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GOVERNMENT AND THE COLONIAL ECONOMIES: AN ALTERNATIVE VIEW

By Lionel Frost
La Trobe University

Government is one of the crucial institutions that shape the development of economies and in a recent issue of this journal H. M. Boot contributed a useful survey of its effects on Australia during the colonial period. Boot emphasized the beneficial effects of government in terms of creating stability and secure property rights, but also argued that important decisions about capital works came to be influenced more by political expediency than by sound economic criteria. This flawed decision-making process created a significant field of unproductive investments which 'crowded out' private-sector activity and weakened the economy. The purpose of this article is to examine this argument closely and critically. It will argue that there is no evidence to support the contention that politicians saw public works simply as an opportunity to buy votes and that an awareness of the costs of unproductive investment forced Parliament to use market-based criteria to assess proposed spending. The article will suggest an alternative explanation of the failure of the private sector to generate sufficient investment to increase the rate of economic growth, and of the extent to which public investment crowded out the private sector.

During the nineteenth century, Europeans in search of raw materials, markets, and investment opportunities created a new wave of overseas colonization by transferring labour, capital, and technology to the non-capitalist parts of the world. The impact of European expansion varied widely, because although some regions were settled by people who wished to build a permanent home, others were places where Europeans were interested in settling only briefly, making a fortune by exploiting the local resources and/or population, and then returning home to spend it. The 'colonies of settlement' (chiefly in North America, Australia, and New Zealand) enjoyed the lasting influence of governments that were committed to local economic development, while the 'colonies of sojourn' (in Latin America, Asia, and

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Africa) were hampered by weak and ineffective government, insecure property rights, and lingering poverty. In the colonies of settlement there were opportunities for individuals to invest productively and contribute to technological change, because governments provided needed infrastructure and nurtured incentives for entrepreneurs to innovate. Market activity flourished not because the government sector's contribution was minimal, but because the government and market sectors reinforced each other in a mutually beneficial way. Where governments competed with each other to attract population, the support they provided to market activity tended to encourage private investment that generated greater tax revenue.[1]

H. M. Boot's recent article explores many elements of the productive role played by governments in colonial Australia. There was useful public infrastructure and amenities that improved the quality of human capital, while stable property rights provided 'a favourable and permissive environment in which private decision-makers were to a large extent free to pursue their own ends'.[2] But as Boot notes, government activity was not an unqualified success. Colonial governments built railways and irrigation works that were intended to increase private investment in the rural sector, but investment was instead directed towards urban areas. While government envisaged an economy and society based on a closely-settled countryside, the Australia which the private sector created was based on land-extensive farming and grazing in lightly-settled rural areas. Farmers did not respond by investing in smaller holdings and land-intensive methods, as governments had hoped. In a fully-employed, labour-scarce economy, the financing and construction of government projects 'crowded out' the private sector 'by outright poaching of resources of labour and investible funds, or by exerting pressure on wage and interest costs for the private sector'.[3] With so much public investment turning out to be unproductive, substantial resources went to waste, when they could have been used productively by the private sector. As Boot observes, one of the striking features of Australian economic history during the second half of the nineteenth century is 'the failure of [economic] growth to improve in the face of the huge [public] investments undertaken'.[4]

Boot's explanation for this failure is based on the view that the allocation of public resources was distorted by political expediency:[5]

> At first, governments approached the task of railway building cautiously and with fairly strict attention to profitability. Gradually, however, decisions to expand the system came to take on classic public-choice

1 For a fuller discussion of this point, see Hughes, *The governmental habit*; Morris, Politics, development, and equity; White, *Mastering risk*.
2 Boot, Government, p. 98.
3 Butlin, Colonial socialism, p. 47.
4 Boot, Government, p. 98.
5 Ibid., p. 91.

> features. A concern for profitability soon gave way to an emphasis on less quantifiable, though politically easily justified, social and general economic considerations ... By the mid-1880s, when even these vague criteria had been abandoned to permit extensions of railway networks for political ends, prospective economic returns had become largely irrelevant to expenditure decisions.

The theory of public choice that Boot refers to involves the application and extension of economic theory to non-market decision-making. In competitive markets the actions of even the greediest individuals tend to produce socially desirable outcomes, but in politics people who are similarly motivated operate within a different set of constraints and incentives which fail to check dishonesty and irresponsible behaviour. Because political decision-making lacks market constraints government actions usually lead to inefficient outcomes. The theory of public choice is a theory of government failure, and its proponents argue that 'the only means of keeping the potentially exploitive polity from following its natural tendency in this respect lies in contractual-constitutional constraints that restrict sharply the range of state activities and functions'.[6]

With Boot's acceptance of the theory of public choice, any analysis of the failure of the private sector to respond to public investment ends with a thud. If, as a contemporary critic wrote, governments tried to bribe the electorate by building railways 'towards infinity, towards gum trees, swamps, cemeteries and private back doors',[7] new lines could not be anything but unprofitable. Given that public investment was not expected to be profitable, it follows logically that much investment would be unproductive. Given full employment, the cost of unproductive investment would necessarily be a reduction in productive investment elsewhere in the economy. Boot's argument implies that had public investment been market-based, a smaller railway system, which would have had less of an opportunity cost, would have been built.

Here Boot is expanding on an old argument; indeed, the view that public investment was authorized for non-economic reasons – to buy votes – has been part of the conventional wisdom for so long that most writers have accepted it uncritically.[8] Boot's argument is derived from N. G. Butlin's analysis of

6 Buchanan, *Liberty, market and state*, p. 90.
7 Quoted by Serle, *The rush to be rich*, p. 36.
8 One reason why this contention has been so widely accepted is that its implications are palatable to a range of values. It sits well not only with the thinking of neo-classical economists, such as Boot, who argue that the non-market nature of government decision-making generally retards economic efficiency, but also with left-wing writers, such as Cannon, who see evidence of the corruption of the capitalists who sat in parliament and stood to gain personally from public investment, and Lines, who writes that 'colonial governments were themselves manifestations of a capitalist culture committed to speculation and monopoly'. Cannon, *Land boomers*; Lines, *Taming the great southern land*, p. 96.

investment in Australia during the Long Boom, which Boot freely acknowledges. Butlin wrote of ‘a highly inefficient and wasteful transport system’, epitomized by the duplication of rail facilities as colonies attempted to draw trade from border regions away from their rivals.[9] In Butlin’s work one can see clear links with the account of railway building in T. A. Coghlan, *Labour and industry in Australia* (1918), which Butlin cites in support of his point that in the 1880s decisions about railway construction ‘were transferred to the political arena’, thereby weakening the quality of decision-making and ‘imposing heavy burdens on the economy in the form of excessive interest commitments for ill-considered outlays’.[10] Coghlan argued that in Victoria ‘the constituencies were placated by the construction of branch lines of railway, which even those benefited were disposed to ridicule after they had obtained them’.[11] Coghlan’s judgement that ‘all caution was thrown to the winds and ... there was in fact a scramble amongst the parliamentary representatives of country constituencies for as much local expenditure as they could procure for their individual districts’[12] echoes that of contemporary journalists, such as that of the *Age* writer who contended that:[13]

> The extent of unremunerative railway in the colony shows the extent of political corruption which in the case of many lines was the sole motive of construction ... Responsible Ministers have over and over again introduced railway bills into Parliament simply to placate their supporters and catch votes.

In a similar vein, the *Argus* wrote of ‘indiscriminate construction’,[14] while Henry Gyles Turner was critical of ‘the bottomless pit of haphazard railway construction’.[15]

None of the historians who have accepted this contemporary judgement produce any evidence to support its validity. The fact that a case has been often repeated does not mean that it is well established. The aim of this article is to examine this argument closely and critically. If investment in railways and other areas of public activity was not authorized for political reasons then some other explanation for its costly failure to achieve the results expected of it has to be found. Not only is there no evidence to support the conventional view, but the evidence we have suggests that Parliament did adopt market-based criteria to assess whether public projects should be undertaken. These projects failed, but not because of the greed and cynicism of politicians.

9 Butlin, *Investment*, p. 360.
10 Ibid., pp. 356–7.
11 Coghlan, *Labour and industry*, pp. 1419–20.
12 Ibid., pp. 1419–20.
13 *Age*, 22 February 1890.
14 *Argus*, 13 May 1890.
15 Turner, *A history*, pp. 295–6.

DID THE STATE ACT IRRESPONSIBLY?

If politicians did use public funds to win new supporters and avoid offending existing ones, then Parliament would have been an arena for rent-seeking behaviour. In doing so they and their supporters would have acted to improve their own position and maximize their own wealth without any sense of responsibility for the interests of the general community. A small group of politicians and some well-organized constituents would have been able to reap the benefits of heavy public spending and spread the costs thinly over the rest of the community. The theory of public choice suggests that as the motivation of people does not change as they shift from the private to the public sector, everyone is a potential rent-seeker. Those with the ability to organize access to political power will be able to use government policies to favour their own interests.[16] But as Douglass North points out, people may behave honourably and resist opportunities for personal gain if they are able to do so at little or no cost.[17] Even if people continue to be self-seeking, they will rent-seek only if the relative costs and benefits of doing so are consistent with wealth-maximization.[18] Institutions which control rent-seeking will be put in place if people with political power stand to gain more than they would lose by doing so. What is needed, therefore, is the drawing up of a balance sheet of the benefits and costs of rent-seeking behaviour in colonial Australia.

The potential benefits of rent-seeking lie in the private gains which can be made through public investment or subsidy. The most fertile territory for rent-seeking was on the fringes of growing cities, where undeveloped land could be turned into potentially valuable suburban homesites by the provision of railway facilities. The most notorious examples of this took place in Melbourne during the land boom of the 1880s. The city was the home turf of several ambitious suburban land developers, many of whom sat in Parliament. The decade saw politicians authorize generous extensions to the suburban rail network, which was more than doubled in length. Parliament and the electorate were happy to make decisions to build lines based on the belief that railways would inevitably promote suburban development, and thus their own traffic, in the future. Thus it was possible for politicians such as Tommy Bent, who was both Minister of Railways in the early 1880s and a prominent developer of suburban land, 'to integrate . . . political and business activities so that both were advanced'.[19]

Yet the rent-seeking which took place in land-boom Melbourne was exceptional: in the other capitals, public investment was less lavish. In Adelaide and Perth, suburban development was promoted by modest

16 Gunnarsson, What is new, p. 55.
17 North, Institutions and economic growth, p. 1323.
18 North, *Structure and change*, pp. 33–4.
19 Glass, *Tommy Bent*, pp. xiv–xv.

investment in public transport. Railways to Port Adelaide and Fremantle, and trunk lines to country areas, were the main corridors of suburban expansion. In these cities, such railways could be built cheaply, with termini close to the city centres. Horse-drawn trams provided a low-cost form of mass transit. In Sydney and Brisbane, private investment created a generally high standard of housing, but there was penny-pinching in the provision of public infrastructure which showed up in a dismal standard of mass transit and sanitation. There, suburbanization was held back by planning and geographical problems which required costly solutions. As Butlin observed, 'the government contribution of assets in urban areas was so slight, relatively to private activity, and the social facilities of the towns so primitive, even at the end of the century, that the story of investment in urbanization can, with justice, be told as an almost completely private process'.[20]

Most public investment, therefore, took place in rural areas and was directed mainly into railway-building.[21] In each of the colonies, this investment was expected to increase the profitability of farming by reducing production costs. While this would have been to the advantage of people already on the land, people who wanted farms of their own, and businesses in country towns, rural voters did not constitute a large, unified body which governments needed to favour if they were to stay in office. In South Australia, members who represented or lived in Adelaide dominated parliament. J. B. Hirst observes that 'though subject to local pressures, a predominantly metropolitan parliament was probably less swayed by them than a parliament of local members . . . would have been'.[22] The share of the Victorian and New South Wales population living in non-metropolitan areas was larger, but country members, though united by a distrust of big cities, tended to splinter into regional groupings with their own interests and needs. What most districts wanted was heavy local spending combined with cautious spending elsewhere in the colony. The host of community groups pushing purely local needs cancelled each other out.

Despite the hyperbole of contemporary journalists, the number of members and voters who benefited directly, and thus could be said to have been 'bribed' by local public works, was quite small. Under Victoria's Railway Construction Act of 1880, lines were built in only 27 of the 86 electorates. Under the Act of 1884, only one-third of all the lines proposed by local members and railway leagues were built.[23] The major Victorian wheat-growing district, the Wimmera, was the location of 13 new railways built in the 1880s, despite having only two parliamentary representatives. Only 11 electorates benefited directly from Victoria's irrigation legislation of the 1880s.

20 Butlin, *Investment*, p. 52.
21 Boot, Government, pp. 90–1.
22 Hirst, *Adelaide and the country*, p. 105.
23 *Age*, 26 May 1884.

The costs of engaging in rent-seeking behaviour were considerable. The usual explanation for the high level of public spending of the 1880s is that British investors were favourably disposed to Australian government issues. Blainey, for instance, writes that the Victorian government 'was such a charming supplicant on the London money market that its funds for public works were enormous'.[24] Most historians suggest that the flow of London money was so abundant and unconditional that colonial government spending carried a zero opportunity cost. In fact, there were important market constraints on overseas borrowing. There is evidence in the contemporary financial press that British investors were worried by the frequency with which Australian governments borrowed.[25] It was widely recognized that unsound financial management could weaken the credit standing of Australian governments with ease. As the *Age* put it, 'it is of the last importance to show the English capitalist that we are fairly earning interest on the money which he advances us'.[26] Furthermore, because lenders had to be repaid, unproductive investment was seen as likely to lead to increases in railway freight rates, at a time when farmers close to existing lines were campaigning hard for a reduction in charges. The effects of squandered money would have been spread thickly across the general community by increased taxes, charges, and food prices. Colonial parliaments had much to lose, and relatively little to gain, by engaging in rent-seeking behaviour.

The development of market-based criteria to assess proposals was Parliament's way of protecting the community from the adverse effects of unproductive investment. Railways were not authorized in an indiscriminate way, as public officials ranked proposals based on the potential value of land which would be served by rail extensions, using the kind of data that a market decision-maker would. The practice in Victoria of allocating loan funds to large programs of railway building which took several years to complete required Parliament to prioritize the inordinate number of local applications for new lines, using data on the number of farmers served and the potential value of farmland provided by the Lands Department, and Railways Department estimates of construction costs.[27]

Having determined how much money could be prudently raised for railway construction on the London market, governments in Victoria used their list of priorities to decide which lines would be constructed, stopping when their available funds were fully accounted for. This was a rough-and-ready method of judging the marginal rate of return against the cost of borrowing, which could have led to uneconomic lines being built if funds were left over after each

24 Blainey, *A history of Camberwell,* p. 52.
25 *The Economist,* 1882: 644; *Argus,* 10 July 1883.
26 *Age,* 26 May 1884
27 Explicit market tests were a central part of Victoria's irrigation legislation of the 1880s. See Frost, Government and economic development.

of the sound proposals had been included. In fact, there were several worthwhile proposals that were not included in the Railway Acts of 1880 and 1884 because the money had run out. For instance, in 1880 an extension that was authorized into the emerging wheat-growing area north of St Arnaud had to stop at Donald, even though the government wanted to extend it 34 miles further to Warracknabeal. A railway through the Western District stopped at Camperdown, even though the government wanted it to go a further 52 miles to the rich farmland at Koroit.[28] In 1884 the Minister of Railways, Duncan Gillies, gave priority to 'the wants of the many districts which are at present twenty or thirty miles from railway communication'.[29] Excluded were a large number of proposals that would have posed serious engineering difficulties or crossed areas of low potential value, or those for short branch lines which would have served farmers who were already within reasonable carting distance of existing lines.[30] But several promising routes, especially in Gippsland, were also rejected because, as Gillies put it, 'Parliament had to stop somewhere'.[31] During the 1880s the construction of 'dead-end' branch lines, criticized so strongly by Coghlan, was clearly negligible.[32] Furthermore, the three lines constructed to the Murray River, to Swan Hill, Yarrawonga, and Cobram, which Butlin criticized as an unproductive duplication of existing transportation facilities, accounted for less than 5 per cent of Victoria's new railway mileage during this decade. 'There is every reason to believe that even these lines may have been economically justified',[33] as they all crossed large areas of fertile, developing farmland.

In South Australia, where it was official policy to place railway facilities within 15 miles of every major farming district, Parliament considered railway proposals one at a time. Yet clear attempts were made to rank the order in which proposed routes would be investigated, based on the value of the surrounding farmland. A government commission, headed by Surveyor-General G. W. Goyder, was formed in 1875 to provide such a ranking.[34] Then further select commissions would consider issues of construction cost, proposed routes, and the extent of settlement in the area to be served. Finally, the matter

28 *Victorian Parliamentary Debates*, 1880–1, pp. 535–6.
29 *Victorian Parliamentary Debates*, 1884, p. 1657.
30 An estimated three to four thousand miles of lines were applied for, but excluded from, the Railway Construction Act of 1884.
31 *Victorian Parliamentary Debates*, 1884, pp. 2035–6.
32 Beever, Victoria's railway spree, p. 40.
33 Ibid., p. 40.
34 Meinig, *On the margins*, pp. 135–40; *South Australian Parliamentary Paper*, 1875. Western Australia established a similar body, a Railways Advisory Board, to sift through the local demand for new lines with the aim of serving 'the maximum area of first class agricultural land and the maximum number of settlers per mile of railway'. Glynn, *Government policy*, p. 65. After 1906 the government began to build lines ahead of settlement and it became the Board's job to identify the areas of virgin land which had the potential to become productive wheat-growing areas.

would be discussed and voted on in Parliament. This close scrutiny of Parliament resulted in several proposals being shelved. For instance, a line across the upper Yorke Peninsula, from Moonta to Ardrossan, was postponed in 1879 and not subsequently built, despite having been given a high priority by Goyder's commission four years earlier.[35] These were not the actions of a parliament that saw railway construction as an opportunity for a low-cost spending spree.

B. R. Davidson has provided a positive evaluation of railway construction in New South Wales. His cost-benefit analysis suggests 'that the railway system as a whole has been an extremely good investment'.[36] His paper gives quantitative support to the general historians who argue that new railways played a crucial role in the expansion of wheat acreage on the tablelands and in the Riverina.[37] The achievement of the railways is all the more impressive when one considers that they operate with high fixed costs, with demand peaking at harvest time and subject to fluctuations due to drought. When good seasons swelled railway revenue, freight charges were generally cut to assist farmers further.[38] This prevented the accumulation of a surplus to cover future losses. In the circumstances, railway investment could not be utilized fully, and inefficiencies and periodic losses were inevitable. Davidson concludes that these defects were more than offset by benefits that accrued to industries which depended on the railways, and that if these indirect benefits are allowed for, 'railway returns would probably have exceeded all expenditure, including capital expenditure, in all except the initial years'.[39]

Boot is dismissive of Davidson's findings, contending that 'errors in the road and rail freights he uses bias his results in favour of railways'.[40] If Davidson's paper does contain errors Boot should have told us what they are, especially as the reference he cites in support of his case is an unpublished conference paper. Boot is correct when he argues that if railways to the Riverina had not been built the loss of wheat acreage there 'would have been compensated by the greater development of wheat farming in South Australia, Tasmania, and the areas close to the Murray River system that were not dependent on cheap rail transport'.[41] But in many cases low rainfall and poor soil hampered these

35 This line would have been cheap to build and passed through a large area of mallee scrub. The farming potential of such regions was being realized by the invention of the mallee roller and the stump-jump plough. But with the building of roads and jetties farmers were able to make use of local ports, allowing the government to give its full attention to the railway needs of the booming Northern Areas. *South Australian Parliamentary Paper*, 1879; *South Australian Parliamentary Debates*, 1878, col. 359.

36 Davidson, A benefit cost analysis, p. 147.

37 Buxton, *The Riverina*, pp. 180–2, Jeans, *Historical geography*, pp. 218–22; Robinson, *Wheat frontier*, pp. 84–126.

38 See Fogarty, *Railways*.

39 Davidson, A benefit cost analysis, p. 146.

40 Boot, Government, p. 92.

41 Ibid., p. 100.

areas. Whether their development would have compensated fully for the loss of agricultural production that would have resulted from areas of good soil, such as the Riverina and Victoria's Wimmera district, remaining isolated from distant markets, is problematic. More research needs to be done before judgements can be made on this point.

Davidson's conclusion about the economic benefits of railway-building implies that railways were an example of what modern cost-benefit analysis would call a lasting asset, the value of which could be discounted. This was certainly the way in which public decision-makers saw the additions that were being made to their railway systems. As Sean Glynn observes in his study of the development of the Western Australian wheat belt, 'by increasing settlement in rural areas it was expected that traffic would increase throughout the entire railway network, and that any assistance given to farming through railway construction and rating policy would lead to higher earnings in future years'.[42] The railways were commonly seen as an investment that would help to create a secure and prosperous farming sector, which would generate substantial benefits in terms of economic activity and tax revenues.

This public investment was the second stage in a series of policies designed to open up and develop areas for capitalist production. The first stage was the granting of property rights through land sales and legislation. The second stage was to enable producers to stay on the land after prices had changed unfavourably.[43] In terms of economic efficiency the case for providing this public investment was flawed: in times of lower prices reduced production costs would have enabled some marginal producers to stay on the land, but the resulting extra production at a given price would have intensified the downward pressure on prices. However, most experts predicted that the fall in prices would be temporary and that with the provision of railways, irrigation, and various other forms of assistance, such as agricultural education, farms would in time be more diversified and established on a sounder footing.[44] For reasons of equity, the community did not want selectors to have been encouraged to take up land, and then be forced off it when times got tough. Keeping people on the land was also seen as important because 'until the 1930s or even later no one – literally, not one person – measured national success in terms of growth rates or even the other economic measures we commonly employ for this purpose, but primarily in terms of land area, population, and the resources under that power's economic control'.[45] While the prevalence of these attitudes explains why governments were so willing to construct railways, it does not follow automatically that in doing so they

42 Glynn, *Government policy*, p. 65.
43 North, A framework, pp. 250–1.
44 For an excellent account of the failure of colonial irrigation policies, see Tyrrell, *True gardens of the gods*.
45 Rubinstein, Cultural explanations, p. 74.

behaved irresponsibly and eschewed market tests in the decision-making process.

DID THE PUBLIC SECTOR CROWD OUT THE PRIVATE SECTOR?

Boot's argument that public investment crowded out private sector activity is contradicted by a quantitative analysis of the issue by Lougheed and Tamaschke.[46] The authors calculate that when the share of public investment in total investment increased, wage rates were unaffected. This suggests that increased labour requirements were met by growth of the labour force and reduced numbers of unemployed. Public investment would have thus boosted domestic demand without dampening private investment and export production.

Boot's response is to argue that the economy's most severe labour shortages were in rural areas, where the major public works took place.[47] The high cost of labour was certainly a common complaint amongst farmers; indeed, the need to use methods which economized on labour and capital, which were scarce relative to the supply of cheap land, was the basic feature which distinguished Australian farmers from their European counterparts.[48] But Boot takes the argument further, implying that labour shortages were more severe in rural areas than they were in the cities. No evidence is offered to support this contention; in fact, the wage rate data we have suggest that rural areas were characterized by relative surpluses of labour. Wages for unskilled work were much higher in the capital cities than in rural areas, with the gap persisting even if allowance is made for higher urban living costs.[49] This suggests that it was the cities, not the countryside, which were short of labour. Rural investment was labour-saving in aggregate, and did not create enough jobs for growing numbers of failed farmers or sons of farmers for whom there was insufficient work available on the family farm. Public investment created needed, if short-term, jobs in these regions. There was little danger that this investment would lead to overheating of regional economies.

That being the case, it is apparent that assisted immigration, another important government activity, did not have the distorting effect on the Australian economy which Boot suggests. The fact that migrants tended to be 'unwilling to move away from the metropolitan cities to areas where labour-intensive capital works were being built'[50] indicates rational behaviour in staying where jobs were likely to be found. For Boot, assisted

46 Lougheed and Tamaschke, A statistical analysis.
47 Boot, Government, pp. 94–5.
48 See Raby, *Making rural Australia*.
49 Frost, The contribution, pp. 56–61.
50 Boot, Government, p. 93.

immigration 'did little to ease the pressures on wage costs . . . because the number of assisted migrants tended to lag behind, and sometimes well behind, the growth of government demand for labour'.[51] Several studies suggest a different interpretation. Davison has found that Australia's emigration agents rejected applications from unskilled and illiterate British workers.[52] Migrants who could afford to arrive unassisted were likely to have money in their pockets and a capacity for expenditure on housing which was similar to that of the local population.[53] It was the spending of migrants, rather than governments, which kept topping up the level of demand. The government contribution to the urban labour market was an immigration policy which ensured that each wave of new arrivals would enhance an already booming economic situation.[54] A less discriminatory assisted immigration policy that allowed lower-income groups to migrate would have had a more substantial effect on labour supply, and helped to reduce wage costs.[55]

High levels of urban income, and a set of expectations and cultural values which established a suburban setting as the desired way to live, meant that city growth created a high level of aggregate demand for housing. There were severe housing shortages at the end of the gold rushes, but thereafter the stock of housing increased at a faster rate than population growth and houses and lot sizes became larger on average.[56] People who could afford to do so preferred to buy in new suburbs, even though plenty of cheaper, but smaller houses were available in older areas closer to city centres. As Butlin noted, the construction of 'detached dwellings sprawling, in their own separate grounds, over vast areas' was both a 'stimulus to growth' and a 'drain on resources'.[57] The intrinsically high costs of building such housing, and the increasingly speculative nature of suburban subdivision and construction, meant that investment could be drained from more directly productive areas. Cities which boomed and expanded their suburbs confidently could easily become overbuilt, as was the case in Adelaide during the early 1880s and Melbourne later in the decade. In the circumstances, governments could contribute substantially to the overheating of city economies by over-provision of public transport and other infrastructure needed for suburban development. As sprawl continued, cities became locked in to higher infrastructure costs, as each generation of homebuyers demanded more space and building took place beyond the reach of existing public transport systems.

51 Ibid., p. 93.
52 Davison, Australia, p. 53.
53 Withers, Immigration.
54 Pope and Withers, Do migrants rob jobs?
55 Against such a disadvantage must be balanced the fact that from migrants the Australian economy obtained an injection of high-quality human capital, made up of generally young, skilled people, whose education and training had been paid for by other countries.
56 Frost, *The new urban frontier*, pp. 114–21.
57 Butlin, *Investment*, pp. 211–12.

In one sense, high labour costs did not matter much to the major cities, because their economic fortunes were largely dependent on the size and productivity of their rural hinterlands. In times of prosperity the major cities attracted investment in spite of high labour costs. These costs were offset to a considerable extent by economies of scale, location, and agglomeration, which were generally weaker in provincial towns. Yet in another sense, these simple urban economies were in a weak position. They did not develop the kind of robust, diversified structure that would have resulted from the growth of a successful tradable manufactured goods sector. The city-building process absorbed funds, which could have been invested in the creation of new jobs in manufacturing. In places and at times, this happened because government activity did contribute to unsatisfactorily high levels of unproductive urban investment and excess capacity in public transport, which added to the cost pressures on the non-residential and non-government sectors of the economy in general. Boot sees these cost pressures as being largely confined to the rural sector, but the evidence suggests that the major impact was felt in the capital cities. As Butlin pointed out, investment in housing, and its heavy, potentially unproductive nature 'is largely a story of *urban* residential investment'.[58] Public investment in city-building did not crowd out private investment in city-building; rather, it was government that provided the infrastructure needed for the successful development and building of suburbs. A case can be made that the real crowding out was done by total investment in city-building – public and private.

CONCLUSION

There has been a tendency amongst economists and economic historians to see the public and private sectors as two separate entities, with markedly different behavioural characteristics. In a summary of the literature on Australian economic history, C. B. Schedvin writes that according to this view 'the developmental engine had two drivers who obeyed different sets of signals, the one responding swiftly and smoothly to short-run shifts in the market, and the other insulated from market forces for long periods and unwilling to deviate from a preordained developmental path'.[59] Such a view overlooks the fact that there were significant common features and mutual concerns in the two sectors. The private sector looked to government to provide a secure, low-cost business environment which was needed to maximize profits; in turn, governments depended on private sector profits for tax revenue. This symbiotic relationship also existed in the provision of infrastructure which

58 Ibid., p. 212.
59 Schedvin, Midas and the merino, p. 546.

suburban developers and builders needed if they were to sell their homesites and houses. The establishment of farming on a secure and profitable basis would have increased tax and railway revenues substantially. It was important to all sections of the community that public investment projects conformed to market criteria so that other sectors of the economy would not be crowded out by unproductive investment and that the general level of taxes and charges would not have to be increased. Opportunities for rent-seeking by parliaments were held in check because the costs of politically-motivated investment outweighed the benefits which could have been received. This is a very different view of government to the public choice model used by Boot. When history is seen in this light, 'evil men and motivations vanish'.[60]

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