a very direct way, the cause of their own problems; for in better times they were always too ready, from capitals' general point of view, to acquiesce to wage demands in order to maintain continuity of production.[13] The Broken Hill miners led the steady climb in real wages throughout the twenties, despite a high level of national unemployment and the use of lock-outs, reduced hours and other tactics at the mines to intimidate both the men and the Arbitration Court. The period 1919-1922 at Broken Hill was one of bitter class conflict, intermittency and under-utilisation. Amalgamated Zinc, Broken Hill South and North Broken Hill ran intermittently during 1920 and 1921, whilst the Zinc Corporation was forced to close for several months.[14] Very little extractive and underground developmental work was undertaken in these years, most activity being confined to the milling of stocks and 'tailings'.[15] A net loss on the balance sheets of N.B.H. was avoided in 1921 only by substantial receipts for concentrates

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[12] Gifford, J.K.; Reitsma, A.J., and Wood, J.V., Australian Banking, University of Queensland Press, Brisbane, 1960, p.129.

[13] The fear that the mines were cutting their own throats was expressed in the C.E.M.R. editorial of 5 March 1927, p.201.

[14] C.E.M.R., 5 July 1922, p.339; 5 May 1921, pp.288-9. Some of the conflict in this period is covered in Roe, Julius, Companies, Prices and Pressures: The Broken Hill Strike, 1919-20, unpublished B.A. Honours thesis, Australian National University, Canberra, 1974.

[15] Ibid., 5 August 1922, p.347.

produced in previous periods.[16] At Risdon in Tasmania, Electrolytic Zinc was in similar difficulties. Zinc consumption in Europe was grinding to a halt late in 1920 and stocks in Australia were mounting. By January 1921, the plant had shut down. Operations at full capacity did not return until 1923.[17] However, the long term prospects for E.Z. were 'rosy' due to its technological leadership in the electrolytic process - a factor of which the company directors were fully aware when they closed the gates and locked out the men.[18] Despite the presence of a professional managerial elite in Collins House, the 'soulful corporation' was not a reality at Risdon or Broken Hill.

The partially suspended state of operations in these years directed the attention of Fraser, Gepp and other leaders on the technical side of mining and metallurgy to the problem of efficiency. The period is notable for extensive destruction of capital and its innovative replacement, and for the utilisation and manufacture of by-products to minimise waste. Milling, grinding, crushing and flotation techniques were all upgraded, compensating for increased production costs and the inability to revive the 44 hour week once markets had picked up.[19] A contact sulphuric acid plant was installed at Port Pirie to operate in conjunction with and provide acid for manufacture of fertilisers by various superphosphate companies in South Australia.[20] Late in 1920 E.Z. took over the Mt. Read and Rosebury

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[16] Ibid., 5 November 1921, pp.50-51.

[17] Ibid., 5 November 1923, pp.78-80.

[18] Ibid., 5 June 1921, p.328.

[19] Ibid., 5 November 1923, p.38.

[20] Ibid., 5 November 1922, p.89. For the relationship between the non-ferrous metal group and the fertiliser industry see C.E.M.R., 5 December 1928, pp.99-104.

mines, formerly owned by Mt. Lyell Mining and Railway Company; this was to ensure a source of supply in the absence of Broken Hill ores. Exploration and development of the Read - Rosebury deposits were extensive throughout the decade.[21] And in 1922 E.Z. built a fertiliser plant at Risdon to supply the needs of Tasmanian agriculturalists.[22] At Port Pirie an easier solution to the slump was at first sought. Fraser called on the Commonwealth government to place an embargo on the export of lead concentrates. This effectively gave B.H.A.S. a monopoly in smelting and prevented the small mines from selling abroad to the highest bidder.[23] However, the demand was rejected on the grounds that the mining enterprises were in far greater need than B.H.A.S. and Fraser was left to rely solely on his replacement programme.

Collins House activities on the international capital markets complemented those on the domestic front. W.L. Baillieu and Robinson travelled the world 'watch-dogging' for their interests. They bought into rival companies building a network of alliances (which Robinson liked to distinguish as 'friends'), secured markets and generally kept abreast of relevant developments,

> My policy (wrote Robinson) has been to link the best British, Belgian, French and Scandinavian interest together so as to be able to present a firm front to the growing tendency for German American associations.[24]

This front was to change constantly in the inter-war period. Some would leave; others would join. Most notable would be the growing

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[21] Ibid., 5 August 1920, p.413.

[22] Ibid., 5 November 1923, p.78.

[23] Ibid., 5 August 1922, p.369.

[24] W.S. Robinson to W.L. Baillieu, 3 May 1920. (W.S. Robinson Papers, Melbourne University Archives, (M.U.A.). These papers have not yet been serialised).

polarization with Germany and closer association with American producers who also moved away from the Germans in the 1930's. Baillieu's diplomacy, had it depended on his pen, would have met with little success; rarely did he write. However, when he did correspond with associates the outcome could be most revealing. A letter to Fraser in 1922 outlined the strategy for consolidation of markets and centralisation of capital to beat off competitors. To join with the French producers was a sound policy he argued, in order to "keep tag of positions of this kind, in preference to letting others get in". He concluded,

> We shall want to keep the best possible outlook as to what is happening in other fields even to the extent of having a finger in their pie...we want to get right alongside of our competitors.[25]

Between 1920 and 1923 the Collins House empire transformed the 'friendships' forged by Robinson and Baillieu into more definite and binding financial links with some of the world metal producers. The interests concerned were the British metals Corporation, the National Smelting Company of Britain, Tennants Ltd. in Norway, the Societe Generale des Minerais of Belgium - linking them with the Hoboken, Overpelt and Lommel smelters and with mining in the Congo; and finally, the Penarroya and Asturienne interests of France which controlled the chief lead and zinc concerns in that country, Spain and Italy. None of these investments with the exception of National Smelting, were large scale by world standards. Certainly they did not amount to control; but they did, in Robinson's opinion "cement our friendships and place us on a very good footing indeed".[26] Perhaps too they were

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[25] W.L. Baillieu to Colin Fraser, 10 October 1922. (Colin Fraser Papers, M.U.A., 1/46/3).

[26] Robinson to Baillieu, op.cit.

partly responsible for the intermittent cartel operations of the zinc producers, later in the period.

The most outstanding of its capital dealings abroad was the Collins House takeover of the National Smelting Company in Britain between 1923 and 1926. The scale of the venture is indeed distinctive but more important is the initiatory and dominant role at the centre of the Robinson/Baillieu axis. Through National Smelting the Broken Hill group was able to consolidate and expand its market in Britain at prices that tended to favour the producer and not the consumer of the metal. Collins House had become the pivot of the empire lead-zinc industry (see Appendix 2).

Consolidation, Prosperity, Crash

By 1924 prosperity had returned. For executives and shareholders the situation was much improved. The slump had closed many fields but Collins House had weathered it; now it had new equipment, was stronger abroad and was ready for further expansion. "Their old estimate of not being able to make the properties pay with lead at £25 a ton was over the mark", noted one mining journal.[27] An unprecedented level of efficiency now permitted the mining companies of Collins House to make good profits at such prices. The lucrative zinc agreement was no doubt an offsetting factor to any lingering difficulties but equally important was the improvement of technology at the Port Pirie smelters resulting in a much reduced 'returning charge' and thus reduced costs for the producers at Broken Hill. Despite Arbitration awards and the dire company predictions which had followed them, Collins House was rapidly climbing out of the depression to a peak of prosperity. The role of the Arbitration Court in affecting the concentration of capital and the emergence of monopoly capital ~~in~~ may be seen in the way that higher award decisions accelerated technical progress in

[27] C.E.M.R., 5 May 1924, p.293.

Australia and is clearly one of fundamental importance.

The 'cleansing' period of depression in which capital equipment was updated and fine tuned now made it possible to harvest big profits at lower prices; however, the bonus of 1924 was a high and rising price in both lead and zinc. Smelting in the United States had picked up; the British smelters had revived and, for the Australian producers, the market in Japan was broadening.[28] The absence of any new fields of magnitude and increasing demand for lead in electrical manufacturing in connection with the motor industry were notable features of the buoyant situation. Profits for Collins House mining companies were exceptionally high for both 1924 and 1925.[29] "Company reports", noted the Chemical Engineering and Mining Review, "such as those of Broken Hill South and North Broken Hill, show that wealth is flowing into Australia because of the buoyancy of the metal market".[30] The Chairman of the Zinc Corporation summed up the interval when he reported "nothing to speak of other than great success".[31]

But this success was not uniform throughout the mining industry. Indeed its distribution was not wide at all. Arbitration Commissioner Piddington's dictum that an industry should not live if it was unable to pay the living wage had the effect of destroying many marginal mines and concentrating mining power in a few corporate centres around Australia, notably at Broken Hill where rising wage levels were technically absorbed. By 1926 a distinct note of uncertainty had entered

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[28] Ibid., 5 January 1923 p.168; 5 February 1923, p.203.

[29] Ibid., 5 October 1924, p.40; 5 November 1924, p.49.

[30] Ibid., 5 November 1925, p.47.

[31] Ibid., 5 August 1926, p.461.

the dialogue of mining journals, for the high price of metals had permitted in the preceding interval an acquiescence to rising wages. Broken Hill had also succumbed, under great pressure, to demands for reduced hours and, by 1927, was operating the shortest working week in Australia.[32] Such developments, with the crash of prices immanent, were to have their most devastating effect outside 'the Hill', amongst the smaller units of capital.

Zinc and lead prices fell steadily from September 1925 to August 1927, whilst copper prices, lethargic since the war years, showed no sign of improvement. In lead and zinc, overproduction was the problem; the use of the electrolytic process now widespread, exacerbated the crisis.[33] Simultaneously industrial troubles on the fields were again at a pitch. Mt. Lyell, Australia's leading copper producers, was on the verge of shutting down in January 1928, whilst production at Mt. Morgan, Chillagoe and Cloncurry had stopped. "Thus it happened", claimed one mining editorial inadvertently laying the world slump at the feet of the local miners, "that nearly the whole of the base metal industry of Australia is being held up by the factor of high costs".[34] The most outstanding feature of the slump however was the ability of Collins House to continue making good profits as though surrounded by economic prosperity. The British zinc contract made a handsome contribution to this sound state of affairs. Basically however, it was the highly concentrated nature of the Collins House enterprises, their large output and, fortuitously, accessible deposits, which permitted

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32 Ibid., 5 March 1927, p.201.

33 Ibid., 5 November 1928, p.83.

34 Ibid., 5 January 1928, p.111.

them to defy low metal prices. For Collins House, late in the twenties, the crest of the wave was still well formed and the shoreline only now coming into sight.

The 'Great Crash' came in 1929. The price of metals crashed with it. Smelters in Europe ground to a halt; markets contracted rapidly. The zinc cartel, formed in January 1928 to sustain prices artificially, was forced to cut world output by 45 per cent in line with a meagre consumption rate.[35] The lead cartel failed totally - ownership was too highly proliferated.[36] Profits at Broken Hill toppled. The zinc contract with the British government expired on June 30, 1930, at the height of the economic chaos. It had ensured a price of £28 per ton for ten years.[37] On the open market now zinc was worth little more than half of that amount. As in 1920-22, the problem of markets once more invaded the prosperity of Collins House. North Broken Hill temporarily abandoned production of zinc concentrates in August 1930, whilst Broken Hill South also closed its zinc plant. Many other smaller mines went bankrupt. The price of metal was simply too low and with metal stockpiles still rising, despite some cartel restrictions, no immediate relief was in sight. In Tasmania the depression had a stunning effect on E.Z.'s programme at the Read-Rosebury mines. Much of its undistributed profits from the twenties had gone into experimentation and development of techniques for separating and retrieving the troublesome ores from that area.[38] A preferential flotation and fine grinding technique was perfected and the works ready

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35 C.L.Baillieu to Colin Fraser, 25 June 1934. (Fraser Papers, M.U.A., 1/85/4).

36 Ibid.

37 C.E.M.R., 5 March 1929, p.231.

38 Ibid., 5 August 1930, p.393.

to open in 1930. But the slump postponed the occasion for a full five years. The mill at the Read-Rosebury mines stood silent until 1935.

Strategy for Survival

Since profitable mining did not lend itself to intermittent and idle operations, the lead-zinc group now pursued with more vigour than ever before, the necessary outlets abroad. British and Australian zinc interests moved into closer association in 1930 to ensure the zinc producing industry within the empire; the Imperial Smelting Corporation was formed in Britain to consume the output of the Broken Hill mines exclusively.[39] Simultaneously there was mounting pressure on the British Board of Trade urging increased protection against foreign metal producers.[40] But the basic problem of overproduction showed no sign of lifting. The metal recovery rate from ores was now very high; in both lead and zinc production capacity far exceeded world requirements.[41] The main markets for the Australian exporters had been Britain and Germany, but these were no longer secure due to internal developments in these countries; the establishment of the Brittania refinery on the Thames, to be supplied by the rival Mt. Isa output was the most serious threat to the smelting and refining facets of Collins House operations.[42] The Flintshire leadmining district

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39 See Cocks and Walters, op.cit.

40 Ibid., Ch.15.

41 Mikolajczak, "Memorandum on Cartel Formation", 30 October, 1934. (Fraser Papers, M.U.A., 1/85/4).

42 Robinson, W.S., "Memorandum to Broken Hill Associated Smelters Pty. Ltd.", 14 March 1933. (Fraser Papers, M.U.A., 1/85/9).

near Birmingham was also being developed by rivals and, Robinson anticipated, would be producing 35,000 tons of lead per annum before the end of 1933. It was Robinson's contention that "the possible production of 35/50,000 tons of lead in our second largest consuming centre to be sold in competition with us, is undoubtedly a menace to our interests. It would be even more so if its control became associated with any important manufacturing groups".[43] The Monarch and Kicking Horse lead-zinc fields in British Columbia presented similar problems, late in the depression. These, in Robinson's opinion, represented "'free' production which might go to Japan to the detriment of Australia, or to the United Kingdom", to displace Australian metal.[44] The final problem in the U.K. was the ascent of Canadian producers in the market. These had been relatively insignificant in the preceding decade. In the thirties their output increased rapidly and proximity to Britain gave them an edge. In addition the British tariff increasingly favoured Continental competitors, making it impossible for the Anglo-Australian interest notably to expand their trade at the expense of such competitors. The crisis in the British market compelled Collins House to embark on a renewed bout of investment activity in Britain in order to secure and strengthen its footing. It is presumed this was necessarily at the expense of some investment in the Australian economy.

In Germany, France and Italy, tariff restrictions and import substitution in the metal sectors were also threatening the prospects for Australian exporters. Germany in particular presented an apparently

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[43] Ibid.

[44] W.S. Robinson to B.H.A.S. and E.Z., 31 January 1933. (Fraser Papers, M.U.A., 1/85/9).

irretrievable situation: its smelting capacity was increasing rapidly and with this went a decline in imported metals. Whilst the demand for raw ore or concentrates could have increased on the Continent, the prospects for Port Pirie and Risdon looked bleak.[45] Hitler's plans included the vigorous pursuit of independence at the smelting and refining levels of metal production.

The major steps to overcome the crisis and retrieve stability for Collins House were taken in Britain, beginning with the formation of the Imperial Smelting Corporation; others followed. Again depression ushered in a sharp period of alliance building and takeovers. "We must work", wrote Robinson, now a seasoned corporate empire builder, "in the closest co-operation possible with others, being always prepared to join forces for mutual benefit, if and when an opportunity offers".[46] Soon after its formation in 1930, Imperial Smelting and the British Metal Corporation bought out the Flintshire leadmining field; Broken Hill Associated Smelters then joined the consortium on invitation.[47] To combat the lead manufacturing developments in Britain it was necessary for Collins House to move into "closer association" with its established consumers and this it did through the ubiquitous investments of Imperial Smelting.[48] Similarly, the worrying mining developments in British Columbia had placed their takeover on the Collins House agenda by 1933.[49] Later in 1935, Robinson negotiated

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[45] C.L. Baillieu to Colin Fraser, 25 June 1934. (Fraser Papers, M.U.A., 1/85/4). This correspondence incorporates a detailed analysis of the overproduction crisis in non-ferrous metals.

[46] Robinson, "Memornada", op.cit., p.10.

[47] Robinson to B.H.A.S. and E.Z., op.cit.

[48] Cocks and Walters, op.cit., pp.76-79, 92.

[49] Robinson to B.H.A.S. and E.Z., op.cit.

successfully for the entire annual output of the rival Mt. Isa zinc concentrates" to prevent it being used against (the) Electrolytic Zinc Company of Australia".[50] Imperial Smelting and Electrolytic Zinc jointly absorbed this output and the profits were realised in increased sales to both British and Australian manufacturers. Imperial smelting clearly played a most prominent part in ameliorating, if not solving, the realisation problems of Collins House.

At Broken Hill the depression produced a response not dissimilar to that of 1920-1922. The exchange devaluation and wage cuts in 1931 permitted the mines to continue operating for most of the crisis whilst the savagery of international competition and low prices necessarily committed extensive outlays to expansion of scale and increased efficiency. A joint power plant at Broken Hill, supplying the main mines with power and compressed air was commenced early in the slump and completed about the same time it reached rock bottom.[51] In 1931 a ruthless replacement programme was begun in milling and grinding.[52] New main shafts with gargantuan steel headframes were installed in 1932 by both North Broken Hill and Broken Hill South, a phenomenon which the Commonwealth Engineering and Mining Review regarded surprisingly as an "extraordinary coincidence". In the same period all three mines, the Zinc Corporation included, installed a joint fuse cutting and capping station.[53] By November, 1933, the chairman of N.B.H. could

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[50] W.S. Robinson to Colin Fraser, 18 July 1935. (Fraser Papers, M.U.A., 1/85/13).

[51] C.E.M.R., 5 September 1930, p.475; 6 October 1930, p.25.

[52] Ibid., 5 January 1932, p.127; 8 June 1935, p.304.

[53] Ibid., 5 September 1932, pp.411-414.

report a "complete changeover" in the flotation and fine grinding plants. "The room for improvement (now) is limited", he noted.[54] Similarly the smelters at Port Pirie were able to keep down returning charges on the Broken Hill mines by improved metallurgical processes which involved, during the depression, the installation of a new flotation plant and an additional eight concentrating tables.[55] With these measures, and those taken abroad to secure markets, Collins House was again able to emerge from a torrid economic period as a highly competitive and profitable network of enterprises, in spite of metal prices. "We have used this period of depression to tone up every branch of our service and to increase efficiency in every possible way"; argued the Zinc Corporation chairman in 1934, "our financial position is absolutely sound".[56] And so it was, though the fortunes of recovery were mixed and prices continued to be lethargic.

Towards War

General industrial activity throughout the world picked up by 10 per cent in the 12 months 1934-1935; the index of unemployment (supplied by the League of Nations) dropped from 291 to 180 between 1932 and 1935. The revival indicated by these figures was reflected in the metals business. Copper production had almost doubled over the same period; zinc output was up about 30 per cent and pig iron output about 33 per cent. Lead too had made comparable advances. The constructional and engineering trades along with the building industry

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[54] Ibid., 5 December 1933, p.133.

[55] Ibid., 6 November 1933, p.105.

[56] Ibid., 5 September 1934, p.471.

had propelled this recovery. Similarly the increasingly widespread use of the electric light, the telephone and other forms of electrical power had been particularly kind to the lead and copper producers.[57]

The lead market broadened soon after the Ottawa Conference in 1932 and the Broken Hill mines were able to dispose of their growing output abroad. However, the world's production capacity in this metal continued to expand and there was no real improvement in lead prices until 1935. The zinc situation was considerably worse: world wide consumption had increased markedly in 1932 and 1933. This however was offset by disarray and conflict within the revived cartel. The cartel effectively protected the inefficient producer members at the expense of the efficient (notably Australia and Belgium) and the fine system for exceeding production quotas was considered inequitable and unfair to the latter.[58] Production quotas were rising in 1934 to ameliorate the conflict, thus negating the cartel's function; early in 1935 it was dissolved. Zinc prices crashed some months earlier in anticipation of the dissolution and unrestricted production and competition amongst the producers.[59] For the Broken Hill exporters, the relative security of empire markets, notably expanded demand from Australian manufacturers and the effect of expanded scale and other

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[57] Ibid., 8 November 1935, pp.34-5.

[58] Ibid., 8 April 1935, p.252. Electrolytic Zinc, for instance, maintained full production (due to financial commitments to its power source, the Tasmanian Hydro Electric Works), but at the cost of substantial payments, through the cartel, to other producers. (See Tariff Board Report, "Zinc and Spelter", Minutes of Evidence, (1934), C.P.P., 1934-7, Vol.2, pp.2687-93).

[59] An important technical factor in the overproduction of zinc at this time was its geological relationship to lead. Since the two metals were found together, the recovery of one implied a residue of the other. Increased lead production necessarily meant an increased output of zinc ore.

economies (notably wage cuts), compensated for this parlous situation, though not sufficiently to enable the working of the mines in Tasmania.

Again, the real seriousness of these prolonged difficulties can only be gauged by looking beyond Broken Hill to the lead-zinc mining industry in Australia generally. This done it has to be said that with the exception of the Mt. Isa Company and Collins House, there was practically no lead-zinc mining outside these enterprises by 1935.[60]

A marked improvement in average metal prices for 1936 and 1937 was attributed generally to the 'accelerated pace of industry and armament', to the revival of the world's industrial backbone, U.S. capitalism, and specifically to artifical shortages arising from extended strikes in Spain and Mexico. Within the empire, the British governments' announcement in March 1937 of a defence expenditure of £400 million over the next five years was responsible for a "ten o'clock buyers' rush" on the London Metal Exchange. Prices temporarily reached record post war heights, then fell back towards more familiar levels.[61] But the buoyancy of the market situation was sustained throughout the year, as exemplified by the inability of Electrolytic Zinc to fulfill all overseas commitments, late in 1937. The Broken Hill producers, the smelters at Port Pirie and the zinc plant at Risdon all recorded the highest profits in their histories.[62]

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[60] C.E.M.R., 8 February 1935, p.193.

[61] Ibid., 5 November 1937, p.63. The average price for lead in March 1937 was approximately £33/ton, and for zinc, £33.5.0/ton. By June lead was selling at £22.16.0 and zinc at £21.9.0. The latter prices however, still represented a marked increase on those of the early thirties.

[62] Ibid.

The uncertainties and difficulties of the international metals market returned abruptly in 1938. Despite the widespread euphoria of the previous year the Collins House companies had anticipated these difficulties. The general economic upswing after 1935 and its rapid acceleration in 1937 had been underpinned by the resuscitation of the American economy, the greatest single factor affecting the course of trade around the world. However, this was not sustained and the economy slumped back late in 1937. The general collapse which followed was accentuated by the "speculative and over-bought condition" of metal stocks amongst consumers.[63] It appeared on the eve of war that Broken Hill faced another period of austerity. However, the redivision of the world intervened, marking a re-allocation of capital on a massive and global scale. For Collins House, the second world war cut short the drift to bad times that was looming. Government controls did not permit runaway prices as in the 1914-1918 conflict, but good war contracts stamped out a stable, lucrative future.[64]

II British Capital and the Metals Sector

In Chapter III the post-war British economy was examined in some detail. It was shown that British capital was in an exceptionally depressed state during this period, suffering from an acute domestic slump, external indebtedness of unprecedented proportions and the progressive decline of markets abroad. Corporate feeling was exceptionally pessimistic; in some quarters it was believed the British economy was on its last legs. The metal sectors were amongst the worst hit. As a result a qualitative change in the nature of export capital came onto the agenda; this was the growth of direct investment. Some British capitalists with the necessary finance, tariff sureties

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[63] Ibid., 10 November 1938, pp.81-83.
[64] Ibid., 10 November 1939, p.87.

and a lower than average fear of the Australian working class, actually transferred production to the south seas. Simultaneously, Australia was experiencing a spate of relatively autnomous manufacturing development beginning with the captive market situation of the war. This interaction between the conditions of economic decline in Britain and the related emergence of manufacturing possibilities in Australia, provides the basis for the growth of the metals sector and its subsequent exploitation of manufacturing in general.

The marxist theory of exploitation deals essentially with an inter-class relation, specifically that between labour and capital, whereby the unpaid portion of the labourers' working day is expropriated by capital through its judicial relationship to the means of production. Wealth or surplus - value produced under capitalism has its origins in this exploitative relation. Once produced and expropriated however, the question of the redistribution of surplus-value arises. Redistribution, as opposed to production, can be expressed as relations either within or between classes. (Historically, the state and finance capital have played the leading redistributive roles within the capitalist economy). The exploitative relationship between the base metals sector and other manufacturers and sectors of capital was expressed as an intra-class relation of redistribution. This relation is examined below following the account of British capital's predominance in the base metals sector. How did the leading metal producers contribute to the development of manufacturing in Australia? At what rate did they move into manufacturing themselves? How was the exploitation of other manufacturers and sectors of capital effected? Was the degree of monopoly important? These questions are each pursued below.

Hitherto, as we have seen in other accounts, the exploitation of the Australian economy by British capital has been conceived as centering on the pastoral and financial sectors. Manufacturing capital has not really entered the picture. Yet its exploitation was effected, at least in part, through the role of the base metals industry - where British capital predominated. The leading metal producers in the Commonwealth presided over the development of specific areas of manufacturing which by and large produced capital goods for other manufacturers and producers - such as land settlers. The proliferation of factories and consolidation of manufacturing capital was essential to the interests of the base metals sector. For Collins House and other metal exporters this dependence was offset by exporting activities. For Broken Hill Proprietary and most other British owned metal firms, dependence on the local market was almost total - thus their more thorough-going and ubiquitous investments in manufacturing.

The Metals Sector

Contrary to the impression conveyed by Blainey, Collins House did not move hastily into a wide range of manufacturing in Australia; nor were such moves as occurred made at the expense of mining investment; nor indeed were the more important of these moves 'voluntary' in the sense that they lacked the compulsion of threatening economic forces.[65] A few observations will put Blainey's impression in a more revealing perspective; throughout the inter-war period the largest investments from undistributed profits went back into the mines, into the extraction and purifying processes. In addition, Collins House interests in mining were rapidly expanded with the gold 'boom' of the 1930's. This is not to say that investment in manufacturing was

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[65] Blainey, G., The Rush That Never Ended, pp.280-81.

insignificant but rather that qualifications are necessary in order to set these investments in perspective. It has to be said that apart from the plants set up to utilise the by-products from refining and smelting, Collins House major investments were infrequent, stamped with extreme caution and extended periods of planning. This is in sharp contrast to the same group's activities on the British capital market where Robinson, in association with Imperial Smelting, cut a 'swashbuckling' path into rival firms and new fields. There investment was rapid fire and conveyed nothing of the caution exhibited in Australia. The competition for overseas markets which compelled direct investment abroad was never so fierce in the home economy.

Two final observations are necessary; perhaps they are the most important. The main thrust into Australian manufacturing - beyond the refining stage - was imposed on Collins House by the spectre, late in the twenties, of severely contracting markets abroad and unprecedented over-production. Until that time the Australian economy had fulfilled the role of a small reserve and relatively insignificant market for the exporters. Secondly, and relatedly, Collins House and B.H.P. were far more int~~ed~~erdependent than their financial and administrative separateness indicated, and this had telling repercussions for the former's direct involvement in manufacturing. Apart from its use in copper and brass based alloys, the local market for lead and zinc was largely dependent on iron and steel manufactures; for example, the use of zinc in galvanising iron which might then be used by manufacturers of cooking utensils or metal fittings, by sheep farmers (for shearing sheds) or by builders.

Since B.H.P. and other British owned companies dominated the iron and steel industry and were expanding their share of the local market at the expense of overseas manufacturers, it followed the market for lead and zinc was also expanding - and at no personal cost to Collins House. There is in fact no evidence to suggest that Collins House was interested in moving into the iron and steel industry in this period. This may have been conditioned by the strength of the 'opposition', but most likely it was the lucrative compatability described above which was decisive. In a certain sense then, it was B.H.P. and its associate firms which engaged in the domestic manufacturing that was crucial to the realisation problems of Collins House.

It remains now to account in detail for the outline above. Three stages of production in the metals industry must be clearly distinguished in order to examine firstly the character of the major metal groups and secondly their exploitative relations with other manufacturers and sectors of capital. The first stage is the mining or extraction process; the second, metallurgy, embracing concentrating, smelting and refining; the third stage, that of metal utilisation or the manufacture of metal products, involving principally the production of capital goods for use by other capitalists and producers. The production process here moves from mining to metallurgy to metal products and beyond. A base metals industry incorporating mining and metallurgy was consolidated during and immediately after the first world war; metal products, as defined, became established in what remained of the peace interval.[66] It was mainly British firms and the Anglo-Australian B.H.P. which pioneered this field. Collins House took part through the takeover of established works and, being less dependent on the local market, was able to diversify into other fields not connected with metal utilisation.

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[66] See chapter on the metals industries in Forster, C., op.cit.

In the twenties it bought into the timber, coal mining, textile and rubber industries; simultaneously its holdings in brewing concerns were expanded.[67] Electrolytic Zinc set up a sulphur dioxide plant to supply South Australian Fertiliser companies (1923) whilst Amalgamated Zinc, its activities progressively usurped with the growth of E.Z., set about long range investigations into the prospects of a paper manufacturing industry in Tasmania. These stretched from 1923 to 1935 culminating in the formation, under ideal conditions, of Australian Pulp and Paper Manufacturers.[68] In 1929 E.Z. moved into an alliance with I.C.I. to facilitate the manufacture of by-products involving complex chemical processes.[69] A plant for synthetic nitrogenous fertilisers was one of the fruits from this alliance. A little earlier, in 1927, Clive Baillieu had sailed to England to unite Dunlop Rubber - a Collins House subsidiary - with a British rubber firm.[70] Finally, in the thirties the organisation set up research companies dealing in shale oil manufacture and metallurgical processes respectively. The remainder of its domestic activities in the inter-war period related directly to metal utilisation and expansion of the local market.

In 1920, B.H.A.S. joined with British lead manufacturers to

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[67] Timber, the Broken Hill Globe Company; coal, the Broken Hill Co-operative Coal Association; rubber, The Dunlop Rubber company; textiles, Yarra Falls Textile Mills. Collins House also owned a chain of breweries which was built up from an earlier association with the Cohen brewing interests.

[68] C.E.M.R., 5 June 1924, p.368; 5 May 1926, p.305; 5 March 1927, p.218; 5 May 1930, p.307; 5 April 1932, p.257.

[69] Ibid., 5 November 1929, p.75.

[70] Dunlop Rubber Company of Australasia Ltd., Circular to Shareholders, 12 August, 1927. (Sydney Stock Exchange Research Department, Company Papers, D.9, 1920-1963).

establish a local plant in Victoria. This was designed to counter intensifying competition from an American lead and paint combine operating at Rhodes near Sydney. Tariff protection was assured and it was anticipated the transfer of production would lead to a considerable increase in the domestic consumption of lead from Broken Hill.[71] But the initiative here came from Britain and not from Collins House. B.H.A.S. joined the consortium on invitation. The lead market in Australia was not a compelling factor in its operations. Only later in the decade, with the economic situation more perilous for the whole organisation, did Collins House take up the initiative; the first move came in September, 1928: in concert with I.C.I. and the British Aluminium Company, it bought a controlling interest in Metal Manufactures Pty. Ltd; simultaneously B.H.A.S. bought into the Electrolytic Refining and Smelting Company at Port Kembla. These firms dominated the production of copper, copper products and related alloys, principally brass. Their one effective competitor, Austral Bronze, was absorbed in 1929 giving Collins House a monopoly on local production. It happened that the major secondary metals used in most of their activities were lead and zinc; for example, the production of lead covered telephone cable and the extensive use of zinc for the production of brass.[72]

The importance of expanding the lead-zinc market at this time stemmed from marketing problems abroad and especially from anticipated

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71 E.A. Leonard to W.S. Robinson, 29 May 1918; White and Leonard to the British Treasury, 9 May 1918; White and Leonard to The High Commissioner for Australia, 30 May 1918. (Fraser Papers, M.U.A., 1/28/66).

72 'The Non-Ferrous Metal Manufacturing Industries of Australia', C.E.M.R., 5 October 1933, p.29.

problems in the future. A crisis of world overproduction in zinc was immanent in January, 1928, when the zinc cartel had been formed; the lead situation was even worse due to the complete failure of cartel negotiations. Similarly, the zinc contract with the British government had almost run its course and was due to expire in mid 1930, whilst by September, 1928 the signs of world depression had already come to the attention of Colin Fraser and W.S. Robinson. In short, these investments were 'insurance' against impending difficulties for Collins House in the international metals markets. In November, 1928, Fraser referred to "the underlying policy for the building up of the non-ferrous metallurgical industries and the manufacture of products therefrom".[73] Sir Robert Horne of the Zinc Corporation both clarified and reinforced this commitment: "These investments had for their main objective the extension and improvement of the metallurgical industries in Australia and thereby the expansion of Australian manufactures, thereby assisting the development of the Commonwealth and increasing the local consumption of our metals".[74]

The rapid rise in the price of gold between 1932 and 1934 turned the Broken Hill companies, in conjunction with other London and sometimes American interests, to a spate of exploration ventures which met with considerable success.[75] The activities of Collins House (and B.H.P.) led a widespread revival in gold mining which in Fraser's opinion consumed capital goods on a larger scale than other industries at the time and as a result contributed more to the increased consumption

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[73] Ibid., 5 November 1928, p.42.

[74] Ibid., 5 September 1928, p.443.

[75] Ibid., 5 September 1934, p.471.

of lead and zinc than any other sector of the economy.[76] So numerous became its gold mining activities that in 1933 the Zinc Corporation, on behalf of Collins House, announced the formation of a special company to centralise their administration and provide a financial basis for further exploration and development.[77] This was the origins of the Western Mining Corporation formed in March, 1933. Its first few years of work were absorbed in a mammoth programme for the provision and assembly of an aerial survey department, of motor transport and mine testing equipment, and of mapping and geological examinations.[78] It is perhaps not a coincidence that the period of gold boom, 1932-1935, marks the sharpest relative growth of zinc sales within Australia for the inter-war period.

In 1935 Collins House launched into the manufacture of fine paper, ensured of a monopoly over the entire Australian market. Thereafter international tensions heightened with the focal points of hostility in China, Western Europe and Spain. As the interval of peace wound to a close with Hitler's pre-battle theatrics in Europe, the Collins House group moved into an alliance for the production of fighter aircraft in Australia, this time joined by B.H.P., General

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[76] Fraser expressed the view: "I am far from sure that the public, or even government, recognise how much of the recent recovery in Australia is due to the renewed activity in gold mining. It is the industry today which has filled our engineering workshops with orders, has very heavily contributed to the demand for iron, steel and galvanised products". Quoted from a speech to the Mines and Metals Association, C.E.M.R., 9 September 1935, p.462.

[77] Ibid., 5 September 1934, p.471.

[78] Ibid., 8 November 1935, p.32; 8 January 1937, p.171.

Motors Holden and others.[79] This was its last major investment before the war. It consolidated the new industrial image of the group. It now constituted a wide range of manufacturing interests including a monopoly of copper, brass and fine paper production. Yet it still remained distinctive for non-participation in the field of iron and steel manufactures - the centrepoint of the base metals industry and the main Australian market for lead and zinc. Other British capitals were developing this field.

Iron and Steel - The Centrepoint

The growth and consolidation of heavy industry in Australia, incorporating mining, metallurgy and metal products, had its origins in the moribund economic conditions of the inter-war period marked principally by over-production, trading barriers and realisation crises. These conditions hastened the rise of direct investment as the major form of imperialist penetration in developing nations. The early arrival of depression in Britain with severe economic crisis throughout the twenties and the need for intensified exploitation of accessible markets encouraged some British firms to transfer production to Australia. The parlous situation of the British iron and steel industry is of special importance here. With protection guaranteed by the Australian government, British capital moved rapidly into the development of an iron and steel industry in Australia.[80] Whilst the

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[79] W.S. Robinson to Colin Fraser, 14 February 1937. (W.S. Robinson Papers, M.U.A.). Robinson believed this alliance constituted "an industrial group of far greater importance than any other in the British empire, if not the world". The other members were I.C.I., and the Orient Steam Navigating Company.

[80] Forster has listed those metals companies which set up plant in Australia during the 1920's. (See Forster, op.cit., pp.230-32).

Broken Hill Proprietary dominated mining and metallurgy from 1915, several other firms transferred production from England soon after the war. These moved into the manufacture of metal products, mainly capital goods for consumption by smaller, Australian owned manufacturers and other producers. B.H.P. encouraged this pattern. Its stategy in 1920 laid stress on economy of scale in steel production; it accepted the proposition that other companies, ideally with B.H.P. associations, would pioneer the metal products sector. These were encouraged to set up close to the Newcastle steelworks to facilitate supply, whilst the possibility of takeover at some convenient time in the future was always on the agenda.[81] "We aspire to be the Mother, or the key industry of many dependent industries valuable and necessary to the growth and maturity of the Australian nation", wrote Guillaume Delprat, the Managing Director.[82] The realisation of these aspirations was not long in the making.

Between 1923 and 1935 the company was able to monopolise the production of iron and steel and simultaneously build a network of subsidiary and associated firms which catered for the bulk of semi-finished iron and steel commodities produced in Australia.[83] Tinplate was the only large sector of the market still uncatered for by 1939. The companies holdings in subsidiary and allied industries was £200,000 in 1914, 3½ millions in 1936 and, by 1939, largely due to war preparations and a closer alliance in other areas with American capital, it was £5½ millions.[84]

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[81] Hughes, op.cit., pp.80-82.

[82] Ibid., p.82.

[83] Ibid., p.128.

[84] Ibid., p.117.

The rise of B.H.P. was not however a story of unmitigated good fortune. It was considerably more unsteady than the Collins House ascent. Indeed, the twenties, the decade in which the foundation of a prosperous monopoly was laid, was beset with difficulties for the company. These began with the world metals slump of 1920-1921, a flood of cheap metals from abroad and the clamour of both B.H.P. and its main rival, Hoskins Iron and Steel, for protection. Tariffs on iron, steel and related products rose considerably in those years but not in proportion to the slump in overseas prices. To cut its losses and subjugate an intransigent labour force, the company shut down in 1922, used the period for technological redress and, thereafter, began its protracted expansions, 'sideways' into shipping and coalmining, and vertically into a range of metal products where the tariff was more formidable. At the base of the enterprise, iron and steel production, prosperity was 'modest' but sustained through the mid and late twenties.[85] The depression that followed was emliorated by a continuous decline in labour costs for which the scale of B.H.P.'s operations provided considerable advantages, by increased protection, a temporary extension of the working day, some increase in the export of iron ore and, notably, by a reduction in coal costs following the defeat of the marathon miners' strike in northern New South Wales.[86] In the aftermath of the crisis, with an adequate tariff, an expanding market and substantial reserves due to a conservative dividend policy in the twenties, the company expanded further into steel products and

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[85] Ibid., p.100.

[86] The onslaught on labour costs had a brutal impact on the working people of Newcastle (not to mention the northern coalfields). "Newcastle became a ghost town in the early 1930's as workers unable to keep up rent or house payments moved into shanty towns made of bags and corrugated iron on the outskirts of the town and at Lake Macquarie. Many were poverty stricken for years, supplementing their sustenance receipts from the government by trapping rabbit and fishing". (Ibid., p.122).

monopolised iron and steel production with the takeover of Australian Iron and Steel (Hoskins) in 1935.[87]

Import-substitution in this period became rapid and diverse. The company and its associated interests catered for all types of wire and wire products, structural steel, plates and sheets, special steels (such as high speed and stainless), tubes and pipes. Favourable labour and fuel costs and a continuing growth in scale now rendered iron and steel production competitive by international standards; indeed Australian steel prices became considerably lower than those in Britain whilst output rates (per blast furnace) exceeded the best in the United States.[88] The consolidation of this industrial 'backbone' had its effect on the economy as a whole and manufacturing in particular, most notably in the steel consuming industries which led the way out of the economic slump. These along with iron and steel production registered the highest rate of import substitution for the thirties and the largest increase in factory employment for the decade.[89]

For Collins House the growth of an iron and steel products sector was the basis of increasing local sales in lead and zinc. Between 1931 and December 1934 the proportion of its lead sold locally rose from 5.49 per cent to 8.24 per cent; in absolute terms this represented an increase from 6,523 tons to 14,491 tons.[90] However,

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[87] Ibid., pp.114-5.

[88] Ibid., pp.129-30.

[89] Ibid., p.130. For a detailed account of import substitution between the wars see Schedvin, C.B., Australia and the Great Depression, Sydney University Press, 1970.

[90] Broken Hill Associated Smelters, Directors' Report, No.17, January, 1933, p.22; No.19, December, 1934, pp.23-4. (Fraser Papers, M.U.A. 1/78/15).

the market for lead in Australia was always less important than that for zinc where the most remarkable changes were registered. The expansion of galvanizing works in which zinc was the major secondary metal and, relatedly, the demand of primary producers and gold miners for their products, were the principal factors here. With the aid of the tariff system and with few exceptions, most zinc based and zinc using products were manufactured in Australia by 1934 and used the metal from Electrolytic Zinc in Tasmania. Eighty per cent of the Risdon output consumed in Australia went to the galvanized iron and wire factories of New South Wales and the B.H.P. subsidiaries, Rylands and Lysaughts virtually monopolised these fields of production.[91] The rise in local consumption of zinc from Risdon was spectacular: in 1923 the Australian market consumed 20 per cent of the E.Z. output and in 1927, 33 per cent. Something less than this was registered in 1930 due to the severity of Australia's depression but by November, 1933, old levels had been exceeded and the Commonwealth was absorbing 40 per cent of locally produced zinc. By November, 1935, "slightly over half the output was sold for use in the Commonwealth". Forty per cent was registered in 1936 and again, 50 per cent in 1937.[92]

It appears that the most significant growth in local realisation - around the late twenties and early thirties - coincided with the most difficult period for Collins House on the international

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[91] Tariff Board Report, Zinc and Spelter (1934), C.P.P., 1934-7, Vol.II, pp.2689-93.

[92] C.E.M.R., 5 November 1923, p.78; 5 November 1925, pp.82-3; 5 November 1927, p.70; 5 November 1930, p.83; 6 November 1933, pp.104-05; 8 November 1935, p.30; 9 November 1936, pp.83-85; 15 November 1937, p.66.

metal markets. Failing markets in Europe and unrealised hopes for expanding sales in the East rendered Australian metal consumers the one remaining source of realisation and sustained prosperity. The local market came to the rescue when no others would; a fortuitous conjuncture.

Relations of Exploitation: Monopoly

Metal producers in Australia and the leading producers of metal commodities in the form of capital goods were heavily dependent on the development of manufacturing and other sectors in Australia which consumed their metals. This was a point initially, of fundamental unity between B.H.P. and Collins House, despite the essentially primary exporting and international character of the latter. Manufacturers, builders, primary producers and some governmental agencies (such as Defence and Public Works) constituted the market for these interests. The protective role of the state and manipulations of the price mechanism combined to ensure the market was a most lucrative one: the system of exploitation here was not dissimilar for the metal exporters to that effected in other areas of primary production where the state set local prices for a commodity above the exporting price, in order to compensate producers for the rigours of international competition. For the exporting metal interests the local market performed this compensating role and the state played its part de facto. From 1921 a joint tariff/bounty operated on iron and steel and the major metal commodities produced from it.[93] The tariff sealed off the local market (most effectively at the metal products stage of manufacture) whilst the bounty payment operated as a financial incentive to encourage the use of Australian metals. This system had the effect of

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[93] Iron and Steel Bounty Act (no.30 of 1921).

constituting the base metals industry against bitter overseas competition and encouraging the transfer of production from Britain to Australia. It also instated monopoly conditions for the principal metals and some metal products manufactured locally.

C.B. Schedvin's analysis indicates clearly that substantial gains in import replacement were made in the thirties, and to a lesser extent in the twenties, in the field of metals and metal products. In certain types of wire for instance, local producers supplied three tons of the product for every two imported prior to the depression; by 1933 the ratio had altered to 9:1.[94] A similar situation occurred in the copper and brass industry where protection was maintained in 1934 despite the monopolisation of production and the imminent monopolisation of supply by the Collins House subsidiaries, Metal Manufactures and Austral Bronze.[95] The Tariff Board tended to give high priority to the direct and indirect influence of the base metal industries on the level of employment and was not overly concerned with the exploitative aspects of monopoly where the industry in question appeared to be operating on an efficient basis. In zinc production for instance, the duty was raised in 1932 to give Electrolytic Zinc "the whole market". The Board took into account the contribution of the enterprise to the Australian economy and its need to avoid expenses associated with the accumulation and disposal of stocks in such difficult times; it acted in other words to ameliorate its realisation troubles abroad. "The protection ensured a home market for a large portion of the companies production while differences are being experienced in finding

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[94] Tariff Board Report, "Iron and Steel Wire of No.15 and Finer Gauge", CPP, 1934-7, Vol.2, pp.2021-27.

[95] Tariff Board Report, "Copper and Copper Products", CPP, 1934-7, Vol.2, pp.1717-32.

markets overseas" noted the company secretary.[96]

The tariff/bounty system and the leading metal groups in Australia, combined to effect a highly centralised and concentrated industry which, by 1934, had largely eliminated local competition and, despite overseas contenders, dominated the metals market in a wide range of commodities.

Monopoly and the Price Mechanism

The principal feature of centralisation in the base metals industry was the integration of metal production with the manufacture of metal products. This permitted price arrangements between the firms concerned. Initially metals were supplied to associated companies below the market price, thus eliminating effective competitors. In the absence of competition prices rose and were passed onto consumers. Centralisation and monopoly exacerbated the incongruity between value and price and created 'super-profits' for the metal empires.

In the opinion of the Tariff Board this manipulation led to 'outstanding financial success' and 'unreasonable' profits in the 1920's for both Metal Manufactures and Austral Bronze; not even the depression could eliminate the realisation of 'satisfactory' though 'not excessive' results.[97] Similarly, the arrangement between B.H.P. and its subsidiary and associate firms permitted the price of metals to vary according to demand for the manufactured product. The mark ups described by the Board had led to "unduly high prices". "The prices charged", it noted, "...were only slightly under the landed duty paid costs of imported products, which obviously suggests that full advantage has

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[96] Tariff Board Report, "Zinc and Spelter", op.cit.

[97] Tariff Board Report, "Copper and Copper Products", op.cit.

been taken of the duties operating and the exchange position".[98]

The Tariff Board was intent on encouraging efficient industries and on minimising costs to primary producers and other manufacturers who constituted the major source of demand for metal products. Where unnecessary mark ups were discovered it would reduce tariffs or refuse applications for increased protection and recommend price reductions.[99] However, tariff adjustments were unable to keep up with independent changes in the economic climate; the tendency in the tariff/bounty system was to over-protect the metal products stage of manufacture - a phenomenon which hastened centralisation, as the metal producers moved into this area pursuing a higher rate of profit. In addition, the Tariff Board did concede as necessary some additional costs arising from protection in order to secure a market and establish the base metals industry. The margin here tended to err on the side of safety rather than austerity. "The return (argued the Board) for having incurred this increased cost and other amounts in other years since protection was first granted may be measured today by the national value of an important established industry employing regularly large numbers of operatives and drawing supplies of raw materials from the key industries of steel manufacture and zinc production".[100]

These additional costs, plus the margin for super-profits,

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98 Tariff Board Report, 'Iron and Steel Sheet', C.P.P. 1934-7, Vol.2, pp.2003-10. Fraser referred to a similar ploy in a letter to W.S. Robinson: "If we are hit with 44 hrs (he wrote) I propose to recommend to the Board to immediately lift our price for lead to a figure just below what it would cost consumers to import the metal". Fraser to Robinson, 11 August, 1927. Fraser Papers, M.U.A., 1/64/12.

99 See Tariff Board Report, 'Iron and Steel Wire', op.cit.; 'Iron and Steel Sheet', op.cit.

100 Tariff Board Report, "Wire, Iron and Steel', C.P.P. 1934-7, Vol.2, pp.2029-36.

reverberated through the various stages of exchange and production contributing to greater difficulties particularly in the area of small scale manufacture and deficient protection. The Tariff Board report on the copper industry summed up the effect precisely: "Practically all of them (domestic producers of copper and copper products)... are producing goods or materials that are used in other industries and the first addition to costs represented by the higher price of copper becomes in some instances an appreciable sum by the time the materials reach the hands of the final purchasers. This has the effect of placing those industries which are competing with overseas manufacturers in a difficult position".[101] These observations were quite accurate. The manufacturer of domestic cooking utensils for instance was penalised by the joint effect of low tariff protection for the finished product but high protection for the necessary raw materials - steel and zinc. A similar situation prevailed in many other areas of consumer goods manufacture where the tariff tended to be less formidable and bounties were scarce. One brass products company argued before the Tariff Board for a reduction of duties on semi finished metal products and contended that "the local non-ferrous metal industry would (then) be freed from the control of a monopoly which, in the past, has been responsible for unnecessarily high prices".[102] It can be presumed that land settlers and gold miners - who made extensive use of wire, galvanized iron and other metal products - were penalised in the same way.

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[101] Tariff Board Report, "Copper and Copper Products", op.cit., p.1725.

[102] Tariff Board Report, 'Non-Ferrous Alloys, N.E.I.'; C.P.P., 1934-7, Vol.2, p.1587.

The Politics of Contradiction

The continued exploitation of these sectors depended at least on their survival. For a time, prior to the depression, both B.H.P. and Collins House encouraged not merely survival but expanded reproduction in these related areas of capital. However, in the thirties this expansion became a matter of some contention for Collins House. This stemmed from its role as primarily an exporter of metals and, relatedly, its concern that continued import substitution in Australia would cause retaliation abroad, particularly from England, against Australian exporters. For in Robinson's opinion, "If her (Great Britain's) manufacturers are to be shut out by tariffs or prohibitions then we are bound to see an effort on her part to make herself correspondingly less dependent on imports of raw materials. In the case of both lead and zinc she can do this".[103] B.H.P. in particular and the metals industry in general (metals, machines, implements, conveyances, utensils, etc.) were the focal point of Collins House' reservations. Colin Fraser expressed the same view as Robinson in December, 1934, shortly before his knighthood. Notably it came in a cable from London; his visit there may well have created or confirmed the view: "if we desire to retain (a) protected and secure market in (the) U.K. for lead and spelter, we must concede to British manufacturers (the) same privileges as we claim for our own".[104] Another concern connected with import substitution was the extensive interests of Collins House in Britain itself. Transferring production to the south seas would adversely affect employment levels and aggravate an already flagging

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103 W.S. Robinson, "Memoranda to Broken Hill Associated Smelters", op.cit.

104 Fraser to B.H.A.S. 16 December 1934. (Fraser Papers, M.U.A. 1/127/6.).

social stability in the metropolis. In this regard Robinson was critical of the Broken Hill Proprietary's growth which was effected in assocation with other British manufacturers. "While this may safeguard capital (he argued) it does not protect labour, and it is from the labour side there is most to fear". He added, referring also to the problems of international exchange, "My fear is that the measure of success they achieve may be the measure of our possible loss".[105]

As the problems of realisation abroad heightened late in the depression, so too did Collins House' disenchantment with the pace of import-substitution at home. The paradox was that Australian manufacturing as a secondary market served Collins House well, but only to the point where its expansion endangered metal exports, the dominant aspect of its trade. This point, it appeared, was reached only in the early thirties when B.H.P. led the way out of the economic morass. Hitherto, in previous years, Collins House had actively encouraged the development of manufacturing in Australia. Robinson and W.L. Baillieu were instrumental in the formation of Victoria's electricity commission at Yallourn (1918) to encourage the setting up of local industry.[106] Similarly, Baillieu and his son Clive were outspoken in their attempts to 'woo' British manufacturers to Australian shores.[107] During the war Baillieu was engaged, as were B.H.P. executives, in the formation of the Australian Industries Protection League, though patronage appears to have dropped away soon after, possibly due to the A.I.P.L.'s

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105 Robinson, op.cit., p.3.

106 Blainey (ed.), If I Remember Rightly. The Memoirs of W.S. Robinson, 1876-1963, pp.108-09.

107 See The Times, (London), 13 July 1922, p.12.

trenchant and uncompromising tariff policy.[108] In addition, there is evidence of Robinson's enthusiasm for an aluminium industry and for aircraft manufacture as early as 1917.[109]

The depression however, created new economic conditions and these led to contradictions within Collins House that previously had not existed. Rapid import replacements in iron and steel endangered metal exports. The lead-zinc group became visibly less enthusiastic in its attitude towards manufacturing development, and less sympathetic to high levels of tariff protection. Indeed in some instances it openly opposed applications by iron and steel interests for increased protection.[110] At the same time it exhibited a definite concern for the survival of small scale manufacturing by suggesting in evidence to a Royal Commission, a credit scheme for this enfeebled strata.[111] It is probable that by 1933-1934, the Collins House leadership was ambiguous about, if not convinced in its opposition to, the rapid expansion of manufacturing in Australia. Possibly it believed that expanded land settlement developments and gold mining activities should take precedence.

The apprehensions of Collins House were placated during the remainder of the decade. It was able to weather the realisation problems abroad whilst at the same time B.H.P. and its associate enterprises continued to expand at the expense of manufacturers in Britain and elsewhere. Late in the decade this growth paid off as iron and

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108 Forster, op.cit., p.19.

109 See file headed "Aluminium", in W.S. Robinson Papers, M.U.A.

110 For example, see Tariff Board Report, 'Iron and Steel, Plate and Sheet', C.P.P., 1934-7, Vol.2, pp.1995-2002.

111 See evidence of Staniforth Ricketson cited in Chapter four.

steel production at last achieved economies of scale and techniques that made it competitive with overseas products. Protection as a result became increasingly less important, having completed its part in the consolidation of heavy industry in Australia. In a sense then it was B.H.P. and the state (through the Tariff Board) which represented the long range objective interests of the ruling class as a whole, whilst the dilemma of Collins House situated its needs in a short term policy at odds with this. It remained, however, the small manufacturers, land settlers, gold miners and some government agencies who paid the price of protection and monopoly capitalism. Collins House, as it turned out,was well served by it - the export market in the mid and late thirties was kinder than anticipated.

Having examined the organisation of the Australian economy in relation to British capitalism, and of particular sectors in relation to the industrialisation process, it is now possible to look more closely at the political level of Australian society. The politics of economic development does not follow on from here due to any notion of politics as the mere reflection of subterranean economic forces which precede. On the contrary, the political level played a constitutive part in the organisation of the economy and of social classes in Australia, and in the reproduction of British capitalism's local interests. It is therefore due to its distinct and relatively autonomous existence as a sphere of Australian reality - albeit one circumscribed by the laws of capitalist development - that the politics of economic development is dealt with separately at this point.

CHAPTER VI

THE POLITICS OF ECONOMIC DEVELOPMENT

"Character is power, and do not forget that
character is capital".

Sir John Ferguson, President of
the Institute of Bankers in
England. (Australasian Insurance
and Banking Record, Vol. 51, No.2,
February, 1927, p.123).

In a dependent social formation such as Australia the objective function of the state was the integration of imperialism into the domestic reality; into Australian life. The production of the necessary conditions for the expansion of British capitalism in Australia was the political task which prefaced the major economic developments of our period. This centred on the resolution of those conflicts of interest, each with its own specific and irreducible historical elements, which arose in the process of capital accumulation. For the dependent context in which Australians existed, the basic conflict between capital and labour was complicated by a highly differentiated class structure, and specifically by the contradictions that wedged apart 'local' and overseas oriented interests.

In the historical antagonisms which arose out of exploitation and dependence, the two over-riding characteristics of Australian reality, the state apparatus had to maintain both social cohesion and the dominance of those class forces organised around the leading overseas power.

The Hughes Period : 1917-22

The weight of inflation, with rapidly declining real wages throughout the war, and the polarisation and bitterness engendered by the conscription issue, underlay the industrial upheaval experienced in Australia between 1917 and 1921. This was reinforced by the rapid maturation of trade union organisation after federation and the influence of revolutionary struggles abroad, particularly those of the Bolsheviks and the Industrial Workers of the World (I.W.W.).[1]

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[1] The wartime inflation experience is discussed in Mills, R.C., and Walker, E.R., Money, Angus and Robertson, Sydney, 1941, Ch. 9.

Inflation continued unabated after the war. The cost of living grew another 15 per cent in 1919 and 1920 without corresponding money wage increases. Strikes reached a peak in these years; industrial violence and street battles became commonplace.[2] The press divided the working class into two camps, one filled with 'poisonous workers' and the other with 'loyalist men', whilst middle class elements and businessmen set about organising the latter into armies of strike-breakers.[3] In 1919 there were three days of rioting in Melbourne and riots in Brisbane; violent confrontations ensued in other cities, in Townsville and Fremantle for instance, when 'loyalists' were used against striking workers.

Within the Labor Party itself, the tensions between 'empire loyalism' in wartime and class consciousness had blown the ranks apart, culminating in 1917 in the defection of Billy Hughes the Prime Minister and other Labor leaders. The Nationalist Party was then formed - a coalition between the Liberal Party and the ex-Laborites - which assumed federal power under Hughes leadership. It left the Labor

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[2] Copland, D.B., "The Economic Situation in Australia, 1918-23", Economic Journal, Vol. 34, No. 1, March, 1924, pp.32-51. Scenes such as that cited in the Argus on 29 May, 1919 (p.7) were not uncommon in these times: "A disgraceful scene was witnessed in Spencer Street yesterday afternoon, when the loyalists who had been working on the wharves during the day marched to the railway station under strong police escort, which included 30 mounted men. Twice detachments of the mounted police charged hooting crowds and for a time it seemed that a serious disturbance would occur ... All the way to the station objectionable epithets were hurled at the loyalists by hundreds of strikers who had gathered along the route and by many women who were particularly venomous".

[3] Smiths Weekly for instance published a coupon asking for volunteers "prepared to support an organised middle class". (22 November, 1919). In 1921 there were 624 recorded strikes in the Commonwealth, compared with 554 in 1920, 460 in 1919, 298 in 1918 and 444 in 1917. (Commonwealth Bureau of Census and Statistics, Labor Report, No. 12, 1921, p.142).

Party without an outstanding leader, bitterly divided and demoralised.[4] In 1921 a carefully worded and qualified 'socialisation' plank was added to the Labor Party platform in an attempt to recall the lost souls who had deserted parliamentary politics for the open class war. In the same year the Communist Party was formed. It was small, financially impoverished and based on itinerant, non-proletarian elements such as meat and pastoral workers. But more importantly, it was a sign of outrage and discontent which now coloured working class politics, and it was a new and provocative option for the labour movement.

The period was a most disturbing one for the men and women of property and power. Such was its turbulence that fears of insurrection spread wide in establishment circles and the state was active, on several known occasions, in preparations for counter-revolution.[5] For it was believed by some that revolution could spin out of the industrial war.[6] Between 1917 and 1921 manufacturers were harassed into a greater degree of inter-State co-operation to facilitate anti-strike agitation.[7] In London, British capitalists with operations in

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[4] The first Liberal Party in the Commonwealth Parliament was an amalgamation of the two anti-Labor parties, the Liberal Protectionists and the Free Traders, which came together in 1909. The Liberal Party merged with the breakaway Labor groups led by Hughes, to form the Nationalist Party in 1917.

[5] McQueen, H., "Hang the Profiteer! Australia, 1919" Unpublished Seminar Paper, Department of Economic History, Australian National University, 1975, p.4. McQueen cites a high level police-army conference "to consider the Bolshevik threat", which decided upon the rapid increase of the Police Forces and the preparation of lists of citizen reserve forces. For Hughes' perspective on the gravity of the situation and for an account of his more ruthless and conspiratorial efforts to counter it, see the Hume Cook Papers, National Library of Australia, M.S., 601/3/74.

[6] Turner, I., Sydney's Burning, Alpha Books, Sydney, 1969.

[7] Iremonger, J., Merritt, J., Osborne, G., (eds.), Strikes. Studies in Twentieth Century Australian Social History, Angus and Robertson, Sydney, 1973, p.73. See also the Argus, 27 May, 1919, p.9; 24 May, 1921, p.7.

Australia embarked on the organisation of an intelligence service and financial centre in Melbourne, to promote "such bodies or parties as might be considered by them to be capable of furthering their interests". And in this they were able to win the services of the Prime Minister's private secretary.[8] In the countryside too, the stirrings of political organisation amongst rural producers were hastened by concern at the industrial climate and the belief that this was the Labor Party's answer to defeat at the polls.[9] Since much of the conflict in this period was centred in the transport and fuel industries - lifelines for the farmers - it readily took on, in their eyes, a most sinister and threatening complexion. The poetic social equation of Mr. Justice Higgins of the Arbitration Court summed up the feeling behind this mobilisation: "The muscle working class seem to show an absence of chivalry", he said, " an absence of sportsmanlike give and take, an insistence on their pound of flesh every time, together with a discourtesy and suspicion and distrust, which do no credit to them and arouse resentment among the rest of the community".[10]

Between 1917 and 1920 a variety of schemes were constructed to combat the labour offensive. Profit sharing was widely discussed in business circles, and in parliament.[11] Indeed, some prominent businessmen, including the Prime Minister to be, S.M. Bruce, implemented cautious versions of the idea in their own firms.[12] The merits of worker parti-

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[8] Schedvin, ~~C~~.B., "E.G. Theodore and the London Pastoral Lobby", Politics, Vol. 6, No. 1, May, 1971, p.27.

[9] Iremonger, J., et.al., op.cit.

[10] Argus, 2 August 1919, p.18

[11] Commonwealth Parliamentary Debates, Vol. 92, 1920, p.3382.

[12] Edwards, C., Bruce of Melbourne. Man of Two Worlds, Heinemann, London, 1975, p.33.

cipation were also debated, but these were devices for heading off industrial trouble about which there was little accord.[13] The majority of businessmen were not in the mood, nor in the position economically, to opt for such costly appeasement.

The advent of the Nationalist Party in these circumstances precipitated the wholesale reorganisation of conservative political leadership. The new party "adopted a constitution which, on paper at least, was patently modelled on that of the A.L.P. There were to be local branches, and State Councils which would have a considerable organising role".[14] It absorbed the Australian Women's National League (A.W.N.L.) and, through R.G. Menzies and Kent-Hughes, created a Young Nationalist wing, and a Speakers' Association for the training of public orators.[15] The most important development however was the formation of the National Federation between January 9 and May 31, 1917. This was centred in Victoria where it quickly built up 220 branches and a membership of 60,000.[16] The Federation's General Secretary described how it came into existence:

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[13] C.P.D., Vol. 92, 1920, p.3305. For a most disturbed academic perspective which observed an "increasing concentration of workers and employers into highly organised and mutually hostile camps", and which advocated a form of worker's participation, see Atkinson, M., (ed.), Australia. Economic and Political Studies, Macmillan, Melbourne, 1920, pp.21, 37.

[14] Crisp, L.F., Australian National Government, Longmans, Croydon, 1968, pp.203-204.

[15] Williams, J.R., "The Organisation of the Australian National Party", Australian Quarterly, Vol. 41, No. 2, 1969, pp.41-51.

[16] J. Hume Cook - W. Riggall, 31 May 1917. Hume Cook Papers, N.L.A., M.S. 601/2/29.

> as a result of a number of extraordinary circumstances arising out of the late war. Its constitution was deliberately made so broad as to be capable of bringing into membership several schools of political thought opposed to Bolshevism or any other foreign system of government; and, so suitable was it to the conditions then in existence, that it absorbed or amalgamated such organisations as the Peoples' Party and other small bodies. In addition it found a place for those loyal laborites who, putting the Empire and flag before Party, broke away from their previous political associations to form the New Organisation.[17]

Thus the National Federation, at its outset, thrust conservative party politics onto the threshold of a new development by providing it with a mass organisation and an electoral machine, both lacking in the preceding practice of small-scale, intermittent mobilisation around election time. Whereas, after federation, unity between free traders and protectionists was forged in response to the parliamentary prospects of the Labor Party, now it was the threat of a consolidating and disgruntled urban working class which breathed new life into anti-labour politics in 1917. It should not be assumed however that this new life was sustained and developed. These organisational changes posed considerable problems for the leading business groups within the conservative party, as it gave the party a mass base and a forum in which it could exercise its influence. Consequently the National Federation and the comparable associations which had formed outside of Victoria, were often the focal points of conflict in the Nationalist Party. Their major sources of finance were sometimes in jeopardy and their autonomy was frequently challenged. In these conditions, the organisational apparatus which they had precipitated, tended to operate as a function of the degree of social conflict and polarization throughout the inter

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[17] Hume Cook - Secretary, National Union, 1919 (otherwise undated), Hume Cook Papers, N.L.A., M.S. 601/2/77-84.

war period, rather than as a permanent party practice.

The National Union, in which the principal business groups of the party congregated, had origins more complex than those of the National Federation. Founded in January or February 1917, it took over from several predecessor groups as the self appointed finance committee for the Nationalist Party. The new organisation was "remodelled, and strengthened by new men and methods". Irving suggests the 'new men' probably included W.L. Baillieu and Colin Fraser as the metals group was the latest, most powerful and highly organised addition to anti-Labor ranks.[18] Certainly the London end of the metals group was active in Australian politics, whilst W.S. Robinson came to be very close to Hughes during the war.[19] The 'new methods' undoubtedly referred to financial relations between the Union and the extra parliamentary groups associated with the Nationalists : within the party complex this period gave rise to agitation in Victoria and the minor States for greater financial autonomy from the centralising drive of the National Union.

Like its predecessors, the Union was a stronghold of the most powerful British and allied economic interests in Australia. It was dominated by export/import capitalists (though manufacturers were represented in its ranks), and it was politically, perhaps the most conservative and reactionary element in the anti-Labor ranks.[20]

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[18] Irving, B., The Nationalist Party, 1919-1930 : Organisation and Ideology, Unpublished Ph.D., thesis, Sydney University 1972, pp.119-120.

[19] Blainey, G., (ed.), If I Remember Rightly. The Memoirs of W.S. Robinson, 1876-1963, Cheshire, Melbourne, 1970, pp.77-90.

[20] B.D. Graham has argued that the extreme conservatism of the finance committees behind the Nationalist Party, the principal one being the National Union, was a source of weakness in the party since the views of the committees and those of the middle class party members were often at odds. (See "The Place of Finance Committees in Non-Labor Politics, 1910-1930", Australian Journal of Politics and History, Vol. 6, May 1960, p.52.

The National Union intervened in the business of the extra parliamentary associations and, on some occasions, of the parliamentary party itself. This was on matters of major political importance, such as anti-Labor unity and, subsequently, coalition politics. Several times between the wars, the union was prepared to withdraw funds when this unity was threatened or impaired.[21] Though it did not attempt to act as a day to day advisory committee, it was noticeably more active and better organised than previous finance committees had been. The industrial situation does not account for this in full. The demands of war for instance had given rise to greater integration and co-operation within the ruling class. The leadership of Billy Hughes, considered at best an unavoidable compromise, called for vigilance and constant pressure. Hughes' interventionist inclinations and his zealous protectionism were a source of considerable worry to the Union.[22] So too, finally, was the grand entrance of the Country Party into Commonwealth politics in 1919. For this introduced a new element, initially unpredictable, which had to be coaxed and courted into the anti-Labor camp.[23]

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[21] Irving, op.cit., pp.144, 163, 165, 166.

[22] Graham, op. cit., pp.43-44. For the dissension around Hughes' leadership within the parliamentary party see Crisp, L.F., "New Light on the Trials and Tributions of W.M. Hughes, 1920-22", Historical Studies. Australia and New Zealand, Vol. 10, No. 37, November, 1961, pp.86-91.

[23] In Victoria, the centre of Country Party 'radicalism', the anti-Labor coalition issue was never resolved during the inter-war years. The Country Party there was prepared to exchange support for either the Labor Party or the Nationalists in return for concessions. In 1921 the Victorian Country Party joined with Labor to bring down the Lawson Nationalist Ministry. The Peacock Nationalist Ministry suffered the same fate in 1924. And in 1935 the Dunstan Country Party was elected to office and ruled with Labor support. B.D. Graham has argued that a rift in anti-Labor circles at the federal level was also a possibility in the twenties but that Page was able to outflank this by broadening the social basis of the organisation and concentrating federal policy increasingly into the hands of the parliamentarians. (The Formation of the Australian Country Parties, Australian National University Press, Canberra, 1966, pp.284-7; see also Ellis, U., The History of the Australian Country Party, Melbourne University Press, 1963).

The post war problems of inflation and industrial unrest confronted the Nationalists as the greatest obstacles in the way of a return to 'normalcy'. The cost of living had risen out of hand in 1919 and 1920. Economic difficulties created by inflation, particularly the probability that Arbitration would concede the corresponding push for compensatory wage adjustments, compelled the Hughes government to strengthen the hand of employers. Meat price fixing regulations were introduced in 1918 to stem wage demands. Simultaneously, Hughes embarked on his populist campaign against 'the profiteer', ostensibly directed at the retailing fraction of capital.[24] However, McQueen has correctly described this campaign as a "stalking horse for intensifying legal attacks upon working class defence of their real wages", since it juxtaposed the making of excess profits with the making of wage demands (in this context any wage demands at all), whilst simultaneously situating productive capital outside of the profiteering stigma.[25]

In September, 1920, a highly deflationary budget was introduced by Cook, the federal Treasurer, perhaps in anticipation of the impending

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[24] S.M. Bruce in correspondence to Hughes called for a clear distinction to be made between the productive and unproductive fractions of capital: "The great primary industries I would leave unfettered... The secondary industries we should also leave alone. In respect to the distributing traders and middlemen, I say that immediate action should be taken and that those traders who are only the servants of the Nation as a whole should be made to carry on their operations on the lines of a reasonable return to them and a fair deal to the people - their masters". (S.M. Bruce - W.M. Hughes, 17 October 1919, Hughes Papers, N.L.A., M.S. 1538/136/1).

[25] McQueen, *op.cit.*, p.8.

Royal Commission recommendation for an increased basic wage.[26] It was a retrenchment budget scorning the use of loan finance and cutting sharply into government activity in the economy.[27] Simultaneously the control of the money supply was handed over to a newly created Note Issue Department in the Commonwealth Bank. Headed by equally orthodox business minds, this Department implemented a credit squeeze to complement the budget strategy.[28] Inflation was quickly curbed as the government measures coincided with the onset of a world wide economic slump and severe drought in the Australian countryside. As a result, interest rates rose, unemployment grew quickly to 12½ per cent in 1921 (as recorded by trade union returns), and bankruptcies throughout the Commonwealth increased sharply.[29]

In addition to these careful political manoeuvres, a series of highly repressive legislative measures were introduced in 1919 and

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[26] The budget was brought down on 16 September, 1920. The Report of the Royal Commission on the Basic Wage followed on 23 November. (The Report is in Commonwealth Parliamentary Papers, 1920-21, Vol. 4, pp.529-645). For the only secondary account dealing exclusively with this Royal Commission see Whillier, R.J., The Piddington Commission 1920 Enquiry into the Basic Wage, Unpublished B.A. (Hons.) thesis, University of Adelaide, 1976.

[27] An account of the strong pressure within the Nationalist Parliamentary Party for retrenchment can be found in Crisp, op.cit., p.90. B.D. Graham has also argued that S.M. Bruce's strong support in the National Union in 1921, stemmed from his advocacy of retrenchment. ("The Place of the Finance Committees in Non-Labor Politics, 1910-1930", Australian Journal of Politics and History, Vol. 6, May 1960, p.44).

[28] The Department was formally headed by Sir Denison Miller, formerly a private banker. In effect, according to S.J. Butlin, the Note Issue Board run by Sir John Garvan, head of the Mutual Life and Citizens' Assurance Company. (Australian and New Zealand Bank. The Bank of Australasia and the Union Bank of Australia Limited, 1828-1951, Longmans, London, 1961, p.367.

[29] The number of bankruptcies in the Commonwealth increased by 50.1 per cent from 1920 to 1922 and the value of the liabilities involved almost doubled. (Computed from the Commonwealth Year Book, No. 17, 1924, p.500.).

1920, in order to tackle the unions and Bolshevism in Australia. This corresponded to a general hardening of attitudes in respectable business circles and the conviction that the retreat of authority in the face of truculence and irresponsibility only encouraged industrial unrest. The Argus at this time became particularly virulent, regularly pressing the government to 'deal it out' to rebellious elements.[30] Hughes himself argued that "This spirit of general unrest is the most vital factor of the whole situation".[31] The measures he adopted sought to enforce industrial peace and continuity in production, in order to restrict wages and offset other costs, such as the inflated prices of raw materials, pressing heavily on employers. These measures empowered the Governor-General to outlaw, and to confiscate the property of, any associations which threatened the stability of the Commonwealth; they covered the deportation of anarchists and applied sanctions which severely restricted the legal manoeuvreability of the trade unions.[32] Hughes was also intent upon increasing the government's regulation of trade and commerce to give it a much broader scope than that enjoyed by the Arbitration Court. However he was not successful in this. He embarked upon a degree of government intervention into the areas of industrial relations and price fixing that was unacceptable at the time,

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[30] Argus, 29 April 1919, p.4. ("The law will lose all its own force if those whose duty it is to administer it allow it in any instance to be defeated by force".)

[31] C.P.D., Vol. 89, 1919, p.12844.

[32] The legislation associated with these measures is discussed in Sawer, G., Australian Federal Politics and Law, 1901-1929, Melbourne University Press, 1956, pp.165, 167, 193, 196. For the most celebrated of deportation cases, see Henderson, G., "The Deportation of Charles Jerger", Labour History, No. 31, November, 1976, pp.61-78.

and was ultimately confounded by Constitutional barriers. Exerting greater control over trade unions was a far more simple legal matter than was encroaching upon the prerogatives of private capital.[33]

Manufacturers found themselves far more at ease under Hughes' regime than did the country rich or, for that matter, the country poor. The 20 per cent increase in the land tax in 1918, the meat price fixing regulations, and Hughes' penchant for dirigisme, all cast him at irretrievable odds with pastoralists, farmers and graziers. So too did his commitment to industrial protection which was cemented by the post war thinning out of British naval lines. Hughes personally was closely associated with the Collins House metals group and with the leaders of the Australian Industries Protection League. In 1918 he established the Bureau of Commerce and Industry under Stirling Taylor, creating a special service for British investors. The Bureau was a source of highly efficient and detailed information. Taylor argued that the union of Australia's raw materials and British technology could turn Australia into a great industrial outpost of the empire at the doorstep of Asian and south pacific markets. He believed the commercial supremacy of the empire was coterminous with industrialisation at its frontier,

[33] The Constitutional Alteration (Legislative Powers) Bill of 1919 contained Hughes' objectives. It passed through the House of Representatives with little enthusiasm from most Nationalists, only to be defeated at a Referendum following heavy campaigning against it from the business world.

> To visualise my meaning commercially - Great Britain should be the central factory, with Branch factories close to her markets; to visualise my meaning politically - if Great Britain is to hold the Empire she must hold it by populating her far off possessions, and thereby guarding for all time her frontiers. A decision on the one hand by Great Britain to develop Australia as one of her great Branch Factories to supply her own markets and those nearby natural markets, and, on the other hand, by Australia to set out on a deliberate policy of developing not only her primary, but also her secondary industries, would have as a result - on the one hand, the retention by the Empire of markets now endangered, and on the other, would mean the population of this Commonwealth by men and women of British blood and British sentiment.[34]

The Bureau, in conjunction with other developments discussed below, effectively constituted manufacturing interests as the dominant fraction in the coalition of class forces represented by the Hughes' government. "History raises its voice in no uncertain way", argued Taylor, "against those who are content to be primary producers and nothing more".[35] And who was Taylor, or for that matter Hughes, to question history.

To achieve a more even balance between the manufacturing and primary sectors, political stability needed to be supplemented by a positive guarantee of markets in Australia. In 1921, against an immediate background of rising unemployment, renewed immigration and 'dumping' problems created by the world slump, the new Treasurer, Walter Massey-Greene, introduced a comprehensive tariff schedule.[36]

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[34]Stirling Taylor - Lord Northcliffe, 12 September 1921, Bureau of Commerce and Industry (Folder marked "Britain"), Australian Archives, A599.

[35]Bureau of Commerce and Industry (Folder marked "General Publicity"), Australian Archives, A599.

[36]Massey-Greene succeeded Cook who was appointed High Commissioner to London.

This both fortified and broadened the tariff wall making feasible for the first time, industrial expansion into many new areas. The Tariff Board was created in the same year with formal powers to investigate and advise Cabinet on tariff matters. This too, like the Commonwealth Bank Board in 1924, was placed in the hands of prominent businessmen and guided by a leading manufacturer.[37]

In the course of its beleaguered life the Hughes regime had confronted and contained the major social antagonisms in the Commonwealth. It had overseen the political reorganisation of conservative party politics and it had simultaneously restructured the economy, laying down some of the necessary political superstructure for industrial capitalism in Australia.

The Bruce-Page Period : 1923-1929

In 1923 a coalition between the Nationalist and Country Parties was elected to power led by S.M. Bruce, an importer. The change of government and leadership did not ostensibly alter the course of economic strategy. The broad objectives - migration for land settlement, a greater use of natural resources and government direction in the development of a balanced economy - remained the same. There was however a shift in policy brought about by the changed composition of the government and new economic circumstances. The coalition moved away from the tariff towards methods of supporting economic development

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[37] The guiding influence on the Tariff Board was Herbert Brookes, a prominent Victorian manufacturer. (Rivett, R., Australian Citizen, Herbert Brookes, 1867-1963, Melbourne University Press, 1965). The most influential voice on the Board of the Commonwealth Bank was Sir Robert Gibson, who became its Chairman in 1926 and who was simultaneously Chairman of the Associated Chambers of Manufacturers of Australia, 1924-27. (Anderson, R.W.C., A Brief History of the Associated Chambers of Manufacturers of Australia, Industry House, Canberra, 1960, p.36).

better suited to the Country Party and towards a more direct assault on the problem of profit levels through action on wages and the closing down of marginal capitals.

Bruce had come to power in 1923 with the support of the Country Party and the National Union and on the condition that Hughes was to be eliminated ministerially. His government therefore, rested immediately on a most powerful conglomeration of social forces whose interests were antithetical to a high tariff.[38] The political convictions of these forces were further entrenched by the economic climate. The ministerial strength of the Country Party, led by Earl Page, was one reflection of their political muscle.[39] Another was the mobilisation of 'free trade' forces, led by National Union members, within the extra parliamentary associations of the Nationalists. Between 1923 and 1928 these continuously attacked the protectionist plank of the party.[40]

Under the Bruce-Page regime contradictions between the export and the manufacturing sectors were increasingly resolved in favour of exports. Much to the delight of some large and resourceful manufacturers and to the chagrin of the smaller ones, they were left to face the relatively unmitigated forces of the market.[41] The balanced

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[38] The negotiations over Hughes' removal are discussed in Graham, op.cit.

[39] In the three Bruce-Page ministries from 1923 to 1929, the Country Party held 5 of the 11 portfolios.

[40] Secretary's Report, Australian Industries Protection League,(A.I.P.L.), 4 September, 1923, pp.4-5 and 20 November, 1928, pp.2-3. A.I.P.L. Papers, N.L.A., M.S. 756, Series 2.

[41] Essington Lewis for instance, who was appointed managing director of Broken Hill Proprietary in 1926, exhibited an intense dislike for the tariff and preferred to battle the competition of foreign goods with a direct assault on wage levels. (Blainey, G., The Steel Master: A Life of Essington Lewis, Macmillan, Melbourne, 1972, p.83).

development sought after by the Commonwealth government presumed both overseas capital to lay the basis for manufacturing in Australia and an expanding export surplus to pay off the interest charges on this capital. Thus the need to expand and support exports became increasingly pressing as the burden of the overseas debt grew heavier. The immediate interests of manufacturers were subordinated to this need. The reproduction of British capital in Australia took priority because it was the cornerstone of economic strategy. The growth of the manufacturing sector was tossed about subject to its dictates.[42]

The government had abolished the Bureau of Commerce and Industry in 1923. Late in the same year it added a primary producer to the Tariff Board.[43] Tariff preferences to British manufacturers were increased considerably in 1923 and 1926, whilst the tariff generally failed to keep pace with the falling prices of imports.[44] Throughout this period its growth was restrained due to its mounting impact on the cost structure of rural producers whose economic situation grew worse with each year. The protective barrier in other words, became markedly less effective. And this was in spite of the Customs portfolio

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[42]Sir Arthur Duckham, a member of the Economic Mission from Britain which came to Australia in 1928 argued: "It will have to be shown how secondary industries can be placed in such a position that they will not be a burden, but an asset, to the primary industries". (Quoted in the Australasian Manufacturer, No. 654, 13 October 1928, p.13).

[43]Secretary's Report, A.I.P.L., 7 August, 1923; 13 November 1923, (A.I.P.L. Papers, N.L.A., M.S. 756, Series 2).

[44]Barcan, A., Trends Towards National Unification, 1921-42. A Study of Nationalism and Regionalism in Modern Australia, Unpublished M.A. thesis, Sydney University, 1954, Part 3, chapter 2, p.4. See also The Times Imperial and Foreign Trade and Engineering Supplement, 3 December 1927, p.277.

being in the hands of a leading manufacturer.[45] In addition, tariff revenue from 1924 was designated specifically to servicing the overseas marketing needs of exporters - an entirely new fiscal development.[46] Thus, whilst the state was expanding its commitment to the 'bare-bones' infrastructure necessary for manufacturing development (see chapter III), it was systematically demolishing other commitments and deploying its liberated energies to the countryside.

Economic conditions did not favour the profitable accumulation of capital after 1923 when the rate of growth slowed considerably. This was as a result of intensified overseas competition, vascillating export receipts, and the overproduction of capital in building and manufacturing industries, 1919-24. Indifferent conditions in the rural sector added to the plight of the urban economy through decreased demand for implements and machinery.[47] Political factors too made a significant contribution to the profitability crisis. There were reforming Labor government in most States at some time during the twenties. These extended the responsibilities of capital to labour, supervised working conditions more rigorously and in some ways improved them. The principal measures were the introduction of employers'

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[45] H.E. Pratten was Minister for Trade and Customs from 1924 to 1928. He was President of the New South Wales Chamber of Manufacturers from 1912-14. A close friend of Pratten's has suggested that the Minister once described himself as "temperamentally opposed to nursing industries", a characteristic which may help to explain his appointment to the Bruce-Page government. (F.L. McDougall - H. Brookes, 3 November 1924, Brookes Papers, N.L.A., M.S. 1924, Series 19).

[46] Curtis, H.J., Political Developments in the Commonwealth of Australia 1919-1929, Unpublished Ph.D. thesis, Adelaide University, 1955, p.178.

[47] See introduction to chapter III.

liability insurance schemes, and the implementation of a 44 hour week in Queensland and New South Wales, and in some trades (timber, engineering) in all States.[48] Arbitration too proved costly to employers, as the movement in real wages was slightly upward from 1922 whilst many strikes in this period had widespread, aggravating consequences being located in strategic areas of the economy.[49]

Between 1924 and 1930 there were a series of bitter and protracted strikes centred in the maritime, coal and timber industries. These were largely defensive actions directed against the mobilisation and use of 'loyalist' or scab labour, retrenchments and the intensification of labour and shop-floor discipline, factors which themselves arose from the profitability crisis facing employers. For the same reasons, strikes became more frequent in other sectors of the economy from 1925 onwards. It was no coincidence, therefore, that the Bruce-Page governments' campaign against the trade unions began in earnest in 1925-26. The campaign was part of a broader programme aimed at offsetting a conjuncture of influences, including strikes, which had imposed a severe profitability crisis upon employers after the mid 'twenties.[50]

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[48] Round Table, Vol. 14, 1923-24, p.831; Vol. 15, 1924-25, p.814. An account of the growth of employers' liability insurance is presented in the Australasian Insurance and Banking Record, Vol.57, No. 7, July 1933, p.625.

[49] Gifford, J.K., Wood, J.V., Reitsma, A.J., Australian Banking, University of Queensland Press, Brisbane, 1960, p.129.

[50] With the exception of industrial disputes in the "essential service" industries (specifically fuel and transport), industrial unrest was not of an extensive or persistently troublesome nature in this period. With unemployment high and trade union finances meagre, industrial stoppages were generally shorter in duration and less successful than their predecessors earlier in the decade. It was the conjuncture of strikes with the other influences discussed above, which made them thoroughly intolerable to manufacturers and country capitalists alike.

The federal government brandished a combination of measures to combat the economic downslide : it hoped to absorb a greater portion of the social costs of the reproduction of labour-power and thus restrain wage growth and militancy; to impose, at the same time, strict industrial discipline on the trade untions to ensure continuity of production; and to reform the federal Arbitration system removing from it the structures exploited by the trade unions.

In 1925 the coalition put forward elaborate proposals for child endowment and national insurance schemes. A scheme for cheap finance to facilitate lower income home ownership was also drawn up and put into effect in 1927, though just how effectively is not certain as the Commonwealth Bank intervened to assert its control over the scheme soon after the legislation was passed.[51] But the 1925 proposals were shelved as Commonwealth revenue declined and 'balancing the books' became more difficult. Nullified in the field of social amelioration, the Bruce-Page government became still more obsessive with outright repression to achieve industrial peace.

This particular government sought to mollify militant trade union leaders, to drain trade union finances and to formally organise the practice of strikebreaking. It was particularly concerned with securing industrial discipline in the strategic areas of the economy, such as transport and fuel. From 1925-28 a series of legislative measures were therefore implemented empowering the Governor-General and the government to deport migrants who proved troublesome in industrial relations, to break strikes in the shipping trade through the introduction of British and foreign shipping, to license waterside workers

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[51] Sawer, op.cit., pp.257-58. During the second reading of the Commonwealth Housing Bill, Earl Page outlined the social function of this legislation: "An outstanding feature of modern life is the recognition of the impact of housing on the domestic affairs of the nation. Society can be stabilised and contentment created only by the satisfaction of the intense desire of the individual to own and live in his own home". (C.P.D., Vol. 116, 1927, p.220).

(i.e., control waterside personnel) and encourage the growth of 'associations of men willing to carry on work during a strike', to declare revolutionary and seditious associations unlawful and to impose heavy penal provisions and other sanctions on any union which employed direct action in preference to Arbitration channels.[52]

This campaign against the unions had a xenophobic flavour to it that was calculated to hold the government's support together at a time when important sections of it were breaking ranks. It also provided the Nationalists with an issue to lay at the doorstep of State Labor governments. Bruce's 1925 election campaign tirelessly identified industrial strife with communism, chaos and irresponsible Labor ministries. What an appalling situation it was, where in Victoria alone could 'voluntary workers' be sure of adequate police protection.[53] However, the most striking feature of the coercive legislation was its complete failure, after 1925, to prevent strikes from becoming both frequent and damaging, and to confine trade unions to Arbitration channels. Arising from this failure, the government legislated in 1929 to completely vacate the field of Conciliation and Arbitration to the States. It faced a desperate situation and reacted, accordingly, with desperation. The economic crisis was now looking most grave: export receipts were meagre; imports were clearly winning the battle against local manufactures; unemployment was mounting; lockouts were more prominent and bankruptcies had risen sharply.[54] Simultaneously, the clamour for wage reductions was mounting. Unable to respond

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[52]Sawer, ibid., pp.232, 237-38, 265-70.

[53]Round Table, Vol. 16, 1925-26, pp.388-93.

[54]The number of Commonwealth bankruptcies grew from 1,650 in 1924 to 1,766 in 1925 and then to 2,012 in 1926. (Commonwealth Year Book, No. 17, 1924, p.500; No. 19, 1926, p.464).

effectively, the government resolved that the federal arbitration system was to be dismantled. The legislation of 1929 aimed at clipping the wings of the Arbitration principle in general. It sought to eliminate the dual State/Commonwealth system which the trade unions had exploited with some success.[55] And it sought to limit the mandate of State arbitrators to wages and hours, thus leaving a considerable range of costs and conditions in the hands of employers themselves for negotiation. This was in keeping with a bellicose frame of mind in business circles, expressed aptly in the demand of the Australasian Manufacturer : "Away with it and let us get back to the clear, open economic ring".[56]

The attempt to vacate the arbitration field to the States appeared to be a sharp turnabout in federal policy since the same coalition had tried, unsuccessfully in 1926, to take on the entire responsibility for arbitration. In fact a closer reading of the situation indicates that the two moves were consistent and represented a determined effort to create a region of power within the Federal/State complex which could both uniformly and effectively deal with industrial disputes and restrain wage growth. The failure of the 1926 attempt simply meant another course had to be tried in order to achieve this objective. However, on both occasions constitutional barriers, State jealousies and intra-capitalist conflict confounded the government's original aims. As Sawer has argued, there was a coalition concensus around the 1929 legislation that "wages were too high, hours too short

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[55] If a State wage award was not satisfactory then a trade union could extend the dispute inter-state and take its case to the Commonwealth court.

[56] Australasian Manufacturer, No. 630, 28 April 1928, pp.12-13. The implications of the legislation for State arbitrators are cited in Hall, C.R., The Manufacturers. Australian Manufacturing Achievements to 1960, Angus and Robertson, Sydney, 1971, pp.413-14.

and worker productivity too low, and that it would be difficult for the federal tribunals to apply the necessary correctives while it might be possible for the State ones to do so".[57]

The Attorney-General, Latham, expanded further on the thinking behind the coalition concensus,

> The general principle which underlies the suggestion which I am now discussing is that it should be recognised that it is not possible, particularly with the limited executive agencies (police, etc.) available to a federal government, to compel obedience on a continental scale by merely legal means to an award to which the unions of Australia as a whole are opposed. The problem is smaller and simpler when the issue is fought upon a State arena - and the States have the police forces which the Commonwealth Government lacks.[58]

The greater capacity of the State governments for open repression and violence was, therefore, perhaps the vital consideration underpinning the 1929 legislation.

Despite the government's brief and fatal attempt to abdicate responsibility in the Arbitration field, the essential trend in Commonwealth/State relations had been and continued to be towards the expanded power of the Commonwealth. Countervailing forces, often grounded in narrow economic interests and cloaked in the garb of State's parochialism and chauvinism, were able to restrain and sometimes obscure the trend, but not to effect a decisive change in its direction. Historically, the shift of power away from the States has been a function of the increasingly broad, supra-State basis on which capital and organised labour were operating.[59] The specific and important develop-

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[57] Sawer, op.cit., p.309.

[58] Latham Papers, N.L.A., M.S.1009, Series 28-4.

[59] It was estimated in 1919 that "Practically 75 per cent of the trade and commerce of Australia was controlled by corporations operating in more than one state". (Journal of the Parliaments of the Empire, (Empire Parliamentary Association, London), Vol. 1, 1920, p.144).

ments of the 'twenties fettered the ability of State governments to circumvent or disrupt co-ordinated national policy, and they narrowed the scope for effective reform by State Labor governments.

The High Court's radical reinterpretation of the Constitution was a milestone in the growth of Commonwealth power. The Engineers' Case of 1920-21 eliminated the longstanding concept of the 'residual power' of the States and the notion of areas of implied immunity from Commonwealth authority. Formerly the judgment gave priority to the Commonwealth in all instances where it was obstructed by the legislative or executive power of the States.[60] Commonwealth power was also inflated, after 1923, by the creation of several statutory corporations which exercised considerable independence and new responsibilities and which redistributed authority at the federal level away from the political executive. Whereas in the previous period (1917-22) the major structural development in the state was within the conservative party organisation itself, in this period it effected the distribution of power in the entire state apparatus. "The (Bruce-Page) government showed its dislike for direct political control of administration, especially of business and technical concerns, by putting the Commonwealth Bank, the Commonwealth Shipping line, control of the sinking funds for the national debt, and the construction and government of the new federal capital under Boards or Commissions having a high degree of autonomy".[61] Still more important was the emergence of the Development and Migration Commission in 1926 and of the Loan Council in 1927, since these agencies were endowed with considerable investigatory

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[60] Menzies, The Rt. Hon. Sir Robert, Central Power in the Australian Commonwealth. An examination of the Growth of Commonwealth Power in the Australian Federation, Cassell, Melbourne, 1967, pp.30-33.

[61] Sawer, op.cit., p.227.

and co-ordinating powers over the economic course of the States.

Headed in most cases by prominent businessmen or public servants, the new agencies effectively consolidated a stable, long term, conservative administration, since, as statutory corporations they were insulated from the dictates of the federal government. Thus the shift in Commonwealth power was an inbuilt protective measure against the possibility of a reforming Labor government. The role of the Commonwealth Bank Board during the period of the Scullin Labor government was to prove the virtue of it. It should also be noted that these agencies were important transmission belts for the entry of leading businessmen from the secondary industries into the realm of Commonwealth power. The rise of the industrial ruling class is manifest in the prominence of technocrats and employers from the manufacturing sector on the Boards and Commissions created in the 'twenties.[62]

The creation of the Development and Migration Commission headed by Herbert Gepp stemmed from the government's recognition that economic problems throughout the economy were inter-related and that their resolution into stable, balanced growth required a coherent overview of the Australian economy, or a more 'scientific' approach to planning. Originally this was to have been the task of the Tariff Board but it had become overloaded with other responsibilities. The Commission, consequently, was given broad investigatory and general advisory powers for the development of the national economy. In addition, it had specific power to manage the heavy migration programme which was already underway, and was required to legitimise the programme by combating the belief that it caused unemployment.[63] The Commission organised itself into

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[62]The appointments of Herbert Brookes to the Tariff Board, of Herbert Gepp to the Development and Migration Commission and of Sir Robert Gibson to the Commonwealth Bank Board were the most significant.

[63]Curtis, op.cit., p.225.

the apex of a 'brains trust' which drew on academics and State government advisers, aiming at synthesizing knowledge and experience into a programme for the harmonious growth of all sectors. But trapped in the framework of contemporary economic thinking it was unable to succeed here. However, its extensive research and recommendations were perhaps the vital factor in restraining the headlong gallop of the States into ill-fated land settlement programmes and in cultivating the Commonwealth's commitment to alternative means for the absorption of migrants. Under the Commission's influence the Commonwealth became increasingly concerned with 'migrants for manufacturing' in order to maintain the heavy inflow of Britons and others.[64] It challenged and countered the widespread belief in government circles that land settlement was the lynchpin of economic activity in all sectors of the economy, and it effectively disseminated the view that an aggressive migration policy was mutually dependent on the expansion of new secondary as well as primary industries.[65]

The Commission was a landmark in the development of federalism since it provided the Commonwealth with the means of investigating the internal affairs of the States and supervising any activities which depended on Commonwealth funds. Whilst the States theoretically had

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[64] Forster, C., Industrial Development in Australia, 1920-30, Australian National University Press, Canberra, 1964, pp.173-77.

[65] Curtis, op.cit., p.235. The political rejection of land settlement as the key to economic growth has been a watershed in the industrialisation process. It cannot be overlooked when considering the uneven development of manufacturing in the various States. Relatedly, the strength of the Country Party in each State has been a highly influential factor. Thus the political adoption of a manufacturing-led future appears first in South Australia in the early 1930's. There the desire for land settlement is relatively weak and the Country Party is not an important element in the political fabric of the State.

freedom of action through the use of their own revenue, the financial limitations here threw them constantly back to the scrutiny of the Commission. Commonwealth investigatory bodies had existed hitherto but these were transitory creations to deal with specific issues, whereas the Commission's significance to federal relations lay in its permanency, its all embracing scope and its power with respect, specifically, to migration. Curtis has noted: "The extent of the Commission's authority may be judged from the fact that a resolution of both Houses was necessary to over-ride the Commission's veto of any State proposal under the (Migration) agreement, and, as the Government automatically accepted any scheme the Commission approved, its powers to investigate State proposals were decisive in future plans for migration".[66]

The formation of the Loan Council and the Financial Agreement of 1928 was a still more direct affront to the powers of the States since it required them to surrender specific fiscal responsibilities as a means to rationalising government borrowing. The highly publicised legislation satisfied the electoral promises of the Nationalists to increase the efficiency and reduce the costs of borrowing, an objective clearly respondent to the contemporary catchcry for 'more business in government'. The Agreement made the Loan Council, which had borrowed informally on behalf of the States since 1923, responsible for all borrowing from 1928.[67] The Council also became accountable for the expenditure of loans, a cardinal principle of orthodox economic thought at the time. The logical outcome here was an increasing measure of

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[66] Ibid., pp.225-6.

[67] Gilbert, R.S., The Australian Loan Council in Federal Fiscal Adjustments, 1890-1965, Australian National University Press, Canberra, 1973, ch. 6. See also Menzies, op.cit., pp.95-101.

control and co-ordination over the economic development of the States. Loan Council borrowing for the States also replaced the antiquated system of £1.25 per capital grants, as the new arrangements made provision for specific purpose payments, again inflating the measure of direction from the Commonwealth agency.[68] Finally, built into the legislation were powers to guard against any credit damaging action by wayward State governments. This was a conservative buttress that was subsequently invoked against a Labor government in New South Wales. The Premier (1932-39) noted that "It was on the basis of this major financial reform... that my predecessor in office (Lang) was foiled in his attempt to destroy the credit of Australia".[69]

The extension of Commonwealth powers was complemented in this period by expanding commitments to private capital in other areas. In the sphere of production the Commonwealth was historically less active than the States. At both levels of government however, there was direct intervention in the production process and this was aimed at defraying the costs of private capital. Labor governments tended to provide more in the way of minimising wage costs: fisheries, canneries, butcher shops, trawling ventures and brickworks were all tried by at least one State Labor government before the second world war. Anti-Labor governments on the other hand were more concerned with capital costs (they instigated State coal mines for instance), and relatedly with technique and innovation, which at the Commonwealth level propelled the Hughes regime into industrial research, oil production and wireless transmission.[70]

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[68] Special grants of all kinds grew from 17.8 per cent of all Commonwealth payments to the States (1926-27) to 31.8 per cent (1929-30), 57.7 per cent (1934-35) and 55.3 per cent (1938-39). (Gilbert, ibid., p.94)

[69] Crisp, L.F., Australian National Government, Longmans, Croydon, 1968, pp.90-91.

[70] Sawer, op.cit., pp.192, 228, 267.

In the sphere of circulation and exchange, the state's activity was more extensive and complex: the problems relating to the sale of commodities and the realisation of a surplus in the export sector multiplied in direct proportion to the depth of the world economic crisis in the inter-war period. The Commonwealth government was forced into a desperate search for markets and into support operations in the countryside. It was compelled to create an elaborate marketing and financial apparatus for rural producers and was thus increasingly responsible for their economic organisation.

The fundamental problem facing rural producers in the 1920's was the steady downward movement of the international price for their commodities. Few rural exporters were unaffected by this phenomenon. However, the smaller producers in the agricultural sector (wheat farmers and fruit growers) found themselves in increasingly dismal financial difficulties.[71] These were compounded by the international currency instability of the period: it was not uncommon for a farmer's payment to be delayed and distorted due to a rupture in the exchange network, and this affected re-stocking and re-planting schedules. As a result, many rural producers, particularly the hardest hit wheat farmers, descended into heavy debt and many were forced to leave the land.[72] Their production had become increasingly less rewarding and the rewards themselves subject to delay, which in turn affected

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[71] For a quite detailed example see Fitzpatrick, B., The British Empire in Australia, 1834-1939, Macmillan, Melbourne, 1969, pp.280-82.

[72] Commonwealth taxation accounts suggest the number of taxpaying wheat farmers dropped sharply between 1918-19 and 1928-29. ("Seventh Annual Report of the Commissioner of Taxation", Commonwealth Parliamentary Papers, (C.P.P.), Vol. 3, 1920-21, p.1412; "Fourteenth Annual Report of the Commissioner of Taxation", C.P.P., Vol. 4, 1932-34, p.2025).

the production cycle adversely. This was the rural manifestation of the burgeoning economic crisis of world capitalism.

Such problems propelled the state into a new and relatively permanent field of activity. The federal government, in concert with the State governments, was forced to intervene in the world market on behalf of exporters. It became a mediator between the two. Simultaneously it constructed a more elaborate financial superstructure for exporters. The groundwork for the state's mediation in the world market had been laid during the war when the international movement of commodities necessitated government regulation. After 1918 however, most of the wartime apparatus was dismantled. It was under the Bruce-Page regime that an extensive "rebuilding" programme was effected. The presence of a powerful Country Party in the ministry added considerable vigour to it; indeed Page's role in its more important legislative components was the leading one.

From 1924 to 1926 the federal government moved into advertising and marketing abroad for rural producers. Numerous Boards were created to administer and centralise the marketing of export products.[73] At the State level, a comprehensive web of marketing organisations was constructed, to handle and 'hold over' the huge crop surpluses which occurred from time to time, thus acting as a guarantor for farmers against marketing delays. All of this activity aimed at minimising the costs of distribution, enhancing Australia's international reputation as a producer of foods and raw materials, and at cartelising the sale of Australian produce to sustain prices. Thus some of the legislation

[73]These developments were embodied in the Dairy Produce Export Control Act, 1924; the Dried Fruit Export Control Act, 1924; the Meat Industry Encouragement Act, 1924; the Canned Fruits Export Control Act, 1926; the Fresh Fruits Overseas Marketing Act, 1926; and the Wine Overseas Marketing Act, 1929.

gave the appropriate Boards considerable powers for centralising the marketing process: "although the control boards were not formally given a monopoly of export handling they were in a strong position to regulate activities of private exporters and could acquire a monopoly if the Minister issued no licences to the private agents".[74]

The government also constructed the financial apparatus necessary to sustain rural production in the peculiar conditions of the 1920's. The major programmes entailed a special bank finance scheme; the creation of a trust account in the Treasury to be distributed by the Commonwealth marketing boards; the Commonwealth Bank Act of 1924 which overcame the problem of delayed payment for exports when funds were "beached" in London; and the creation of a Rural Bank in 1925, to support farmers whilst their crops were being marketed and sold.[75] The State governments were also integrated into this programme and, with the marketing boards, became the major distributors of 'support finance' to exporters. In addition, the federal government continued the practice of granting bounties instead of tariff protection on the manufacture of certain capital goods produced in Australia in order to minimise the production costs of farmers and graziers.[76] The elements of chance, inefficiency and production technique were also tackled by the state : with the financial support of the London based Empire

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[74] Sawer, op.cit., p.228.

[75] In legislative form these measures were, respectively, the Advances to Settlers Act, 1923; the Export Guarantee Act, 1924; the Commonwealth Bank Act, 1924; the Commonwealth Bank (Rural Credits) Act, 1925. The purpose behind the two Commonwealth Bank Acts is discussed in Page, E., Truant Surgeon, Angus and Robertson, Sydney, 1963, pp.115, 118-19; also Blainey, G., Gold and Paper. A History of the National Bank of Australasia Limited, Georgian House, Melbourne, 1958, pp.314-15.

[76] E.g., the Wire and Wire Netting Act, 1927.

Marketing Board, the Commonwealth Scientific and Industrial Research Organisation was established on a federal basis with funds for scholarships and overseas research work, and almost exclusively oriented to rural problems.[77]

With the increasing priority given to rural problems, which included the deterioration of the tariff wall, the Bruce-Page government necessarily became a sorrowful compromise for many manufacturers, particularly those of small scale whose economic situation worsened considerably in this period. The reflex of their plight was political mobilisation and a highly disruptive role within the Nationalist Party organisation. Indeed, the small manufacturer was the principal destabilising factor in anti-Labor politics and figured prominently in the ultimate downfall of the government in 1929.

The presence of large numbers of small producers is the most distinctive feature of the scale of manufacturing in Australia between the wars. Certainly the pace of the concentration process was quite fast and it is this which has attracted the attention of many observers.[78] But it was also the case that an exceptionally large number of firms existed; that these were, by and large, very small operations, using primitive and outmoded machinery, lacking financial collateral and, consequently, highly susceptible to the ebb and flow of the trade

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[77] Rivett, R., David Rivett : Fighter for Australian Science, Rivett, North Blackburn, 1972, pp.130-32, 151.

[78] Forster, C., "Economies of Scale and Manufacturing", in Forster, C., (ed.), Australian Economic Development in the Twentieth Century, Australasian Publishing Company, Sydney, 1970, pp.141-42. See also Penrose, E., "Towards a Theory of Industrial Concentration", Economic Record, Vol. 32, May, 1956, pp.64-78, and Wilkinson, H.L., The Trust Movement in Australia, Parker, Melbourne, 1914.

cycle. The small capitalist himself, or herself, tended to carry a huge workload, mixing skilled or semi-skilled work on the shop-floor with managerial and weekend maintenance duties.[79]

Political organisation was highly difficult for small manufacturers since they had neither the social contacts, nor the financial resources necessary for this. Their spare time, too, was in short supply. Moreover, whilst their numbers tended to grow steadily, the 'membership' of this group was subject to a rapid turnover, largely due to failure and a return to the working class. But despite such factors, a semblance of organisational representation was acquired during the first world war in the form of the Australian Industries Protection League (A.I.P.L.). Whilst very few manufacturers were personally active on a political level, their large numbers, their like mindedness on several major issues and their relative autonomy within anti-Labour circles, made them a most volatile element. This was crystallised in the activity of their leadership in the A.I.P.L. Indeed, the small manufacturer quickly became the dissident fraction of the Australian capitalist class.

The political outlook of this fraction, as expressed through the A.I.P.L., and through its Sydney based mouthpiece, the <u>Australasian Manufacturer</u>, was a composite of beliefs which, <u>en-toti</u>, clearly distinguished it from other sections of capital. The dissident manufac-

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[79] In 1923-24 there were 20,189 factories registered in the Commonwealth and 18,088 "working proprietors". That is to say, in almost 90 per cent of Australian factories the owner was working in some capacity. The situation had advanced by 1935-36, but the fundamentally "craft" aspect of shop-floor production relations remained: the proprietors were still working in 80.3 per cent of factories. (Commonwealth Bureau of Census and Statistics, <u>Production Bulletin</u>, No. 18, 1913/14-1923/24, pp.96, 110; No. 30, 1925/26-1935/36, pp.71, 87).

turers were, first and foremost, advocates of high, even prohibitive protection; they possessed a profound belief in the virtuosity of the small business enterprise and the necessity to furnish it with a financial and political superstructure.[80] They were thoroughly opposed to overseas borrowing since the debt was serviced by the purchase of imports and in this they were fundamentally at odds with the strategy of the federal government.[81] Their nationalism resided, not in their rejection of empire, but in a commitment to it that was contingent on rapid industrial development in Australia. In hard times, they could be advocates for the corporate state and were especially partial to the outlawing of strikes and the implementation of piece work.[82] But this in itself was not sufficient to comfortably accommodate them in the Nationalist fold. Small manufacturers identified the Nationalists with 'Big Capital' and saw themselves as being politically unrepresented. They exhibited a thoroughgoing suspicion of the Country Party and were unco-operative and uncompromising towards it. The Labor Party on the other hand was not a ready made alternative. It too was regarded with suspicion, as something of a Jekyll and Hyde character; support for it did not flow easily from the small manufacturers' political veins.

In response to a growing sense of alienation under the Bruce-Page regime, the A.I.P.L. raised a mass propaganda campaign and fought a bitter tactical battle in the Nationalist Party organisation from the mid twenties. Its aim was to publicly embarrass the party for its

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[80] Australasian Manufacturer, No. 673, 23 February 1929, p.13; No. 793, 13 June 1931, p.12; No. 795, 27 June 1931, pp.11-12.

[81] Ibid., No. 657, 3 November 1928, p.11.

[82] Ibid., No. 599, 24 September 1927, pp.9-10; No. 619, 11 February 1928, pp.11-12.

neglect of the manufacturing entrepreneur, and thus to coerce it into some change of course. Since the A.I.P.L. was largely unsuccessful in this, the conflict culminated in the defection of many manufacturers and their support for the Labour Party in 1929.

Following Hughes' replacement by Bruce in February 1923, the breach was further widened when the A.I.P.L. Secretary, J. Hume Cook, resigned from his position as General Secretary of the National Federation, arguing factually that the Federation had been hobbled by the financial control of the National Union, and that the Federation itself was no longer a sound protectionist body.[83] In the 1925 federal election the A.I.P.L. organised a public criticism of the coalition which "concentrated on the seats held by Country Party candidates and the Prime Minister". A team of experienced journalists were engaged and the Australian Natives' Association, a fraternal, like-minded body, provided the personnel for the mass distribution of leaflets and pamphlets.[84] In Parliament Hughes made a series of embarrassing and untimely attacks on the government. Bruce had retaliated privately by threatening to withdraw his endorsement, and publicly, by calling on all Nationalist forces to resist the serious challenge to the unity of the Party.[85] Simultaneously, Hume Cook had made elaborate preparations for what is recorded as the "New Party", though it seems nothing came of this.[86] The A.I.P.L. and its supporters were contained within the anti-Labour camp, though it was possibly due to the lack of a suitable alternative - Langism, was emerging in the Labour Party in 1925 -

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[83] Hume Cook Papers, M.S. 601/2/69-70; 601/3/2.

[84] Secretary's Report, A.I.P.L., 15 June 1925, op.cit.

[85] Hume Cook Papers, M.S. 601/3.

[86] Ibid.

rather than the resolution of manufacturers problems.

Indeed, these problems continued and worsened. Between 1925 and 1928 the depression set in right across the manufacturing sector. At the same time, the impact of reforming Labour governments at the State level added to the financial strain of the crisis. The costs of workers' compensation were particularly notable. The implacable opposition of manufacturers to overseas borrowing hardened and the presence of an Economic Mission from Britain - to check the financial stability of the debtor Commonwealth - was coldly received. "What Australia wants is not a commercial circus to visit its shores", claimed the Australasian Manufacturer, "but a proper understanding between our own manufacturers and the powers that be at Canberra. Evidently Mr. Bruce does not realise this".[87] On the day of the 1928 elections, the journal called for a Manufacturer's Party and advised: "The manufacturer who votes for the Bruce-Page combination is more (than) brave. He is reckless to the extent of foolhardiness".[88] It appears then that the dissidents may have refrained from voting in the 1928 federal elections, whilst in State politics the Victorian Labor leader, Hogan, may have got the endorsement of a substantial shifting vote in manufacturing circles.[89] The rift was growing wider.

In 1929 when an election was precipitated over Bruce's decision to vacate Arbitration at the Commonwealth level, manufacturers deserted the Nationalist Party and voted Labor. This was part of a broader electoral swing that put the Nationalists out of power. In the follow-

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[87] Australasian Manufacturer, No. 626, 31 March 1928, p.12.

[88] Ibid., No. 659, 17 November 1928, pp.11-12.

[89] "Labour has always been more sane in Victoria than in any other portion of the Continent". (Ibid., No. 583, 4 June, 1927, p.11).

ing year Hughes and Hume Cook formed the Australian Party, whose leadership was predominantly made up of manufacturers and whose administrative apparatus overlapped with that of the A.I.P.L. The Party decried the use of overseas loan funds, advocated a high tariff, generally treated the new Scullin Labor government with sympathy and preferred a wage freeze to wage reductions, recognising the impact of the latter on demand and economic recovery. It was an outspoken opponent of the Bank of England's deflationary recommendations to the Commonwealth and advocated restrictions on rural production rather than increased output, in marked contrast to the policy adopted.[90] Not until 1932, by which time political alignments within the major anti-Labor party had radically changed, were these political wanderers re-absorbed.

The Scullin Interval : 1929-1932.

For the politics of the depression, the long term development goals of the previous years had to be dropped in order to handle a savage short term interruption to growth. With the economic crash in 1929 the whole emphasis of Commonwealth politics changed. Thoughts of systematic planning disappeared; political life was more hectic and volatile, and purely ad hoc, salvaging measures replaced any pretence to 'economic management'.

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[90] The Free Australian (Official Organ of the Australian Party), 3 October 1930; 10 October 1930; 17 October 1930; 23 October 1930. (Hume Cook Papers, 601/3/196-200). See also Carboch, D., and Wildavsky, A., Studies in Australian Politics, Cheshire, Melbourne, 1958, pp.184-85. And Westerway, P.B., The Australian Party, Unpublished Paper, Department of Government, Sydney University, (undated). The Free Australian is held in the National Library of Australia.

With the election of the Scullin government and the economic crisis which coincided, the focal point of bourgeois mobilisation shifted drastically. In the Bruce-Page period the focal point had been the wage system and the search for industrial peace. During the great depression of 1929-32 however, the main issue became monetary management and sound finance in government. This was due as much to problems that were now less important as it was to the emergence of new ones.

By 1930 the backbone of the labour movement had been broken. Three epic industrial confrontations, one strike and two lock-outs, in the preceding 18 months, had witnessed the defeat of Australia's most militant trade unionists and the financial bankruptcy of their organisations.[91] Unemployment in the trade unions was running at 20.5 per cent in the third quarter of 1930 and there was little fight left in the organised working class, at least for the time being.[92] Consequently, working class struggles were not centred in the factories where industrial discipline was now stringent and job security perilous. Rather it was based amongst the less 'privileged' unemployed, the itinerants and the anti-eviction groups in the cities. Their struggles were intense and often violent but they were rear-guard actions, sporadic, often spontaneous, and essentially defensive in character.[93] There was no social basis for their unification and momentum.

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[91] The strike occurred in the martime industry in 1928 and the lock-outs in the timber and coal industries during 1929. See Rechter, M., The Strike of Waterside Workers in Australian Ports, 1928, and the Lockout of Coalminers on the Northern Coalfields of New South Wales, 1929-30, Unpublished M.A. thesis, Melbourne University, 1957; Dixson, M., "The Timber Strike of 1929", Historical Studies Australia and New Zealand, Vol. 10, No. 40, May, 1963.

[92] Labour Report, No. 21, 1930, p.93.

[93] For an excellent account of the itinerant experience in the depression see Huelin, F., Keep Moving, Australasian Book Society, Sydney, 1973.

Whilst the problems associated with a disruptive and threatening working class partly receded, those associated with management of the monetary system moved into the spotlight. The Scullin government had assumed office simultaneously with the sharpest economic slump Australia had ever experienced. The cessation of capital inflow and the drop in export prices caused an unprecedented balance of payments crisis. This placed a tremendous strain on the London balances of the Australian banks and threatened the capacity of the government to meet overseas debt commitments. The fall in national income was severe, adversely affecting government revenue at a time when overseas debt commitments and the burden of unemployment increased the financial demands on both the States and the Commonwealth. The Scullin ministry erected a high tariff wall to redress the balance of payments situation, to reduce unemployment by fostering local industry and to raise alternative revenue from Customs whilst incomes continued to decline. The revenue problem also compelled repeated increases in income tax, in company tax and in tax on incomes from property, whilst a sales tax (Commonwealth) and unemployment relief taxes (States) were introduced for the first time.[94]

For those fractions primarily dependent on trade with England, primary producers, importers and British manufacturers for instance, the tariff measures were anathema to their immediate, problem-ridden economic plights. Not surprisingly then, these interests coalesced into a number of powerful anti-tariff groups around Australia. In

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[94] Sawer, G., Australian Federal Politics and Law, 1929-1947, Melbourne University Press, 1963, pp.25-27.

New South Wales for instance, the Australian Association of British Manufacturers (A.A.B.M.) instigated the Joint Committee for Tariff Revision in conjunction with the Sydney Chamber of Commerce and several leading primary producing organisations.[95] The A.A.B.M. became a ubiquitous and often unseen political force which played a leading ideological role in shaping public opinion in Australia. Its influence was perhaps a major factor in the tariff moderations effected by Scullin's successor, Joe Lyons. However its prescriptions did not represent the long term interests of British imperialism in Australia since a solid tariff wall was necessary for Australia's balance of payments and the meeting of debt commitments in London. Consequently, the political strategy of the Bank of England, which was dealt with in chapter III, was in contrast to that of the A.A.B.M. 'High finance' in London placed its priority on effecting Australia's national solvency - the key long term factor - in such a way as to ensure maximum repayment of debts before the making of any concessions. The tariff question was secondary to and dependent upon this priority.

Towards the end of 1930 the possibility of still larger deficits sent shock waves through the business world and conservative politics. Late in 1930 the call for more government spending from sections of the Labor leadership and from the trade unions became louder, as it

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[95] Australian Association of British Manufacturers. The Australian Market. A Memorandum Prepared in Australia for the Guidance of British Manufacturers, London, 1932, pp.33-35.

did in some enlightened pockets of academic thought.[96] Simultaneously the election of Lang in New South Wales in October 1930 raised the spectre of repudiation of overseas debts. Monetary radicalism was clamouring for action; its influence was spreading fast.

These developments provided the catalyst for a groundswell of political activity in the name of 'sound finance', 'national solvency' and 'deflation'. In a matter of months tens of thousands of people were mobilised under these banners, drawn principally from the professional and managerial strata of Australian society. Their organisations spurned the umbrella of the major conservative parties and they were led by businessmen and women, most of whom had been politically inactive prior to the depression. Such a radical departure from the established channels of political expression and practice, and from the political apathy of the 'middle classes' is explained here in terms of the ideological assumptions behind the commitment to 'sound finance' and of the shortcomings of the major conservative parties at the time.

The mass organisations engendered by the economic crisis articulated the frustrations and fears of the unorganised and relatively

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[96] The essential account of the case for controlled credit expansion and of the leading academic voice in this case is McFarlane, B., Professor Irvine's Economics in Australian Labour History, 1913-1933, Australian Society for the Study of Labour History, Canberra, 1966, pp.20-28. One historian has recently argued that sections of manufacturing capital shared much in common with the position of the monetary radicals: "The Australasian Manufacturer during September (1930) also contended that English interests were out to destroy Australian secondary industries .... Voicing views similar to those held by the unions on the relation between prosperity and purchasing power, it, too, maintained that wholesale wage cuts would accentuate the depression, though it certainly did not hold that wages should be raised". (Louis, L.J., Trade Unions and the Depression : A Study of Victoria, 1930-32, Australian National University Press, Canberra, 1968, p.46).

defenceless middle class. Hitherto its political apathy had been a function of identification with and confidence in the major parliamentary parties, but in 1930 the Nationalists and the Country Party were floundering, and offered little in the way of a positive alternative. More importantly monetary radicalism was synonymous with inflation and inflation was a dark cloud above the jealously guarded savings of the middle class. It confronted their fragile economic and social status like a fiscal Goliath.

In part the mass organisations were a manifestation of declining faith in existing representative institutions; or at least of doubts in their short term efficacy. Even Latham, the new Nationalist leader, was prepared to demote parliament in preference for an unrepresentative 'Economic Council' in 1930.[97] But largely they were expressions of a profound, widespread and like minded intuition about how such institutions should be managed. Whilst a select few called for the abolition of parliament and pondered various forms of fascism, the vast majority exhibited no more than an intense commitment to the assumptions of orthodox economic thought within bourgeois democracy.[98]

Orthodox economic thought accepted without question the premise that the system was inherently stable; that is, consistent with the

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[97] Argus, 28 October 1930, p.8. Latham went on to suggest: "It was being discovered today that illnesses of the body politic were not amenable to treatment by the majority". For a contemporary discussion of the broader related issues see A.H. Charteris, "Declining Faith in Representative Government and the Rise of Opposed Forms of Government", in Duncan, W.G.K., (ed.), Trends in Australian Politics, Angus and Robertson, Sydney, 1935, pp.111-144.

[98] "The principal opposition came while the budgets were badly balanced. As soon as the control of the budgetary situation was assured, this opposition was considerably reduced". (MacLaurin, W.R., Economic Planning in Australia, 1929-1936, P.S. King and Son, London, 1937, p.182.

'natural' order of things and, consequently, best left alone. This assured, its permanence was secure. If the balance of payments deficit was burdensome then Australians simply had been too prodigal and would have to be more thrifty. Governments would have to spend less and save more while the trade unions would have to accept lower wages in order to accommodate employment for their idle comrades.[99] At the heart of this philosophy was the belief that the level of economic activity, output and employment was determined by fluctuations in the general level of prices (including the price of labour-power). Indeed it was believed that the major economic problems of the time, domestic instability and external disequilibrium hinged on control of the value of money or the price of things. Thus the scope of legitimate monetary policy for government was confined to the stabilisation of prices. Any interference in the monetary system beyond this was intolerably meddlesome and reckless. These beliefs, when threatened, were the dynamo which politicised and activated hitherto apathetic people. For them the economic world was still flat, and monetary interference took them too close to the edge. Magellan had yet to sail.[100]

The unique political breakdown, whereby many of the bearers of such ideas chose to circumvent the established conservative party with which they had previously rested easy, was not simply a function of these monetary inclinations. After all the Nationalist Party was a bastion of the same ideas. There were rather a number of reasons for the breakdown: firstly, there was widespread dissatisfaction with the performance of the parliamentary parties, making the overtures of the

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[99] This dogma was rooted in British economic theory; a combination of the law of diminishing returns and the theory of marginal productivity. See Stewart, M., Keynes and After, Penguin, Harmondsworth, 1968, p.34.

[100] See Arndt, H.W., "The Role of Monetary Policy", Annales, University of Istanbul, 1955, pp.131-37.

Nationalists somewhat empty at the time. Many of the new activists blamed the Bruce-Page government as well as the Scullin government for the economic mess, believing the depression was caused by political mismanagement and dishonesty which shadowed both sides of parliament. An identifiable substream to this argument, largely confined to New South Wales, was the belief that parliamentary politics generated the class struggle by electorally dividing the Australian people into two hostile camps.[101] Secondly, the organisations, 'leagues', 'citizens' committees' and so on, which mushroomed late in 1930 were a magnetic influence on many moderate Labor people who could not be drawn away from their party by the Nationalists. The mass organisations gained a numerical momentum from this particular virtue. Thirdly, a prominent part in their leadership was played by manufacturers, particularly in New South Wales. Their sympathy for the Scullin tariff made unification with the Nationalists a matter for the greatest caution. Finally, the Nationalist Party itself was in considerable disarray. It had suffered the departure in 1929 of prominent members to the Australian Party, including the widely respected Massey-Greene, and Billy Hughes. The coalition had broken down and the Nationalist leadership was squabbling with a particularly unco-operative Country Party, whose electoral aspirations had been inflated by the Nationalists inner turmoil. Menzies for instance referred to "all sorts of gestures of hostility" and believed the breakdown was a senseless disunity.[102] In addition, Latham, whilst widely respected, was not considered by many Nationalists to have the personal qualities necessary to stem the electoral appeal of monetary radicalism. He was a poker-

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[101] Matthews, T., "The All for Australia League", in Cooksey, R., (ed.), The Great Depression in Australia, Australian Society for the Study of Labour History, Canberra, 1970, p.143.

[102] Argus, 13 June 1930, p.10.

faced, heavily starched professional with neither the demagogic qualities nor the earthy charism that could sway working people. In the era of Jack Lang, such factors took on a greater weight.

The conjuncture of these influences in 1930 and early in 1931 rendered the Nationalist Party deeply introspective and embroiled it in a temporary retreat to sort out internal matters. In these circumstances its public activities were of a negative character, reacting to Labor party policies but devoid of any systematic alternative. In short, the established political leadership of the bourgeoisie was in disarray. The 'sound finance' mass organisations sprang up in the interval of this flagging leadership and, incidentally, quickly dissolved once the Nationalist household was returned to order.

The mobilisation of sound finance advocates in their thousands held out threatening electoral prospects for the A.L.P. government. Their propaganda identified the entire party as a management risk for the nation. It should be stressed however that this mobilisation was objectively directed against a minority within the Labor Party. The monetary radicals of the party, leadership included, established neither concensus nor majority support around their proposals. They reached a peak of influence early in 1931 and temporarily played a prescriptive role in the formulation of policy, but their proposals were thwarted and their influence subsided.[103]

The defeat of monetary radicalism was a tortuous and destructive process for the party brought about by Labor's own susceptibility to the assumptions of orthodox economic thought and by the restricted

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[103] Theodore's proposals, which spearheaded the monetary radicalism of early 1931, are outlined in Sawer, op.cit., p.21.

monetary powers of the Commonwealth government; that is, by the structural constraints upon the political executive which thwarted Labor's more social democratic inclinations during its term of office.

The Scullin government had not come to office intent upon drastic changes in financial policy. It was the immovable weight of economic depression, having been in government for some time, which propelled many within the party to the left. Both Scullin and Theodore had approached the economy in a most orthodox fashion during 1930. The party leadership had made outspoken assurances to overseas creditors and took a strong stand against proposals for credit manipulation and expansionist fiscal policy.[104] Scullin was also a signatory to the Melbourne Agreement in August wherein all Australian governments agreed to balance budgets within a year and soon after, he reappointed the highly orthodox Sir Robert Gibson to the head of the Commonwealth Bank Board. Sawer has argued that "Scullin accepted as readily as any contemporary banker or businessman the absolute necessity of balancing the budget".[105] And manifesting the extent to which sections of the party were fogbound in orthdox economic thought, the Prime Minister replied to proposals for credit expansion saying, "We cannot pay out what we do not receive. It is really a question of arithmetic rather than argument".[106]

Thus when the monetary radicals began to assert a considerable influence on the Labor Party, late in 1930, they faced a formidable

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[104] Hart, P.R., "Lyons : Labor Minister - Leader of the U.A.P.", in Cooksey, op.cit. p.38.

[105] Sawer, op.cit. p.26.

[106] Cook, P., "Labor and the Premiers' Plan", in Cooksey, op.cit. p.101.

array of 'sound finance' advocates within their own ranks. Theodore's subsequent adoption of an 'expansionist' credit policy arose from his battle with Lang for left wing party support, from his desire to restore his influence after a short, enforced absence from the Ministry, and from the advice of the radical economist R.F. Irvine, with whom he was in contact from September 1930.[107] His re-appointment as Treasurer and reflationary fiscal proposals of February and March 1931, in concert with Lang's announced repudiationism, triggered the departure of several Labor leaders and their supporters, leaving the party ruptured upon the rocks of its own ideological inconclusiveness. This was a characteristic weakness rooted in the party's essentially bourgeois grounding : a shift within the party to a more radical stance had been countered by "a breakaway in the name of morality, decency, and patriotism by a section of the leadership that reduces the party, at least temporarily, to impotence".[108]

The friends of 'sound finance' within and without the Labor Party had powerful allies in the Commonwealth Bank and other sections of 'high finance'. These were to prove decisive in the defeat of monetary radicalism. The state apparatus was so structured that the monetary powers of the political executive were quite narrow, whilst those of the Commonwealth Bank were extensive, as were the powers of the trading banks in the private sector. Thus the manoeuvrability of the Scullin government was subject, in addition to a hostile Senate and the financial muscle of the City of London, to the final monetary authority of the banks. This authority was theoretically capable at

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[107] Hart, op.cit., pp.40-41.

[108] Connell, R.W., "The State and Australian Capitalism", Seminar Paper, Sociology Department, Flinders University, 1975, p.33.

any time of 'starving' the government out of office. The experience of its influence in the depression was the springboard for Labor's bank nationalisation fervour later in the decade.[109]

Government credit in the form of the innovatory Treasury Bills issued by the banks and underwritten by the Commonwealth Bank was made contingent on an orthodox, deflationary performance by the Scullin ministry; so too was the reduction of interest rates.[110] In April 1931, by which time Lang's repudiationism was causing panic in New South Wales, Theodore's reflationary proposals had reached the House of Representatives in legislative form, and the public clamour for balanced budgets had climbed to a crescendo, the Commonwealth Bank Board decided to withold further credit to the government pending a formal commitment to deflation. Labor's capitulation was immediate and was formalised in the Premier's Plan of 1931 which hit at many sections of Australian society but not at overseas bondholders.[111] The defeat of monetary radicalism was, ultimately, a function of the distribution of monetary powers within the state apparatus. The history of this distribution, which is the history of the Constitution, will uncover a plethora of inbuilt measures to shield private property from the 'irresponsible attacks' of reforming or unconventional government.

The defeat of monetary radicalism, as expressed in the Premiers' Plan, was the conclusive manoeuvre in the attrition of Australian society to ensure national solvency and good credit in London. It did little to encourage economic recovery, but it did guarantee the payment

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[109] Denning, W., Caucus Crisis. The Rise and Fall of the Scullin Government, Cumberland Argus, Parramatta, 1937, pp.63-67.

[110] MacLaurin, op.cit., p.54.

[111] Cook, op.cit., p.99.

of overseas debts. All other considerations were subordinated. In Professor Irvine's opinion: "The policy of deflation was deliberately framed and carried into practice with a ruthlessness typical of actual warfare.... The depression furnished an excuse for abandoning social standards and social legislation which has long been abhorrent to the conservative mind".[112]

The final episode in this period of federal politics has to do with the revitalisation of the mainstream conservative party and the demobilisation of the 'sound finance' organisations; that is, the reconstitution of the established bourgeoise political structure. This was accomplished in a very short space of time, wherein many factors in the account of causality have been confused, and others overlooked.

The Nationalist Party was pulled together by the diffuse movement and energies of its big business compatriots, particularly in the sphere of 'high finance', and by its extra-parliamentary associations. In the upper echelons, some sections of the party led by Davidson from the Bank of New South Wales, busied themselves with cultivating the moderate wing of the Labor Caucus.[113] Others, such as the Young

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[112] Quoted in McFarlane, B., Economic Policy in Australia. The Case for Reform, Cheshire, Melbourne, 1968, pp.163-64.

[113] A.C. Davidson, a leading Nationalist Party member from the Bank of New South Wales, wrote in 1930: "We are pursuing a very careful policy here in Sydney with the hope that we shall be able to give sufficient support to the moderate men in the Caucus". On another occasion in the same year his pen was equally revealing of Nationalist strategy: "If we force the Scullin, Theodore and Lang Governments to adopt this (Premiers') plan it means that those factors that might normally be turbulent in the community will lead this movement. They will pass the necessary legislation which will naturally be unsavoury to their extreme supporters with the probable result that a Nationalist government will follow and obtain the credit for pulling Australia out of the mud". (Quoted in Schedvin, C.B., Australia and the Great Depression. A Study of Economic Development and Policy in the 1920's and 1930's, Sydney University Press, 1970, pp.174, 247).

Nationalists and the A.W.N.L., had moved into the hustings with an unprecedented vigour, travelling throughout the country to combat disturbing trends, under the somewhat defensive banner of 'Nationalism is Alright'. Conspiracies too played their part, since it was a tight-knit group of Nationalist businessmen, with National Union support, who negotiated the defection of the Labor politician Joe Lyons, to lead the Nationalist-cum-United Australia Party (U.A.P.) at the next elections.[114] This was followed by the intransigent stance of the Commonwealth Bank Board on 2 April. A momentum was clearly building up and this was as vital an influence on the party's reinvigoration as was any one of the more tangible, concrete influences.

Tactically, the use of Lyons, that is of the ex-Labour image, was a useful compromise which had been readily exploited in previous political crises. Lyons was promoted as 'Honest Joe', an image of considerable electoral importance in view of the economic management issues at the centre of political debate.[115] His programme, to the extent that its generalities and vagueness were meaningful, was primarily concerned with monetary matters.[116] The parroting of monetary catch-calls was simultaneously accompanied by a manifest stringency on specific social welfare issues, giving added bite to the authenticity of the U.A.P. quest for balanced budgets: the National Federation scrapped its policy commitment to child endowment,

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[114] The leader of this group, Staneforth Ricketson, was quite precise about Lyon's role and the group's own part in seeing it played out. He told Lyons: "Capital has a very definite responsibility at the present time to aid people like yourself who are fighting for the preservation of contracts and the honouring of our obligations". (Hart, P.R., J.A. Lyons: A Political Biography, Unpublished Ph.D. thesis, Australian National University, Canberra, 1969, p.143).

[115] Ibid., p.283.

[116] Hart in Cooksey (ed.), op.cit., p.47.

Commonwealth unemployment insurance and pensions for widows and orphans on 9 April, 1931.[117]

A fighting programme was indeed taking shape within the new party. This development, in concert with the ebbing of the Theodore crisis and the assertion of the Commonwealth Bank Board, restored confidence in conventional political practice. The constellation of 'sound finance' bodies dissolved into the U.A.P., helped along in some cases by their financial dependence on it. The intensity of the political crisis was ebbing; the familiar shape of bourgeois leadership restored; the defeat of the Labor Party imminent.

The Lyons Period: 1932-39

Federal and State governments in the 1930's were confronted with two difficult, inter-related and necessarily contradictory tasks. The first was to provide the economic conditions for the revival and consolidation of the expanded reproduction process; the second was to restore to Australian society a concensus which had fragmented, turning many people into scattered strata searching for solutions to the problems of capitalism. The contradictory nature of the tasks resided in those policies which shunted the burden of the economic crisis onto the shoulders of lower income groups on the one hand, and the process of legitimising capitalism as a just and fair society on the other. Ideological mystification in this context was running thin. The irresolution of this dilemma underlay the major conflicts within the state apparatus as a whole in this period, and much of the criticism directed at the U.A.P. from all classes of society.

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[117] Argus, 9 April 1931, p.7.

The over-riding objective of the Lyons administration was to maintain national solvency. This was effected through the pursuit of loan conversions in London and the reduction of domestic deficits by means of increased taxes, savings in social welfare outlays and administrative commitments, and restrained dependence on Treasury bill funding.

The task of begging conversions in the City of London was allotted to S.M. Bruce in 1933, after a brief sojourn as Lyon's treasurer. A number of factors, prominent amongst them the possibility of a debtor's revolt in New South Wales if conversions were not secured, allowed Bruce to find accord with his banking confrers in the Mother Country. At home, the Commonwealth's budget deficit was eliminated and State government deficits drastically reduced between 1931-32 and 1935-36.[118] The penny pinching, uncivilised assault on living standards that achieved these reductions was secured by regressive taxation and the narrowing of government responsibilities. The value of indirect taxes at the Commonwealth level grew steadily between 1931-32 and 1938-39, whilst that of direct taxes was decreased slightly.[119] Company tax was reduced in 1932-33 and land tax in 1936 was only 50 per cent of those effective in 1927-28.[120] Similarly, State taxes increased rapidly, revealing the same tendency to draw on lower income earners for a greater portion of revenue. In 1938-39 the per capita

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[118] MacLaurin, _op.cit._, p.106.

[119] _Commonwealth Year Book_, No. 29, 1936, pp.842, 844; No. 33, 1940, pp.846, 848.

[120] _Ibid._, No. 29, 1936, pp.846-47.

rate of direct taxation in the States was three and a quarter times greater than that for the Commonwealth whereas it had been only double at the end of the 1920's.[121] Yet over the same period the movement in company tax rates had been downward.

The obsession with deficit reductions afflicted governments with a reformist inertia that halted most advances in social welfare schemes and in some cases set them back many years. The Lyons government, for example, went beyond the stipulations of the Premiers' Plan by implementing a repayment scheme for pensions and other allowances.[122] A system of contributions by relatives and charging of pensions on the property left at death was introduced in 1932. Pensions were exempted from these strictures in 1935, but other allowances remained subject to them.[123] The States too effected considerable savings by erecting difficult means test barriers to social service payments, by rigid policing of payments and, in the U.A.P. States, by campaigns to stigmatise individual dependence on government funds. These tended to be appeals for thrift and sacrifice rather than outright attacks on the recipients. But perhaps the most colourful measure of the preoccupation with reducing expenditure was the federal government's attempt to dispose of its administrative responsibilities in the Northern Territory by handing the area over to a private chartered company to be formed out of the dominant British interests there: mercantilism loomed large in the depths of depression.[124]

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[121] Gilbert, op.cit., p.6.

[122] Hart, P.R., J.A. Lyons: A Political Biography, Unpublished Ph.D. thesis, Australian National University, Canberra, 1969, p.237.

[123] These measures were embodied in the Financial Emergency Act of 1932.

[124] Rose, F.G.G., "The Pastoral Industry in the Northern Territory During the Period of Commonwealth Administration, 1911-53", Historical Studies Australia and New Zealand, Vol. 6, No. 22, May 1954, pp.159-60.

For the revival of the economy, the Commonwealth government sought a balanced approach to the rural and urban sectors of production. Domestic loan raising at suppressed interest rates and heavy taxation to support the subsidation of the lifeless export industries was complemented by an adequate tariff wall and light weight public works programmes for recovery in the manufacturing sector. The infamous 'Flour tax', which Lyons described as a 'tax on the poor' was introduced during the first U.A.P. federal parliament and continued throughout the second, reinforcing the regressive trend in taxation.[125] This was revenue specifically extracted for the purpose of supporting the wheat industry. The Commonwealth made unconditional grants to distressed wheatfarmers and implemented a series of bounties and other relief measures. It also introduced more efficient marketing procedures for some export products and legislation to ameliorate repayment of debts amongst primary producers in the interests of overall economic stability.[126] Such intrusions into established property rights and commitments was necessary and tolerable in view of the vital part of the export industries in the Australian economy.

In the smaller States, where economic life still depended largely on rural production, the Commonwealth Grants Commission, created in 1933, took action to redress the disadvantages which flowed from manufacturing growth and protection in the east. Finance was provided to compensate for the disabling cost effects of the tariff, for the burden of inter-state shipping costs and for the spiralling effect of federal wage awards upon lower State wage levels.[127] There were, however,

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[125] Hart, op.cit., pp.256-58.

[126] Sawer, op.cit., pp.77-80.

[127] Gilbert, op.cit., pp.72-74.

clear limits to the effectiveness of government aid to the export sectors. Its measures were supportive not curative. Lifting the crisis was ultimately dependent on the independent influences of international price levels and markets.

For the manufacturing sector, the U.A.P. government continued, with some modifications, the line of policy introduced by the Scullin ministry. This effectively expanded production of and demand for manufactured goods in Australia. The leading role of manufacturing in economic recovery and the potential absorption of the unemployed in that sector made its protection and cultivation a matter of central importance. There were some tariff reductions in addition to the abolition of primage duty introduced by Scullin, factors which made manufacturers watchful and cautious towards the U.A.P. Even the calls for a manufacturers' party continued sporadically throughout the thirties.[128] But the concrete organisational opposition evident in the previous decade had disappeared. Nicholson has captured the fundamental reason for manufacturers uneasy reconciliation with the U.A.P. in his observation of tariff levels after the Ottawa Conference of 1932: "The Commonwealth Government adhered to the view that while protective duties should not be prohibitive, they should provide a marginal advantage in favour of the Australian manufacturer... Reasonable competition did not mean equal competition".[129]

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[128] Australasian Manufacturer, No. 907, 19 August 1933, pp.9-10; No. 966, 6 October 1934, p.10. See also the Presidential Address to the Associated Chambers of Manufacturers of Australia (1935), cited in Anderson, op.cit., p.32.

[129] Nicholson, D.F., Australia's Trade Relations: An Outline of Australia's Overseas Trade Arrangements, Cheshire, Melbourne, 1955, pp.59-60. Lyons was also bound by his 1932 electoral promise to "in broad principle abide by the recommendations of the (Tariff) Board", a promise which considerably enhanced the board's authority. (Quoted in MacLaurin, op.cit., p.162).

The compelling arguments for fostering Australian industry were inflated by the breakdown of multi-lateral trade and the unabating savagery of competition between the leading national manufacturers in international markets. Such was the contrast in the economic forces behind political direction in the twenties and the thirties that S.M. Bruce, the arch enemy of small manufacturers, became an outspoken advocate for 'tariff nationalism' in 1934, and promptly won their hearts.[130] Giblin, Lyons academic associate and personal friend, also felt the necessity to deliver a strong defence of the tariff in his Joseph Fisher Lecture of 1936.[131]

The dissension about the height of the tariff was the major issue which prevented a coalition government in the first Lyons parliament, 1932-34, and thereafter it continued to be a fractious and disruptive issue in the co-operation between the two conservative parties. The weakened ministerial position of the Country Party in the 1934-37 government and the return of Billy Hughes to the Ministry, was a measure of the new political weight of manufacturing capital in the post-depression Australian economy. In the same period the work of the C.S.I.R.O. was re-oriented, turning away from the primary sector to give increasing attention to the technological problems of manufacturing, whilst the Royal Commission into the Monetary and Banking Systems recommended the creation of an efficient financial infra-structure to serve manufactures.[132] This broadening commitment to manufacturing explains why the government's most heated opposition in ruling circles

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[130] Australasian Manufacturer, No. 929, 20 January 1934, p.9.

[131] Giblin, L.F., "Some Economic Effects of the Australian Tariff", Joseph Fisher Lecture in Commerce (No. 17), Hassell, Adelaide, 1936.

[132] Report of the Royal Commission into the Monetary and Banking Systems at Present in Operation in Australia, Commonwealth Government Printer, Canberra, 1937, pp.208, 256.

came from anti-tariff organisations led by domestic export/import interests, in alliance with sections of British manufacturing capital.[133]

The depression experience threw many Australians into confusion. Existence in the thirties, in many cases, remained miserable and traumatic despite the slow recovery. Confidence in the system was severely shaken. The neutrality of the state, and of government policy in particular, was subject to growing scrutiny and derision. Reactions varied widely; concensus became tattered and fragmented. Activated by differing impulses - fear, injustice and insecurity for instance - people pursued new lines of thought in all directions. The unifying feature of their disparate movement was a 'loss of certainty'.[134]

Thus the beseiged ramparts of bourgeoise ideology account for the continuing preoccupation of the conservative parties with the menace of communism and other radical ideas. In the industrial system, early in the decade, the working class was necessarily subdued, but for how long with such 'crack-pot' ideas in the air was the question which haunted anti-labour circles.

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[133] During the period of the first Lyons government (1932-34), anti-tariff forces in which the Australian Association of British Manufacturers continued to play a leading role, mounted an intensive propaganda campaign against the government. In addition the rift between the U.A.P. and the Country Party widened and for a time the possibility of a Country Party/Labor Party alliance was worrying leading U.A.P. members. However the fear of Labor's bank nationalisation programme and the polarized state of Australian society generally, held the two parties together from 1934.

[134] McQueen, H., "From Gallipoli to Petrov: The Dialectic of Class Consciousness and National Consciousness in Australia 1915-1955", Historian, (Journal of the Victorian Historical Association), Number 25, October, 1973, pp.29-30.

For many Australians populist analyses took on a new relevance in the aftermath of the depression. The growth of the Douglas-Credit movement in the first half of the decade was a measure of this.[135] For many others the control of finance (as opposed to its manipulation) had become the major issue. Many people in the Labor movement looked with growing enthusiasm on the prospect of such a challenge to private property. This was the basis of Labor's adoption of the 'Socialisation of Credit' onto the party platform in 1933.[136] The persistent electoral support for Lang Labor, which commanded half of a million votes in New South Wales until 1936, was also evidence that property rights were in question, since many supporters identified Lang with repudiation or a debtor's revolt. For some proletarians the collapse of capitalism (and the evidence of 'depression-free' Russia) was a source of confidence and renewed hope, providing sustenance for the spread of socialist ideas in the working class, and the intelligentsia too. It was no coincidence that Fitzpatrick's, The British Empire in Australia was conceived and written in the mid to late thirties. By 1935, the Communist Party had achieved in the space of a few years what had been impossible in the previous decade - a relatively firm base in Australian society. Its ideas gained widespread influence through its leadership and organisation around international affairs, such as the Spanish Civil War and the rise of fascism in Europe, and around the domestic economic struggle to resurrect the working class standard of living.[137]

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[135] Berzins, B., "Douglas Credit and the A.L.P." in Cooksey, op.cit., pp.148-160.

[136] See Cooksey, R., Lang and Socialism: A Study in the Great Depression, Australian National University Press, Canberra, 1971.

[137] Gollan, R., Revolutionaries and Reformists. Communism and the Australian Labour Movement, 1920-1955, Australian National University Press, Canberra, 1975, pp.65, 74-78. See also Davidson, A., The Communist Party of Australia. A Short History, Hoover Institution Press, Stanford, 1969, p.65. It is worth noting that in the 1934 Senate elections 74,000 people voted for Communist candidates.

This culminated later in the decade in the election of communists to the leadership of several key unions, a development which caused considerable apprehension in anti-labour circles.

Men of literature and letters were alive to the searching mood of uncertainty that had invaded Australian society. F.W. Eggleston believed his country had moved into a theoretical dark age of uncertainty and confusion; that it had become unruly and headstrong. The problems facing society he argued were "probably far more complex than the problems which have normally appeared throughout political history".[138] And Walter Murdoch, drawing a parallel with the Victorian era, called the period "an age of doubt".[139] Education circles were also alarmed at the lack of unity in Australian life: "There is as yet no integrating principle in our midst strong enough to capture the loyalty of all of us, and present service in the light of an honourable privilege", noted the Headmaster of Sydney's Knox Grammar School. Added to this dilemma was his conviction that "Much more is at stake than learning to spend time gracefully and inoffensively".[140]

In the U.A.P. a similar conviction was evident. The dynamo of branch activity, particularly in New South Wales, was defensive propaganda work to rationalise unpopular measures, and to disseminate the virtues of capitalist society and bourgeoise democracy. "It has become the fashion to look upon capital as the metaphorical monster in the present economic system", bemoaned the United Australia Review, the

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[138] Eggleston, F.W. "The Problems of a Managed Currency", Economic Record. Special Supplement. Economic Theory and Monetary Policy. With Special Reference to Australia and New Zealand, 1939, p.5.

[139] Murdoch, W., "The Victorian Era. Its Strengths and Weaknesses", John Murtagh Macrossan Lecture, Brisbane University, 1937, p.47.

[140] MacNeil, N.H., "Education in the Schools", in Duncan, W.G.K., (ed.), Educating a Democracy, Angus and Robertson, Sydney, 1936, pp.49,53.

organ of the New South Wales party.[141]

The fragmentation of consensus in the 1930's provoked a strong feeling of the need to protect society against 'alien' ideas and their threat to private property. In New South Wales, legislation was passed in 1933 to consolidate the Upper House as an immovable buffer against threats from the Lower House to "life, liberty and property", and to ensure the autonomy of other parts of the state apparatus, principally the judiciary, the police and public servants.[142] At the Commonwealth level a series of acts were implemented in 1932 to insulate it from radical reform by any State government, and empowering it to over-ride any State measures which endangered the financial and economic stability of the Commonwealth.[143] The frantic and farcical attempts of the U.A.P. to keep a Czech radical out of Australia in 1934, germinated in the same fear of challenging ideas and the fragility of bourgeois ideology. So too did the period of "political censorship in earnest", 1932-37, which to that time was the most repressive censorship in Australian history.[144]

The "age of uncertainty" which spread like a thick mist across Australian society was not only registered in the minds of the subordinate classes. The world outlook of the ruling class was severely shaken as well. Above all, confidence in the economic system had been dented.

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[141] United Australia Review, 21 June 1933, p.13.

[142] "The present Council ... may be swamped by a Government; and a revolutionary Cabinet could sweep away every Constitutional safeguard which at present protects the rights of people. Such a government could remove all the protection that at present exists for life, liberty and property". (United Australia Review, 21 March 1933, p.3).

[143] These were, the Financial Agreements (Commonwealth Liability) Act, 1932; the Financial Agreements Enforcement Act, 1932; and the Financial Emergency (State Legislation) Act, 1932.

[144] Coleman, P., Obscenity, Blasphemy, Sedition. Censorship in Australia, Jacaranda Press, Brisbane, 1962, pp.113-115.

As late as 1939 H.C. Coombs was considering whether the 1929-32 crisis was only the beginning of a long term economic downslide.[145] Eggleston believed the intellectual bank of Australian capitalism had been exhausted: "We do not know", he said, "what the various sciences can or should do, to what extent they overlap, to what extent specialisation distorts their sociological implications".[146] And Melville, the economic adviser to the Commonwealth Bank, was convinced that no longer did anyone know how to approach monetary management. He called for economists to "return to their studies and common rooms until they have thrashed this problem out to their own satisfaction ... (when)... it will be time for central bankers to decide whether these theories can be applied".[147] Finally, there was an undercurrent in economic thinking that the profitability of capitalist enterprise may have been in the throes of exhaustion. Clark expressed this view as a possibility in his essay "The Marginal Productivity of Capital", whilst Clark and Crawford together suggested that "The main task of the future will be finding uses for capital which give any return at all, not difficulty in obtaining capital for public works".[148]

The fragmentation of consensus amongst the subordinate classes and the uncertain frame of mind which characterised ruling circles late in

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[145] Coombs, H.C., "General Theory and Swedish Economic Practice", Economic Record. Special Supplement, 1939, p.149.

[146] Eggleston, op.cit.

[147] Melville, L.G., "Gold Standard or Goods Standard", Joseph Fisher Lecture in Commerce (No. 16), Hassell, Adelaide, 1934, pp.20-21.

[148] Clark, C., "The Marginal Productivity of Capital", Economic Record. Special Supplement, 1939, pp.110-18. Clark, C., and Crawford, J.G., The National Income of Australia, Angus and Robertson, Sydney, 1938, p.111.

the thirties, spawned early movement toward the welfare state. Professional and other petit-bourgeois strata were the mid-wives of this movement. They led campaigns in Melbourne and Sydney for slum reclamation, town planning authority, Youth and Opportunity Clubs and other measures which shared the common goal of ameliorating economic conditions to eliminate social discontent.[149] The revival of the organised working class, from the middle years of the decade, added substance to the necessity for concessions and the demand for state structures that could systematically introduce them. Walter Murdoch's allegory with the Victorian era, delivered in 1937, encapsulated the opinion of these social forces with a savage critique of the era's 'smugness', 'complacency', 'hypocrisy', 'callousness' and 'refusal to face unpleasant facts', and with high praise for the minority who swam against the tide 'feeling their way to new positions'. Here was the era's one redeeming feature.[150]

These social impulses were expressed at the State level in legislation for slum reclamation programmes in the major capitals and for the creation of Housing Commissions in Melbourne, Sydney and Adelaide.[151] They were also effected in the Arbitration Court's revival of the concept of 'New Protection' late in the thirties, and in the

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[149] Luscombe, L.H., The Story of Harold Earl - Australian, Smith and Paterson, Brisbane, 1970, pp.152-55. See also, Sandercock, L., Property, Politics and Power: A History of City Planning in Adelaide, Melbourne and Sydney since 1900, Unpublished Ph.D. thesis, Australian National University, Canberra, 1974.

[150] Murdoch, op.cit., pp.7-9, 20.

[151] The Housing Commission projects also aimed at minimising wage costs for employers through cheap rents subsidized by the States. This form of state intervention was also acceptable to conservative governments because it raised the possibility of eliminating state responsibilities in other areas. That is to say, it was thought by some that slum reclamation and housing projects could reduce health and welfare expenditures.

Commonwealth government's abortive attempt to introduce a national insurance scheme on the eve of world war two.

But the task of refurbishing the ground beneath the feet of private capital held the debate over monetary management at the centre stage of Australian politics. The rumblings and initiatives of a frightened petit-bourgeoisie, including those which took effect in larger matters of state, such as the Housing Commission projects, were peripheral to, and indeed dependent upon, the definition of the governments responsibility in the field of monetary activity. The victory of monetary conservatism in 1931 was the end of a battle but not of the war. The verdict was soon to be reversed, though caution and uncertainty made the reversal inconclusive. The advocates of rigid deflation and non interference, masquerading as the harbingers of morality, decency and honesty, retained a cautioning influence over the course of economic policy throughout this period. Their strength was rooted in the compelling, ingrained belief that a repeat of world depression was forthcoming and that any expansionist credit policy could upset price stability, triggering it off. The inexorable and mythical causality which led from prices to depression continued to haunt the propertied classes throughout the decade. At the same time however, economic circumstances were compelling some to resurrect and interrogate the hitherto sacred assumptions on monetary thought. There was a great variety of opinion on the matter. A mixture of imbedded bigotry and immovability was locked in combat with radical and provocative thought. Not surprisingly then, the same mixture of convictions was to be found in the federal government.

Closest to Lyons were the prescriptive depression economists led by Giblin. S.M. Bruce, Stevens the U.A.P. Premier (1932-39) and Davidson the banker, shared a similar position, holding mildly reflationary views of which Stevens and Davidson's were the most adventurous. With the support of the Treasury they were able to assert their influence, initially, through Bruce's cautious use of Treasury bill funding for short term finance for public works and through continued pressure to suppress interest rates.

Arraigned against them was the big business coterie which had been responsible for Lyons defection to the U.A.P. and which had remained active in the upper echelons of the party's politics. These men were highly suspicious of any expansionary government measures and specifically most uneasy about the use of Treasury bills for short term financing. They had widespread support in business circles which included, notably, that of British capital. A 'confidential' Mission from Britain in 1933 warned the government against any unorthodox measures. Its views were also shared by the Commonwealth Bank led by the arch deflationist Gibson and, within the federal cabinet, by a stolid minority headed by the ex-Labor parliamentarian Pearce.[152]

Until 1938 the Commonwealth Bank continued to be the major restraint on counter-cyclical economic management. Its influence however was not uniform throughout and was reduced as time went on. The Board exercised its powers to restrict the use of Treasury bill funding and generally insisted that deficits and new works programmes be financed by public loans or long term bank loans. In addition it was able to effectively set strict limits on the amount of funds (raised by the Loan Council) that it was prepared to underwrite. Subsequently its economic stringency brought it heavy criticism from the Royal Commission into banking in 1937.[153] But its thrift in underwriting did

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[152] Hart, op.cit., pp.266-67.

[153] Matthews, R.L., and Jay, W.R.C., Federal Finance. Intergovernmental Financial Relations in Australia Since Federation, Nelson, Melbourne, 1972, pp.148-49.

moderate somewhat from 1934. Gibson's death on 1st January of that year was important here since he had ruled the Board with an iron hand. His absence removed the singlemindedness that had hitherto been characteristic of the Bank's leadership. Moreover, the bank's support in the private sector tended to decrease with the years. Manufacturers and retailers continued to vent a preference for demand management activity, whilst 'high finance' now led by Davidson, was moving steadily in the same direction.[154] Even the orthodox economist Copland was to confess in 1933 that his earlier thinking was "perhaps a serious lapse", and thereafter to advocate controlled credit expansion.[155]

The greater isolation of the Commonwealth Bank was compounded within the state by the emergence of the Loan Council as a stronghold of reflationary intent. Earlier in the depression the Council had been convinced of the need to hold down expenditure and leave the revival of business to the private sector. However, with the election of Labor governments in Queensland (June, 1932), Western Australia (August, 1933) and in Tasmania (July, 1934), enthusiasm in the Council for expanded public works programmes grew.[156] Lyons and Stevens, the Council's recognised leadership, were also sympathetic to the growing weight of opinion. For the Prime Minister, increased public works had become an electoral exigency in the 1934 elections, whilst Stevens,

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[154] Australasian Insurance and Banking Record, Vol. 59, No. 2, February, 1935, pp.114-15; Vol. 62, No. 12, December, 1938, p.1037.

[155] Mathews and Jay, op.cit.

[156] The Loan Council was composed of two Commonwealth representatives (usually the Treasurer and Prime Minister), and one representative from each State government. The Commonwealth, like the States, had only one vote.

the New South Wales Premier, "had a radical industrial state to control and believed in a more extensive unemployment relief programme than strict adherence to the Premier's Plan would have allowed".[157] Subsequently, the State Premiers on the Council succeeded in increasing their public works programmes from the level of £18 million (1931-32) to £50 million (1935-36), a measure of the process whereby the Council was "weaning power over (economic) policy away from the bank".[158] These gradual changes - in the distribution of power within the state and in the dominant line of thought on monetary matters - were the forerunners to the Royal Commission Report of 1937 which clearly established the responsibility of government to intervene in a depressed economy with counter-cyclical measures.[159] "The achievement of a Keynesian policy in 1938 was a fitting end to an extremely difficult decade in the management of the Australian economy".[160] No point better illustrates how the politics of this period were the politics of transition to an industrialised economy. For it was through Keynesian techniques that the Commonwealth White Paper on Full Employment was written in 1945. And the assumption of this White Paper was a thriving and dynamic manufacturing sector.

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[157] MacLaurin, op.cit., p.104.

[158] Gilbert, op.cit., p.7. The statistics are taken from Mathews and Jay, op.cit.

[159] Report of the Royal Commission into the Monetary and Banking Systems at Present in Operation in Australia, p.201.

[160] Gilbert, op.cit.

CONCLUSION

The transition to an industrialised economy in Australia can now be viewed in its totality.

The pattern of imperial exploitation and the place of the Australian economy in the empire was determined in the combined and uneven development and rivalry of the major powers of the time. The principal aspect of this rivalry was the relative decline of British imperialism, and this has been a crucial reference point in the preceding analysis - like the north star for a navigator.

The laws of capitalist development and the fundamental contradiction between capital and labour have expressed themselves in intense competition between the imperialist countries in both the colonial and neo-colonial worlds. For Australia this competition clearly had profound implications. When Sir Basil Blackett in 1929 comforted himself with the thought that "Australia stands out in my mind as the country....least affected by what we like to call the dollar-chasing spirit", he was not merely indulging in fond thoughts of Dominion loyalty and devotion.[1] Rather, he was expressing the role of haven and enclave for British capital which the Australian economy was compelled to act out in the 1920's. And this was essentially the result of a growing American supremacy in other parts of the world.

Yet whilst the Australian economy was something of a refuge for British imperialism, this was clearly neither impregnable nor everlasting. If this thesis were to extend beyond its object of transition to industrialisation using the same theoretical tools of analysis,

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1 Australiasian Insurance and Banking Record, Vol.53, No.4, April 1929, p.296.

it would have to deal with, in the first instance, the collapse of the refuge. The contradictions facing British capital in Australia after the depression, the rise of direct investment from the United States, the relative decline of British naval power and, relatedly, Australia's strategic part in the American war effort, all combined in the late 1930's and during the war to sever the imperial nexus and transfer Australia's dependence to the United States. Some of the signposts of this change are written into the preceding chapters. However, the important point here is that the conditions of relative decline which temporarily strengthened Britain's position in Australia, were part of the conjuncture which abruptly severed its dominance soon after.

The second and final point in conclusion deals with the politics of economic development. The process of imperial domination and dependence has been dealt with as one of reproduction within the dominated social formation. That is to say, the interests of British imperialism were guaranteed by those constraints emanating from Australia's place in the imperialist chain. We need only look at the politics of repudiation, dealt with in Chapter III, to see this point clearly. Direct, 'gun-boat' domination of the old colonial type contrasts with the essentially structural process here.

However, this process has not been interpreted as an exclusively impersonal one. For structure is necessarily the product of active men and women (entrepreneurs, trade commissioners, and colonial secretaries for example), and of their aspirations. Thus the politics of economic development in our dependent context has been, essentially, the process of reproducing the dominant structure through the mobilisation of the British capitalist class and its allies in Australia. This as we have seen necessarily entailed the expansion of the manufacturing sector and, ultimately, its dynamic role in the Australian economy after the depression.

APPENDIX 1

BANK DIRECTORSHIPS

A study of the Bank of New South Wales and the National Bank suggests that the inter-war period was one of rapid change in the composition of bank directorships: a distinctly pastoral or pastoral finance influence colours these two boards between Federation and 1918. This changes in the twenties and thirties with the intrusion of large manufacturing or industrial representation, and the concommitant decline of the pastoral influence. Only two of the directors had any commercial interests outside the pastoral and live-stock industries, and they too were thoroughly 'immersed' in the countryside: Sir John Grice was the director of several industrial companies as well as three pastoral companies, whilst Bowes Kelly, the longstanding chairman of the B.H.P., was also a large wool breeder. Of the seven appointments to the board, 1887-1927, six were large pastoralists or pastoral financiers.

- Sir John Grice, 1887-1935, proprietor of pastoral, industrial and mercantile companies.
- J.M. Pratt, 1891-1913, Miner, surveyor, auctioneer.
- Edward Trenchard, 1899-1927, stock and station agent.
- J. Newman Barker, 1913-31, pastoralist.
- Bowes Kelly, 1918-30, Chairman of B.H.P., extensive pastoral properties.
- Sir Frank Clark, 1918-55, Director, Goldsbrough Mort and Co. (pastoral finance), local director, A.M.P.
- Sir James Elder, 1927-46, Director, Goldsbrough Mort and Co., Union Trustee Company.

The decline of the pastoral influence began in 1930 with the appointment of the shipping magnate D. York Syme. Between 1930 and 1940 the composition of the bank board changed considerably. Six directors died or retired in that period whilst two others resigned.

Four of those who replaced them were industrialists, and only one could be classed as distinctly 'pastoral':

- Sir Henry G. Chauvel, 1930-45, retired soldier, Director, Colonial Mutual Life Assurance Co.; General Assurance Corporation of London.

- D. York Syme, 1930-?, Director, Melbourne Steamship Company; Hobons Bay Dock and Engineering Company; Mt. Pleasant Coke Company; Member, Cmth Shipping Commission.

- A.F. Bell, 1932-34, Director, Robert Harper and Co. Ltd. (Australian merchants); local director (Victoria), A.M.P. Society.

- H.G. Darling, 1934-50, Director, B.H.P.; Adelaide grain merchant.

- T.C. Alston, 1934-50, Solicitor, Hederwick, Fookes and Alston; Chairman of Patterson, Laing and Bruce (S.M.) Ltd. (merchants); Australian Glass Manufacturing; local director, A.M.P. Society, and North British Mercantile Fire Insurance Company; director, Kauri Timber Co. Ltd.

- Sir Edward H. Wreford, 1935-38, Banker. Served with National in South Australia, on the goldfields in W.A., in London and Melbourne; Chief Manager, 1912-1935.

- Sir Clive McPherson, 1938-40, 1945-58, Director, Younghusband Ltd.; McPherson, Thom. and Co. (Stock and Station Agents); Adviser to the Commonwealth Government in the organisation of primary industries (1938).

- H.D. Giddy, 1940-?, Chartered Accountant, Wilson, Danby and Giddy; Director, Herald and Weekly Times, Ltd., and other companies.

The appointments of Syme, Darling, Alston and Giddy added to the Board a diverse range of industrial interests, and a new team of directors that was considerably younger.

The Bank of New South Wales also adjusted its vision; the adjustment began earlier and were more extensive than those made by the National. The contrast of post war appointments with those that preceded is sharp. Seven of the ten directors appointed, 1896-1917, were interested in the primary sector of the economy. Only one appointee had industrial interests and he too was a pastoralist (Fairfax):

- Sir J.R. Fairfax, 1896-9, 1904-9, Pastoralist; John Fairfax and Sons (newspapers).

- Sir Chalres K. Mackellar, 1896-?, 1905-23, Doctor, Pastoralist, Director of C.S.R.

- R.J. Black, 1898-1928, Banker; Director, A.M.P. Society; Perpetual Trustee Co. Ltd.; Harrison, Jones and Devlin Ltd., (merchants); Commercial Union Assurance Co., and other companies.

- Richard Binnie, 1899-1917, Pastoralist.

- Sir Henry N. MacLaurin, 1900-1914, Distinguished Surgeon.

- H.M. Faithful, 1904-5, Pastoralist.

- Sir Thomas Buckland, 1909-40, Director, Pitt, Son and Badgery (stock and station agents); Permanent Trustee Co. of N.S.W.; United Insurance Co. Ltd.

- E.W. Fosberry, 1912-18, Inspector General, N.S.W. Police Department, 1874-1904; entered N.S.W. Legislative Council in 1904; Vice-President, N.S.W. Savings Bank.

- R. Faithfull, 1914-30, Pastoralist.

- C. Binnie, 1917-35, pastoralist.

The pastoral flavour of the Bank's appointments changes considerably in the post war decades. The following is a 'breakdown' of the new directors, 1918-39:

- F.B.S. Falkiner, 1918-29, Pastoralist, head of Falkiner and Sons Ltd., owning many stations and one of Australia's most successful sheep-breeders.

- James Burns, 1923-27, 1928-30, 1931-32, Chairman, Burns, Philip & Co., Ltd.; South Sea Col. Ltd.

- Sir R.W. Gillespie, 1923-45, Gillespie Bros. Ltd., (flour millers); N.S.W. Flour Millers Produce Co. Ltd.; Pardy and Co., Ltd., Temora (flour millers); Murdoch McLeod Ltd. (flour millers); Inverell Milling Co.; Balland Welch (soft goods merchants); Director, Colonial Sugar Refining Co. Ltd.

- James M. Dunlop, 1927-30, Chairman of Edwards, Dunlop and Co. Ltd.; Chairman, Paget Manufacturing Co. Ltd; Chairman, Sydney Chamber of Commerce, 1924-27; President, Associated Chamber of Commerce of Australia, 1926-27.

- Sir Kelso King, 1929-40, Director, Beale and Co. Ltd., (piano and veneer manufacturers); Morts Dock and Engineering Co. Ltd.; Australian Fertilizers Ltd.; Mercantile Mutual Insurance Co. Ltd.; Australian General Insurance Co. Ltd.; local board of Colonial Mutual Life Assurance Society Ltd.

- Sir Adrian Knox, 1930-32, Chief Justice of High Court, 1919-30; local board (N.S.W.) A.M.P. Society; Chairman, Producers Advisory Council to Scullin Government, 1930-31; became the owner of John Browns huge coal interests in 1930.

- Sir Alexander MacCormick, 1930-31, surgeon.

- T.H. Kelly, 1930-48, Director, Tooth and Co. Ltd., (brewers); Perpetual Trustee Company.

- E.T. Thring, 1932-38, Uabba Pastoral Company Ltd., private company owning extensive station property; local board of Indemnity Marine Insurance Co. Ltd.

- J.H.F. Fairfax, 1932-50, John Fairfax and Sons Ltd., (Sydney Morning Herald); Director, (local board), Royal Insurance Company Ltd., Director (head office) A.M.P. Society.

- G.R. Love, 1935-49, Clifford, Love and Co. (manufacturers of foodstuffs and eastern merchants); Joyce Biscuits Ltd.; Director (local board) Royal Exchange Assurance Co.

- Sir Frederick H. Tout, 1938-50, Director, The Associated Newspapers Ltd.; The Sun Newspapers Ltd.; Director (head office) A.M.P. Society; Director, McGarvie Smith Institute, the Graziers Co-operative Shearing Company and the Commonwealth Meat Board. Tout also had extensive grazing interests.

Twelve new directors were appointed to the board between the wars. The intrusion of substantial industrial representation began in 1923 with the appointment of Gillespie. Subsequently there were a further six industrialists granted a directorship of the Bank. On the other hand only three appointees had direct pastoral or pastoral finance connections (Falkiner, Thring and Tout).

APPENDIX 2

COLLINS HOUSE: INVESTMENTS IN BRITAIN

The most outstanding of its capital dealings abroad was the Collins House takeover of the National Smelting Company in Britain in 1923. The scale of the venture is outstanding but more important is the initiatory and dominant role of the Robinson/Baillieu axis in Britain.

The origins of this takeover can be traced back to the war-time problem of short-circuiting Germany's smelting hegemony in Europe. A series of schemes were put forward for joint smelting enterprises in both England and Australia. Simultaneously Robinson and W.M. Hughes had secured the zinc contract with the British government. The National Smelting Company was formed and work begun on its Avonmouth site the following year. It was owned and controlled by a group of financiers with extensive mining interests in Burma.[1] However, National Smelting produced no zinc until 1923 when it was revived under new control. With the war's end the government had abandoned its financial support; this in concert with a lack of protection and the world metal depression all but flattened the company which by 1923 was heavily in debt to Lloyds Bank and virtually unsaleable on its own merits.

At this stage however Robinson moved in with his sights on the Burma Shares.[2] He negotiated successfully for these at an undervalued

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1 Cocks, E.J., and Walters, B., A History of the Zinc Smelting Industry of Britain, Harrap, London, 1968, Ch.4.

2 In his memoirs he described these as a 'prize in the tropics'. See Blainey, G., (ed.), If I Remember Rightly. p.133.

price on the condition that he also took the smelters.[3] Between 1923 and 1926 a most complex series of financial negotiations were settled finally leaving the Board in the hands of the Anglo-Australian non-ferrous mining group.[4]

National Smelting operated on a moderately profitable basis to 1929; its major function was to provide an expanding market for the ores and concentrates from Broken Hill which was, now, the pivot of the empire zinc industry. In the thirties this function was more difficult to fulfill as powerful Canadian zinc interests pushed their way into the British market and, in the absence of adequate protection, zinc production became barely profitable. Under the new title of Imperial Smelting Corporation - a change which further consolidated power in the hands of the non-ferrous miners - the enterprise plunged into the centralisation of zinc production in Britain and the vertical integration of the industry. Cocks and Walters argue that Robinson was the helmsman here.[5] At the same time, the company was committed to paying high prices to the Australian suppliers and this was partly responsible for its low profitability. The contract for supply held under conditions which increasingly did not favour the receiver.[6] Imperial Smelting made a significant contribution to the rising trend of gross operating surpluses in Collins House and was a central part of its marketing strategy in Britain.

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[3] Cocks and Walters, op.cit., Ch.5.

[4] Ibid., p.51.

[5] Ibid., p.79. On the consolidation of the company leadership Cocks and Walters commented: "Control had passed from the hidden financiers, represented by the Deferred Share majority, to overseas non-ferrous mining companies who were interested in maintaining the Company as a smelter of their raw materials". (pp.71-72).

[6] Ibid., p.189.

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