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ENDOWMENTS, INSTITUTIONS, AND CONTINGENCY¹

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Abstract

Some of the hypotheses regarding the role of institutions in long-run growth which have recently been advanced in the growth and history literatures imply that, given its initial conditions, Australia in the nineteenth century should have acquired quite different economic (and political) institutions from those it did, leading in turn to lower long-term growth rates than it actually achieved. In accounting for why this did not occur in Australia, it is suggested here that the emphasis in these literatures on both initial conditions and on institutional persistence is misplaced relative to the importance of institutional innovation, adaptation, and even disappearance. The mechanisms linking initial endowments and institutional change in Australia are complex, with timing, sequence, and chance playing a prominent role. The economic institutions examined in this paper are the markets for convict and indentured labor, and the property rights in – and conditions of access to – the abundant natural resources (land and gold).

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1. Introduction

The mechanisms whereby economies acquire growth-enhancing or growth-retarding institutions are imperfectly understood. And the hypotheses in growth economics that initial endowments and colonial inheritance may both play key roles in determining institutional arrangements, and hence growth, are the subject of debate. Also debated is whether institutions should be treated as exogenous to the growth process; whether there is persistence over very long periods in the influence institutions can have on growth; and whether institutional adaptability may help explain why some countries are rich and others poor.²

This paper examines some evidence pertinent to these closely related questions drawn from Australian experience during the nineteenth century. The working hypothesis is that, given the initial conditions of its early colonial period, it was not foreordained that this economy's long-run performance would be so impressive. It is suggested that there were occasions in its early history when the institutional framework within which the economy operated might have taken a quite different and less growth-promoting form. The aim is to understand why particular institutions were adopted, and in particular whether the choices were determined by conditions relating to the initial endowments, other influences prominently featured in the literature on institutions and growth, or contingent forces specific to time and place.

Three sets of institutions are examined. One set governed access to, and the acquisition of property rights in, the natural resources that were Australia's principal source of wealth in the nineteenth century. The earliest phase of this concerned the occupation by squatters of pastoral land in the 1820s to 1840s. The next phase occurred in the 1850s with the discovery of large alluvial deposits of gold. And the final phase occurred in the 1860s to 1880s as the small farmers tried to gain access to the squatters' large land holdings. A second set of institutions of interest lies in two unusual features of the nineteenth century labor market. Australia's modern history began inauspiciously in 1788 as a jail for British convicts, and the transportation of convicts did not end until the 1860s. Later in the nineteenth century another peculiar labor market institution emerged – the importation of Melanesians to work under

² Acemoglu et al (2005) and Levine (2005) provide recent overviews of the relevant literature.

contract particularly in the Queensland sugar fields. Decisions relating to these institutional arrangements concerning resources and labor were made within an evolving political framework, a framework that was itself partly shaped by these major policy issues. The changing political institutions thus constitute the third set of interest. These transformed Australia from a quasi-military operation run by the British, through a form of colonial autocracy, to a self-governing democracy by the 1850s.

It will be suggested that the emphasis on initial endowments in some recent contributions to growth economics and comparative economic history does not greatly assist the explanation of either later institutional developments, or the mechanism linking these to Australia's long-run growth performance. In short, nothing was pre-determined. The adoption of institutional arrangements markedly different from those chosen was, at several critical junctures, not just feasible but quite likely. Identifying the reasons for the actual choices made is not assisted by models that predict the form institutions take from a limited number of initial conditions, assume institutional lock-in or persistence, and link both these to long-run growth outcomes. And it will emerge that sequence matters, along with timing, institutional adaptation, and chance.

2. Literature

Growth economists increasingly place institutions – broadly defined – close to the center of their attention.³ Some of this increased emphasis derives from the results of cross-country growth regressions where institutional proxies appear significantly related to variations in growth performance among economies in recent decades. These results have prompted several debates. Of general relevance to this inquiry is the issue of whether institutions or geography comprise the deeper determinant of growth.⁴ Also of interest is the debate on whether resource abundance is a blessing or a curse to economic growth, and the role of institutions in determining this outcome.⁵ A feature of this empirical work on institutions and growth is that economists frequently derive their motivation – and sometimes obtain their evidence – from the historical record.

³ The recent revival of interest in institutions may be traced at least in part to the writings of North (for example, 1990). For a survey of relevant writings on the topic, see Acemoglu et al (2005).

⁴ For opposing views see Rodrik et al (2004) and Sachs (2003).

⁵ A recent contribution (containing references to earlier literature) is that of Mehlum et al (2006).

A closely related literature attempts to account for the very different growth experiences of countries that once were colonies of a European power. Current levels of per capita income among ex-colonies range from among the highest in the world (the United States, Canada, Australia) to among the lowest (many African countries). Since these ex-colonies inherited institutions from their imperial powers to widely varying degrees, the history of European colonization constitutes a rich source of evidence for assessing the role of institutions in growth. The seminal contribution is that of Acemoglu et al (2001, 2002). Their core hypothesis is that the extent to which there occurred a transfer of European institutions during the colonial period determined the long-run growth performance of the economy. This implies remarkable persistence in the influence of colonial-era institutions. They further advance the view that the extent of this institutional transfer was related to initial conditions in the colony – especially endowments, the density of the native population, and the disease environment. Thus geography plays a role in their explanation of comparative growth patterns, but only through its influence on institutions. This conclusion is supported by Easterly and Levine (2003, p.37) who employ a similar dataset: “we are struck by the way that endowments and policies have no independent effect once we control for institutions, contrary to a number of stories, and that institutional quality seems to be a sufficient statistic for accounting for economic development”.

A major contribution has also been made by Engerman and Sokoloff, who attempt to explain the very different long-run growth performance of countries in the western hemisphere.⁶ Many of the themes in the wider literature on institutions and growth appear in their work – the importance of initial (historical) conditions, geography, colonial inheritance, and how institutional arrangements tend to have long-lasting economic consequences. Because their perspective in part has motivated the analysis of Australian experience reported here, some elaboration is warranted.

Engerman and Sokoloff view the endowments of countries in the Americas at the time of initial European occupation as determining the types of institutions that were adopted there. Critical to their analysis is the conditions governing access to the resources in each country at the beginning of its colonization. Climate, soils and other geographic considerations help determine the choice of products that come to

⁶ Their analysis is contained in a series of publications, including Engerman and Sokoloff (1997, 2002, 2003, and 2005a), and Sokoloff and Engerman (2000).

dominate the economy. But a focus of their analysis is how widely spread is the initial allocation of property rights in whatever resource forms the principal basis of wealth in the economy. If there is a highly unequal initial distribution of access to, or property rights in, the key resources (land, minerals, labor), with ownership passing to a small minority of the population, the economic power acquired by this wealthy elite will likely be employed to shape early political and social institutions such as to ensure they protect their economic dominance. This is thought to characterize the early history of Latin America, but not Anglo-America where (outside the South) the initial factor endowment differed and wider access to resources led to a more egalitarian distribution of wealth.

Furthermore, Engerman and Sokoloff argue that these early institutional arrangements (economic and political) not only persist over long periods, but also help explain later institutional developments that have impacted more recent growth performance. If a wealthy elite emerges early, they will likely oppose the extension of the franchise, offer limited support for universal and publicly funded education, and secure an immigration program that suits their own labor requirements, thus reinforcing a skewed distribution of income and wealth in the community, and hence delaying the development of broad-based financial institutions such as a stock market. The unequal economic and political power of the elite is thus entrenched by these later institutional developments. Where a more equal initial distribution of wealth occurs, the later pattern of institutional development will be very different. In the view of Engerman and Sokoloff, these causal sequences, with their historical roots in the initial endowments, and in the institutions that arose to determine access to them, account for the current differences in income per capita between rich Anglo-America and relatively poor Latin America.⁷

The Engerman and Sokoloff perspective contains insights and hypotheses which may assist the analysis of growth elsewhere. And it is this more limited application that is attempted here – to the Australian experience. As there exists a large literature on the origins, evolution, and effects of those political, social and economic institutions that historians of Australia see as critical to that country's economic development and prosperity, I draw on these writings, together with

⁷ For a different perspective on the role of endowments and institutions in the contrasting economic experience of North America and Latin America see North, Summerhill and Weingast (2000). Elliott (2006) provides a broader historical comparison down to the time of independence from colonial rule.

suggestions in the recent growth literature, to construct a (partial) growth narrative for Australia. This will focus on the colonial era (1788 to 1900). And the institutions of most interest are those that relate to the convict and indentured labor markets; those that govern the use of rural land and mineral deposits; and the political institutions (British government agencies and governments of the colonies) within which the decisions to establish, modify, or abolish these economic institutions were made.

3. Motivation

Because the historical experience of just one economy is examined here, any formal testing of generalizations about institutions and growth is precluded. However, this limitation has the advantage of permitting closer examination of the mechanisms that link the initial endowments to the institutional foundations of the economy, and also of the mechanisms that link these initial institutions to later features of the economy and society that, in turn, directly impact growth. By contrast, the mechanisms at work in the models in some important contributions to recent literature are not always made explicit. In Acemoglu et al (2001, 2002) instrumental variables play a key role in a purportedly causal explanation as to how early colonial institutions have significantly influenced growth performance over several centuries.⁸ In Engerman and Sokoloff there is recognition that the precise links between initial conditions and current differences in income are not clear.⁹ They also explicitly acknowledge the possibility that institutional adaptation will occur.¹⁰ The importance of the latter is that it might attenuate the causal links between initial conditions and current economic performance. Yet there is little guidance from theory concerning the determinants of institutional flexibility or adaptation: Acemoglu (2006, p.45) notes that “which features make institutions flexible and whether institutional flexibility matters for economic performance are ... interesting areas for future research.”

⁸ The key instrumental variable used in their analysis – mortality rates among soldiers and other early Europeans arriving in the colonies – has been subject to stringent critical analysis: see Glaeser et al (2004) and Albouy (2006).

⁹ See, for example, Engerman and Sokoloff (2005a), p.10: “The specific mechanisms that worked to produce the divergence in institutional and other development [between Latin and Anglo-America] are complex and difficult to discern”.

¹⁰ This is emphasized especially in Engerman and Sokoloff (2003): “Perhaps the most important elements of institutional structures are those that ensure an ability to adapt to different conditions and to adjust to new circumstances as seems necessary” (p.13).

In this section I sketch a hypothetical ‘history’ of Australian institutional and economic development in the nineteenth century based on a specification of the initial conditions in the spirit of Engerman and Sokoloff. This thought experiment serves as motivation for examining key aspects of what actually happened in Australia. But first there is a need to clarify what is meant by initial conditions.

(a) Defining Factor Endowment: a Puzzle

If the initial factor endowment is to play a pivotal role in the explanation of subsequent institutional development, and thus of long-run growth, then specifying these initial conditions warrants some reflection. In particular, it is important we distinguish truly initial from later endowments, because the Engerman and Sokoloff model requires these be strictly exogenous to the institutional arrangements that emerge at the beginning of European settlement.¹¹

When the British arrived in 1788 the Aboriginal population is estimated to have numbered at least 300,000, possibly one million (Butlin 1994, p.212). This is a significant pool of potential labor relative to the miniscule initial stock of capital – Aboriginal or European. With respect to natural resources, the approximate size of the continent was known, but not the economic value of its agricultural land and minerals. Indeed, early observers saw few resources beyond timber possibly suitable for ship masts, and whales and seals on the coasts. The early realization that land near Sydney was not particularly suitable for agriculture reinforced the impression of a paucity of natural resources.

In practice, there was very little integration with the hunter-gatherer economy of the Aborigines, and the Europeans imported both labor and capital.¹² For several decades, the principal source of labor was convicts from Britain, not free settlers. And the principal form of capital formation was labor-intensive activities such as constructing roads and buildings and land clearing. The factor endowments thus change, the capital-labor ratio (the reproducible capital stock per European worker) rising relative to 1788. Although farming near to Sydney (and in Van Diemens Land)

¹¹ In the analysis of Acemoglu et al, also, the initial conditions and endowments are critical to whether extractive or growth-promoting institutions arise at the time of European colonization (see for example, 2005, p.416).

¹² Why the Aborigines were not used to meet the labor requirements of the early settlers to a greater extent than actually occurred is a separate question.

expanded, it is not evident that the resource base per worker increased – the colony had trouble feeding itself.

In the 1820s it was established that there existed extensive areas of natural grassland further inland on which wool could be produced and profitably exported to Britain. The relative factor endowments are again altered. For the first time it is appropriate to describe the economy as resource abundant, as the economic value of these grasslands was both evident to contemporaries and large relative to the existing stocks of European labor and capital. Indeed, this land abundance encourages the first significant inflows of free settlers and private investment in the 1830s and 1840s. But this occurs after almost half a century of European settlement, a period within which some basic institutions were established in the colony, including (rudimentary) governmental institutions, the rule of law, the English language, and – most conspicuously – a peculiar convict-based labor market. But this peculiar labor market ‘institution’ was itself a product of earlier factor supply conditions. Should the 1788 factor endowments or those around 1830 be treated as being ‘initial’? And are the institutions of 1830 to be treated as exogenous to the analysis of later growth?

(b) Predictions from Initial Conditions: A Controlled Conjecture

After 1820, the export-oriented wool industry expanded rapidly across large areas of the recently discovered natural grasslands in southeastern Australia using a mix of convict, ex-convict (emancipist) and free labor, and a labor- and capital-saving system of land use by ‘squatters’.¹³ The squatters grazed large numbers of sheep on public/crown land – illegally. Initially, they had no property rights. Quite quickly, a relatively small number of them occupied much of the land suitable for livestock grazing, as the average area they each occupied was very large. The profitability of this activity was mostly high. Hence the squatters became a wealthy and influential class. Squatting, then, was another ‘institution’ central to the development and prosperity of the early Australian economy – and will be discussed below.¹⁴ Is it possible that Australia, at this stage, could have evolved into a squatter-dominated

¹³ The terms ‘squatter’, ‘grazier’, and ‘pastoralist’ are now used interchangeably in Australia. The land occupied by the squatter is variously referred to as a ‘run’, ‘station’, or ‘property’.

¹⁴ To give some perspective to the growth of the pastoral industry: the number of sheep in New South Wales grew from 99,000 in 1820 to 13.1 million in 1850; and Australian wool as a share of total British wool imports rose from 8 percent in 1831 to 53 percent in 1850 (Vamplew, 1987, Series EC55, p.115; Burroughs 1967, Appendix I, p.383).

oligarchy, a 'squattocracy' – politically, socially, and economically? The story might have gone as follows.

Having occupied the vast areas of crown lands suitable for wool production, the pastoralists employ (wage) labor supplied by the flow of convicts from Britain. Because of the pre-eminence of the wool industry, they dominate domestic economic activity and the export trade. At this time the wool industry is vital to Britain's industrialization, and Australia becomes the dominant supplier of this raw material. Due to their economic power within the colony and importance to British industry, the squatters successfully negotiate with the government in London for increased control over the colonial governor, his advisory council, and his powers. In particular they use this influence to secure freehold title to all of the crown lands on which they had squatted and built their fortunes. They thus entrench a highly unequal distribution of wealth in this society (of which pastoral land is the main form) through their dominance of the political institutions which they created or shaped.

In this economically and politically polarized society, the squatter elite can see no direct benefit in publicly funded universal education, hence private schools and colleges primarily cater to children from the wealthy classes. To perpetuate the squatters' control of political institutions, the franchise is restricted to substantial property owners. Immigration (principally convict transportation) is carefully regulated to maintain the supply of low-cost unskilled labor required by the squatters. Indeed, if the flow of convicts dries up as a result of a change in British policy, a potential supply of cheap labor is available nearby from India, China, or the Pacific islands, and which could be obtained on a contract or indentured basis. There is no pressure to develop a broad based banking system or establish a stock market: the pastoral workers have few savings; while the squatters obtain finance through the pastoral companies who arrange the transport and marketing of the wool clip, and supply the pastoralists with the few purchased inputs they require. Finally, the squatters pursue free trade in order to support Britain's commitment to open markets, to secure their imports at world prices, and to discourage the growth of an urban-industrial working class that would result from any tariff protection of Australian manufacturing.

In this controlled conjecture, Australia soon looks much like Argentina – economically, politically, and socially. (As in any good horror story, there is enough historical verisimilitude to keep the reader accepting its plausibility despite its scary

ending.) The point of the exercise is that the actual ('initial') conditions in Australia in the 1820s and 1830s appear superficially similar to those in Argentina and perhaps elsewhere in Latin America at comparable times in the formation of their societies and economies. However, within a few decades Australia was developing more like Anglo-America than Latin America.

Two key questions arise relating to what actually happened in Australia during these crucial decades. First, how close did Australia come to acquiring institutions that would likely have set it on a very different path of political, social and economic development (such as that sketched above)? And second, what caused the deflection of Australia from this hypothetical (Latin, and scary) path to the one it actually took?

In addressing these questions, I first outline the principal features of the political institutions which emerged and evolved in the period from the 1820s to the granting of responsible government in the colonies during the 1850s (Section 4). Then I discuss (in Section 5) the key economic institutions of these decades. These arose in the labor market with the phasing out of convict transportation, and also in respect of the conditions governing access to and property rights in the two major natural resource discoveries of the period – pastoral land and alluvial gold. Finally I examine (in Section 6) the later evolution of some key institutional arrangements in the decades from the 1850s to the formation of the Commonwealth of Australia in 1901. These are the consolidation and extension of democratic political institutions; the partial re-allocation of crown farm land from squatters' pastoral leases to family farm enterprises; and the emergence then decline of the plantation system in the sugar industry, a system which was based on indentured Melanesian labor.

4. Political Institutions 1820s to the 1850s: Economic Origins of Democracy?

Three inter-related issues dominated political and economic debates in New South Wales after 1820.¹⁵ One was the transition in the source of political power from the governor (his advisors, and the British government who appointed him) to the colonists. The second issue concerned the continuation of convict transportation from Britain. The third related to the lack of well-specified and secure property rights in the land on which the squatters' sheep were grazing and, more generally, the squatters'

¹⁵ New South Wales was initially the sole jurisdiction in eastern Australia. Van Dieman's Land (Tasmania) separated in 1825, Victoria in 1851, and Queensland in 1859.

dominant and seemingly entrenched position in the political, economic and social spheres. Although there is a close relationship between these three topics, I will discuss the evolution of institutions and policies connected with each in turn, starting with the political arrangements. This ordering is chosen because the key decisions on the two economic issues were hammered out within the framework of the evolving political institutions of the time.

(a) Evolution of Political Institutions

The British occupation of Australia in 1788 began as a military operation. Convicts supplied the labor, and a detachment of officers and troops acted as their jailers under the command of a governor appointed by, and responsible solely to, the British government.¹⁶ Apart from the convicts and the military, the ‘civilian’ population comprised members of the military who stayed on after their terms of service, and convicts who had completed their sentences (emancipists), but very few free immigrant settlers until the 1820s. The inflow of free immigrants gathered pace in the 1830s and especially the 1840s, while the transportation of convicts to the colony ended in 1840.¹⁷ The basic theme of political history in New South Wales is the rising demand from colonials of all classes and origins for more say in the management of their affairs. The story is complex, but the unmistakable direction of events was that the less the colonial population comprised convicts or ex-convicts the less justification there was for the British to treat Australia as a quasi-military operation and to deny basic civil and political rights to the citizenry. This, after all, was the direction political events were taking in Britain itself.

A summary of key developments in the political arrangements in New South Wales follows.¹⁸ In 1823 the governor’s autocratic position was modified by the creation of a Legislative Council of five to seven members, all appointed, though only the governor could initiate legislation. The act gave formal status to the governor’s power to tax, created a supreme court, and introduced trial by jury in civil cases. In 1828 the Legislative Council was increased in size to seven official and seven non-

¹⁶ This was very different from the private enterprise mode of colonization under charter to the crown, which occurred in Western Australia (1829), South Australia (1836) and New Zealand (after 1840).

¹⁷ The European population of Australia was 29,000 in 1820, 438,000 in 1851, 1.2 million in 1861, and 3.8 million in 1901 when the six colonies federated to form the Commonwealth of Australia.

¹⁸ Accounts of the main constitutional developments may be found in McMinn (1979, Chapters 1 to 4), and Melbourne (1988a, 1988b).

official members, all still nominated.¹⁹ These arrangements continued until an Act of 1842, under which the Legislative Council was expanded to 36 members, 12 nominated and 24 elected. Of the nominated members, six were officials. The elected members were to be chosen by voters meeting certain property qualifications. Ex-convicts could vote and become members of the Council. But the elected members were scarcely representative, as the electoral law gave the towns only one quarter of the members with the country getting three-quarters, even though the bulk of the population was in the former. Sydney, in particular, was under-represented. “The electorate was, in fact, a property-owning electorate; and the Legislative Council was a property-owning Council” (Melbourne 1988a, p.173). The governor and Council had wide legislative powers, but control of crown lands and the revenue from them was retained by London.

In 1850 the British parliament passed an act allowing all the Australian colonies to have legislative councils that were one-third nominated and two-thirds elected, to have control over the judicial system and local government, and to vary the amount of revenue they allocated to administration. In addition, a crucial provision was that the legislative councils would have considerable power to amend their own constitutional arrangements. In New South Wales, the squatter-dominated Legislative Council in 1851 gave effect to the British act by making electoral changes that perpetuated their disproportionate representation. Of the 54 members, 18 were nominated (nine being officials), 11 were to be elected by towns and boroughs, 17 from the settled counties and 8 from the pastoral districts. And in 1853 it drafted a constitution for the colony and forwarded it to London. This contained provisions for a nominated upper house, together with the perpetuation of unequal electorates and a restricted franchise favoring property owners. The new constitution passed the British parliament, and came into operation in the colony in 1856.²⁰

Executive authority would be located in the lower house of a bicameral parliament, ministerial responsibility would apply, and hence the governor’s powers were greatly reduced. Self-government had been achieved, though Britain retained

¹⁹ Melbourne (1988a, p.160) writes: “The non-official members were theoretically representative of important interests. Actually, however, they were drawn from the exclusive [landed] class. It was not until 1837 that [Governor] Bourke succeeded in obtaining the appointment of Sir John Jamieson, a prominent emancipist.”

²⁰ Constitutions for Victoria, South Australia and Tasmania were also drawn up. Although there were significant differences in detail, the constitution-making process in all colonies occurred in the context of the Act of 1850. I will continue to focus here on the New South Wales experience.

substantial influence, such as in foreign policy. But a fully representative government had not been attained. The upper house was nominated not elected; there was a property qualification for enfranchisement, hence not even universal male suffrage; voting occurred in an open not secret ballot; and the electorates had unequal population and were heavily skewed against urban areas.

In 1856 at the first election under the new constitution the conservative interests – unsurprisingly – predominated and formed government. But, remarkably, within a year their liberal opponents had gained office, subsequently introducing reforms regarding the franchise, ballot and electorates, and consolidating the supremacy of the elected lower house. A substantial measure of representative democracy had been achieved. Symbolic of this peaceful displacement from power of the conservative landed interest was the passage, in 1861, of a radical land act to redistribute the leased land occupied by the squatters to small farmers (discussed below in Section 6b). The evolution of political institutions from those of military rule in a penal colony to those of a democratic government (that survive in the Australian states to the present) was largely complete.

Did this outcome arise from particular conditions in the early years of the colony emphasized in the literature on endowments, institutions, and growth? To address this, I will first identify the main actors in the process of democratization just outlined, then consider the relevance of some models of the economic origins of democracy as well as the predictions of the Engerman and Sokoloff hypothesis about the impact of initial endowments on the evolution of political institutions.

(b) Interest Groups Identified

The emergence of democratic political institutions in the colony may be considered as the outcome of a process in which there were three main groups of players.²¹ The first was the British government and its local representative, the governor (and includes the Colonial Office bureaucrats in London and the governor's appointed officials in Sydney). Initially all political power was concentrated with this group. If self government and representative democracy were to occur in New South Wales, they either would have to agree (through legislation in the British parliament), or, if they

²¹ The accounts of political and constitutional history during this period provided by Hirst (1988) and Cochrane (2006) have been helpful in developing the interpretation which follows.

did not, there would have to be rebellion (following the example of the North American colonists).

In the colony itself, there was one fairly coherent group, the landed class, primarily but not totally comprising squatters. They had well defined economic interests, in particular to secure tenure over the crown land they occupied, and to ensure an adequate supply of low-cost pastoral labor. Their principal political interest was to attain sufficient influence over whatever local political institutions emerged to protect their privileged access to use of the public lands. Hirst (1988) thus calls them the 'conservatives'. They could be termed an elite in an economic and social sense, but in the political sphere the term is not quite apt. They dominated membership of the Legislative Council over several decades, and appeared to fellow colonists to unduly influence its decisions. But, in the imperial political context, the real source of power over major issues resided in London.

The remainder of the colony's population made up a third and looser group participating in the political transition. Before 1830 it comprised mainly emancipists. But after 1840 the rapidly expanding numbers of free immigrants, and the end of transportation, shifted the composition of New South Wales society towards the native-born and immigrants. This group included most townsmen, wage earners, small businessmen, and small farmers. Their economic interests were diverse, but generally they were united in opposing the squatter monopoly of crown land occupation and the continuation of the transportation of convicts. They had no single umbrella organization through which to operate in a united fashion. Many were influenced by the debates and events in Britain concerning the extension of representative government (Chartism and the 1832 Reform Act), seeking similar rights for themselves. Hence Hirst (1988) terms them 'liberals' or 'democrats'.

It is worth stressing the limits on the governor's autocratic rule. His initiatives in the Legislative Council could face sustained opposition leading to their being withdrawn, modified, or referred to London. Sometimes the governor was supported by his immediate superior, the Colonial Secretary, but was sometimes over-ruled. The influence of the bureaucrats in the Colonial Office over policy in the colony could also be considerable. Further, 'public opinion' in the colony could not be ignored. Despite the absence of representative government, the colony had acquired a remarkably free press from the 1820s. The Sydney papers seemed fearless, lobbying for the creation of representative institutions, the expansion of the Legislative Council

to reduce the influence of the landed class, and trial by jury. Ideas for self-government were debated. Governor Darling attempted to curb the press on several occasions between 1827 and 1830, but was thwarted either on the advice of the chief justice of the colony on the grounds that his proposals were not consistent with English law, or by the Secretary of the Colonies (Melbourne 1988a, p.154).²²

(c) Explaining the Origins of Colonial Democracy

Nothing in this stylized description suggests as an inevitable outcome that, within a few decades, the colony would have self-government, ministerial responsibility, and a good measure of representative democracy. To a student of interest group politics, this result might be a surprise given that the landed class had the advantage over the liberals and democrats of smaller numbers but greater wealth, lower organizational costs, common goals, and greater political leverage through their dominance of the Legislative Council from the 1820s. Further, this outcome does not appear consistent with (in the sense of result in) the expectation of Engerman and Sokoloff. The factor endowment from about 1820 suggests (in their perspective) that the landed interests in the colony, who have occupied much of the pastoral land and hence monopolized the principal source of colonial wealth, will be able to influence the direction of political institution building to ensure their economic interests are well served and their political position remains dominant. Thus the challenge is to determine why, in this case, a different outcome occurred.

In searching for a parsimonious explanation, models of the economic origins of democracy may help in drawing attention to the conditions under which certain interests are more likely to prevail. The most recent attempt to do this is to be found in the work of Acemoglu and Robinson.²³ Their analysis specifies the conditions under which society will shift towards democracy and consolidate (or revert to being a non-democracy), and also whether this transition will be conceded peacefully by the non-democratic elites or must be wrested by revolution. Their game theoretic models distinguish at most three groups in society – the elite, the masses, and a middle class –

²² This cursory outline fails to capture the complexity of views on particular issues, the importance of some dominant personalities, the role of ideas (especially those at the center of British political debates at the time), and the demographic shifts occurring in colonial society.

²³ The major work is Acemoglu and Robinson (2006a), but subsequent papers elaborate the models developed there. See Acemoglu (2006) and Acemoglu and Robinson (2006b).

where the non-democratic elite initially are dominant. Critical to the outcome of the democratization process in some models is the form in which the elite hold their wealth. If in land rather than other forms of capital, it is argued the elite will more strongly resist democratic pressures because of the greater ease with which land may be taxed or its ownership changed. Hence, “the benefits of avoiding democracy are greater for landowners [than owners of human or physical capital] because they expect their income to be taxed at a higher rate or even their assets redistributed in land reforms. ... Thus, everything else being equal, the elites are more opposed to democracy when land is more important for their incomes. This gives another reason for land-intensive economies to be less likely to consolidate democracy (and also to transition to democracy)” (Acemoglu and Robinson 2006a, pp.289, 300).

If international trade is included in their core model, there is an implication that the power of a landowning elite will further be strengthened due to the increased relative return to land where it is the most abundant factor. That is, in a land-abundant and labor-scarce economy “international trade can increase the price of land and the incomes of the elites, thereby potentially making repression and coups more attractive for them. Whether this is so is an empirical question we leave for future research” (Acemoglu and Robinson 2006a, p.338). They believe their analysis captures key features of a number of historical cases – Argentina being a frequently cited example.

But the models in Acemoglu and Robinson, and the implicit mechanism in Engerman and Sokoloff, seem ill-fitting when applied to the experience of early-nineteenth century Australia. The important feature of the political landscape that any ‘model’ misses if it focuses only on groups within New South Wales is the pivotal role of the outside group – the British government and its local representative, the governor. They control the political system, but are not part of colonial society. It is imperative to recall that we are examining democratization in a colony, not in an independent polity. Until self-government in the 1850s, the British ultimately determined the nature and timing of any fundamental institutional changes, even if there was significant input into decision-making from colonial interests. And they were a counter to what appeared irresistibly powerful local interests – such as that of

the squatters.²⁴ This offsetting role seems crucial to the evolution of political institutions in Australia at this time.

Consider what might have transpired had the colony suddenly been cast adrift to fend for itself.²⁵ Then the squatters and their allies would be in a much more powerful position during the formation of local political institutions. But the squatters lacked a credible commitment mechanism to satisfy the economic aspirations (regarding land redistribution) of the majority of colonists short of conceding a substantial measure of *de jure* political power (through institutions based on a democratic constitution). Their alternative would be repression. And it is unclear whether this path would have been chosen as the context is so removed from historical circumstances. Nonetheless, without the counterweight against the *de facto* power of the squatters, emanating from the governor and from London, the Latin American outcome seems more probable.

What was the objective of the British regarding the demands of the colonists for a greater say in the management of their own affairs? In the 1820s the population was very small, and there were few free settlers, hence it would have been a bold move to make the Legislative Council more representative or to include an elected element. By the 1840s the Colonial Office appears to have taken a consistent position on the demands for self-government. Influencing their response to specific issues was the experience of the loss of the American colonies and, more immediately, problems in Upper and Lower Canada. In this context the Colonial Office policies ceded to colonial responsibility functions that did not endanger vital imperial interests. Two areas that were in contention were the control of crown lands (since the British saw these as integral to their long-run imperial emigration plans) and control of colonial finances (to ensure that the colony did not become a financial burden on Britain). The rapid growth in the population, and its changing composition with the waning of the convict and ex-convict share, were two factors making London more amenable to delegation of political functions. The economic prosperity brought by the wool trade was surely another.

²⁴ “The liberals’ political victory [over the conservatives/squatters] was aided by the British state, which made a timely concession of self-government to the colonies.” McMichael (1984. p.xii).

²⁵ In some measure this was the situation in Spanish America during the Napoleonic occupation of Spain, and this interregnum was a critical period for the formation and consolidation of political groups in the colonies in the lead up to their independence struggles (Elliott, 2006, Chapter X).

It therefore seems that, to some degree, Australians did not have to persuade the British government that it was in Britain's interest to consider favorably the demands for increased political autonomy. Both sides were aware of precedence. Threats to cause Britain trouble (threats short of open rebellion) were more credible in light of this recent imperial history. So the issue was more one of timing and, especially, what form the new colonial political institutions would assume. Hence any model of colonial political institution building must accommodate the key role of the imperial power, and its preparedness to relinquish control. Imperial economic interests in the future of the colony matter, but these did not require that self-government or more representative democracy in the colony be withheld.²⁶ And the process of democratization underway in Britain could not long be denied colonists who demanded equal political rights as British citizens.

Historians of this period appropriately remind those who might wish to reduce colonial democratization to a deterministic process that other things do not always remain unchanged. For example, the widening of the franchise proposed for the constitution act of 1850 succeeded only because the high rents on Sydney housing mistakenly were thought by members of the House of Lords to be such that only wealthy people would be enfranchised.²⁷ The inflation following the gold rush pushed more of the population over the minimum property values required for enfranchisement. The serendipitous discovery of gold in 1851 also changed the population mix in ways that could not have been foreseen by the drafters of the constitutions, strengthening the position of the liberals, and reducing the chances of the squatters being able to maintain their hold over political affairs. And the small farmers and tenant farmers deserted the conservatives in the key elections in the mid and late 1850s in the face of their rising prosperity (stemming from the gold boom) and improved prospects for farm acquisition (with the liberals promising to unlock the squatters' pastoral leases for selection), thus off-setting the advantage the conservatives had expected from their electoral laws giving greater representation to farming areas.²⁸

²⁶ Perhaps the strategic behavior of the British can be seen as analogous to the role played by the middle class in the three-group models of democratization outlined by Acemoglu and Robinson (2006a, Chapter 8).

²⁷ See Hirst (1988), pp.17-18. He concludes: "The British ignorance of colonial affairs, which could always be relied on, ... had led to the establishment of virtual household suffrage in Sydney. The House of Lords, the enemy of British reform, had picked colonial democracy out of the gutter" (p.26).

²⁸ Described in Hirst (1988), pp.83-89 and 95.

Thus any attempt to link the initial endowment to the nature of the political institutions bequeathed to a self-governing Australia must contend with the independent role for the imperial power, and its successful resistance to an unfettered domination by the squatters and their allies. And it must recognize how exogenous shocks such as the discovery of gold can significantly change the direction of events.

5. Economic Institutions to the 1850s

The first phase of colonial political history in Australia ended with the granting of responsible government during the 1850s. During the period from the 1820s to the 1850s, three sets of economic institutions (or institutional arrangements) played key roles in the growth of the economy. In this section I explain their evolution within the political context just surveyed, noting especially the interaction between the initial endowments in the colonies and other historical forces. The first is the system of convict transportation; the second is the squatting system for pastoral land occupation; and the third is the set of arrangements governing access to the alluvial gold deposits discovered from 1851.

(a) The Transportation of Convicts – And Substitute Labor Schemes

Australia has been a labor-scarce economy and immigrant society since 1788. It has not, however, always had only free labor-market institutions. Some 160,000 convicts arrived in Australia between 1788 and 1868. They formed a large proportion of the additions to the population, and of the total population, until free settlers began arriving in significant numbers in the 1820s. It is likely that the majority of the European population was either convict or emancipist until about 1840, but by 1850 this ratio was less than 30 percent.²⁹ The transportation of convicts to New South Wales ended in 1840, but attempts to revive it there continued for more than a decade. Convicts were still sent to Tasmania until the early 1850s, while, at the request of the settlers in the small and struggling colony of Western Australia, convicts were sent there between 1850 and 1868.

²⁹ This is according to the estimates made by Butlin (1994), Table 3.3, p.37.

The system of convict labor allocation was complex. The convicts in Sydney at first were not even locked up, as there was no prison. And a work ‘gang’ of convicts was only one form in which they were organized. They were also ‘assigned’ to work for private employers. Those whose behavior was satisfactory were given a type of parole called ‘ticket-of-leave’, valid for the un-expired portion of their sentence; they were essentially free to contract their own employment, though this was revocable. As the numbers of emancipists increased a dual labor market developed, the relative importance of the two elements varying with the inflow of new convicts, the government’s demand for labor, and (later) the increased numbers of native born and free immigrants.³⁰

The contentious issue was whether ‘transportation’ (as it was called) should be ended or continued. The groups aligned with the two sides of this debate are only partly based on economic interest. The squatters wanted a supply of labor adequate for the needs of the rapidly expanding pastoral sector, so they saw the anti-transportation movement as a threat to the viability of wool production and hence to the economic future of the colony. The groups opposed to the continuation of convict arrivals were variously motivated. One unifying purpose among opponents of transportation seems to have been moral (or ideological) – that is, the desire to rid colonial society of the convict stain. There was also opposition in Britain to the transportation of convicts, evident in parliamentary enquiries in the late 1830s, and from within the Colonial Office. The free immigrants had a more direct private concern: “The newcomers, who were wage-earners and small farmers, ...were interested in high wages and regular employment, and were consequently opposed to transportation and assigned labor” (Melbourne 1988a, p.165). This, in turn, is related to the broader political struggle to restrain the power of the squatters. The balance of forces within the colony was moving against the wishes of the employers of convict labor when a British parliamentary inquiry into transportation produced an unfavorable report, and the Colonial Office responded by declaring an end to the practice of assigning convicts to private employers in 1838 and the end of transportation to New South Wales from 1840.

The debate in New South Wales revived at the end of the 1840s. The British government, especially the colonial secretary, Lord Grey, wanted to re-introduce

³⁰ For a comprehensive account of the convict labor market see Nicholas (1988).

transportation to New South Wales, and obtained the support of the squatter-dominated Legislative Council by proposing to send equal numbers of free immigrants. The Council “was desperate to relieve the shortage of labour, which was especially acute for pastoralists in the interior” (Hirst 1988, p.20). The arrival of the first ship provoked a large public demonstration. The Legislative Council reversed its policy in September 1850, and the British government accepted the change.

In discussing opposition to this revival attempt, Hirst (1988, p.21) says that despite the popular protests, “the leadership of the movement was in other hands. The squatters’ insistence that they must have convict labour outraged Sydney’s merchants and professional men who were now committed to a colony of free people only. They were already disturbed by the privileged position which squatters had acquired on the land as a result of the British government’s decision in 1847 [discussed below] to issue them long leases.” This illustrates the nexus between land policy, transportation, and the political influence of the landed interests.

Grey’s determination to reintroduce convicts to New South Wales also included the insertion in the Act of 1850 of “clauses by which he hoped to effect the separation of the Moreton Bay District [Queensland] on terms which would permit the use of exile labour in a northern colony”. However, this proposal was scrapped because his successor at the Colonial Office, John Pakington, “had little sympathy with Grey’s ideas”, resulting in the postponement of the separation of Queensland from New South Wales until 1859.³¹ What consequences would have resulted had Queensland been founded in the early 1850s as a colony open to convicts?

The anti-transportation movement remained active, however, because convicts were still being sent to Tasmania at the insistence of Grey, provoking a coordinated campaign from all the colonies except Western Australia. The end of transportation to Tasmania appears to have resulted from the change of government in Britain that led Grey to be replaced by Pakington, who was “prepared to give the Australians what they wanted” (Hirst 1988, p.33), illustrating how chance and personality influenced outcomes on critical institutional issues.³²

³¹ Melbourne (1988b, p.291). Roe claims (1974, p.94) that at this time squatters both in the region that was to become Queensland, and in the northern New South Wales region of New England, considered separation from New South Wales in order that they could import convict labor, and that Grey was aware of this.

³² In addition, it has been suggested that “changes in British penal practice and in attitudes to secondary punishment were also influential in ending transportation to eastern Australia” (Irving 1974, p.135).

Alternative sources of pastoral labor to that of convicts had been considered as early as the 1830s as the anti-transportation campaign gained strength. And there is an intersection here with land policy (discussed below). For some years the principal source of revenue used to subsidize free immigration was the sale of public land. Proposals to raise the sale price of land, or to set a fixed price, were opposed by the squatters on the grounds that if this resulted in lower revenue, the flow of ‘assisted’ immigrants would be curtailed, threatening their supply of labor should convict transportation end.

It was in this context – the likely phasing-out of transportation, and uncertainty over the future flow of assisted free immigrants – that consideration was given to the importation of ‘coolie’ labor from Asia to work as shepherds on the pastoral stations. In 1837 a committee of the Legislative Council recommended that 3,000 to 5,000 Indians be recruited, and a few were brought before the British government quashed the proposal on the basis that it constituted the creation of a “slave caste”.³³ The pastoralists were not deterred, making a further request in 1844, forming an “Indian Labour Association” in 1848, and employing some Pacific islanders from the New Hebrides as shepherds, though none of these schemes was successful. The squatters then considered using Chinese, with one of the large pastoral companies recruiting 2,100 in 1854, only to lose them to the goldfields (Roberts 1924, pp.127-129). However, once the first phase of alluvial mining had passed, the influx of population resulting from the gold rushes boosted the potential supply of pastoral labor. In the longer term, the squatters’ demand for shepherds was reduced by labor saving changes to production methods, especially the introduction of wire fencing which ended the need for boundary riders and the ‘folding’ of sheep.

(b) Squatting and Property Rights in Pastoral Land to 1847

At least as important to the economic development of Australia as the form of its labor market institutions, was the question of who was to exploit the resource endowment, and on what conditions – that is, the access to, and property rights in, its abundant natural resources. Land was the most important resource during much of the nineteenth century, and access to it was the principal route to acquiring private

³³ Correspondence from the Secretary of the Colonies to Governor Gipps in December 1837, quoted in Roberts (1924, p.128).

wealth. Hence it is unsurprising that the disposal of the crown lands would be a contentious policy issue. The first phase ran from the 1820s to 1847 and focused on the initial occupation of natural grassland for pastoral purposes. The second stage, from the 1860s to the 1880s, concerned the re-allocation of some of this land from the pastoralists to small-scale farmers, and will be examined in Section 6.

As described earlier, wool growing had its origins in the occupation of crown lands that had not been sold or leased to the owners of the sheep who grazed on the natural grasslands. The squatters had moved ahead of the system of land survey and disposal that initially had applied around Sydney. Anomalous maybe, but Australian economic growth after 1820 was being driven by economic activity not entirely within the law. The question was how, *ex post*, could the situation best be regularized?

Initially, settlement around Sydney was confined to 19 surveyed counties. The form of land disposal was initially by sales, but moved to grants (with quit-rents) in the 1820s – and seems to have been at the Governor’s discretion. In 1826 a fee of one pound per 100 acres per year was set for those inside the 19 counties. The squatting problem, however, related primarily to the spread of pastoral occupation beyond the 19 counties.³⁴ By 1830 there were three types of pastoralist: those with the annual license and inside the 19 counties; those illegally occupying land inside the 19 counties; and those outside the boundaries and hence the law. In 1836 regulations were issued that legalized squatting, and the fee to hold a license was set at ten pounds annually, with no limit on the area held. By 1839 the courts had recognized the pastoralist’s right of occupancy (though not against the rights of the crown), and he could claim legal protection for his occupancy and in boundary disputes. Also in 1839 the annual fee was amended to include a levy on a per animal basis. Because the fee was annual, any structures would be the property of the crown or the person to whom the lease was awarded at the end of the year.

By this stage (c.1840) the system was legal but not satisfactory from the point of view of anyone involved. The policy debates of the 1840s are thus all about security of tenure and related issues. The squatters wanted longer leases and pre-emptive rights over at least a portion of their runs – including the homestead and improvements – which would enable them to convert their occupancy to freehold.

³⁴ A brief summary of the legislation follows (based on Roberts 1924, 1988).

They had opened large areas of the country to settlement and provided it with its economic base.³⁵ Their lack of property rights had arisen from inadequacies in the colony's earlier administrative arrangements for surveying and allocating crown lands. The annual license system failed to provide the type of security of property rights that would enable a more appropriate level of investment in fixed assets, and provide the confidence needed to put the industry on a secure footing.³⁶ They further claimed that, because of the position of the industry, the economic prosperity of the colony depended on the land tenure question being resolved in their favor.³⁷

Any change to land tenure arrangements required legislation by the British government. Hence the squatters could try to persuade the Governor to request the Secretary of State for the Colonies to take this up with the government. They could directly lobby members of the British parliament, and bureaucrats in the Colonial Office – and they did. They also sought allies in their campaign. Groups offering support to the squatters' included industrialists in cities in Britain where the woolen textile industry was important, and Sydney businessmen whose prosperity depended directly or indirectly on the prosperity of the wool trade.

Ranged against the squatters' demands were the 'systematic colonizers' (most prominently Edward Gibbon Wakefield) whose ideas about settlement ran directly counter to the policy of confirming secure property rights over a large proportion of the colony's farm land to a small number of pastoralists who had occupied the land illegally. They had influence in the Colonial Office, and their theories of colonization also provided a reasoned basis for opposition in Australia.³⁸ Small farmers and would-be farmers, whether free immigrants or emancipists, saw the squatters' demands as

³⁵ According to Roberts (1964, Appendix III), there were 673 squatters in 1840-41 owning 1.2 million sheep and 350,000 cattle.

³⁶ One might question the squatters' claims. Wool growing was generally profitable, and the industry seemed viable (given its expansion over several decades), so how serious were the (private or social) costs imposed by the squatters' lack of stronger property rights such as freehold? In theory, fixed investment (especially in long-life assets such as fencing, dams, and buildings) would be negatively impacted by a system of one-year pastoral leases with no guarantees about renewal. Raising productivity and the quality of the wool would be difficult without investment in fencing and other fixed assets. Butlin (1964, pp.89-92) discusses the relation between leases and pastoral investment, but for the central and western districts of New South Wales in the 1870s and 1880s. But in the decades from the 1820s to 1840s it appears that the industry flourished without much in the way of fixed assets. Therefore, is this a case where fully secure property rights were not essential to growth – at least in the early history of this major sector of the economy?

³⁷ This seems an illustration of the hold-up problem: potential investors were discouraged due to the lack of credibility of any commitment from the Governor that the squatter's property rights in pastoral assets would be secure.

³⁸ For discussion of British attitudes and policies towards land in Australia at this time, including the influence of the systematic colonizers, see Burroughs (1967).

locking them out of the opportunity to gain access to land. In addition, the squatters' demands were opposed by those who saw the likely entrenching of a 'squattocracy' – the wealthy elite of pastoralists monopolizing land, hence dominating the economy and society. Given the few checks and balances in the then current political arrangements in New South Wales, and the pressures for granting more political autonomy to the colony, the fear among 'liberals' and 'democrats' was that the squatters would entrench and expand their already disproportionate influence during the creation of local political institutions (as described earlier).

One view was that the squatters should be treated as having no rights at all, and be, in effect, removed from their occupation. This had been the position adopted in 1834 by the Governor, Richard Bourke: "the unauthorised occupants must not be permitted to continue as long as to create any title to the land in the occupier."³⁹ It was also the position of the followers of Wakefield including some in the British government and Colonial Office.⁴⁰ That is, unless the squatters' monopoly in the market for land was broken, the development of the colony would be stymied as free immigration would be discouraged by the inability to obtain farm land, and a highly unequal initial distribution of wealth would be made permanent.

However, evicting the squatters was not a feasible option even in the 1820s or 1830s before the license system recognized their existence, and before they had spread over much of the inland southeast of the continent. This is because the governor lacked the means. There were not the administrative or police resources at his disposal to do this, precisely the reasons squatting had first emerged. By 1840 it would have been an impossible task to roll back twenty years of pastoral settlement, and then re-allocate and re-occupy vast areas of crown lands *de novo*.⁴¹ So it is not difficult to explain why that extreme solution was not implemented – despite it being the objective of the influential adherents of theories of systematic colonization.

What occurred was an accommodation to the squatters' demands that fell short of granting freehold title, but which increased their security of tenure and gave them a privileged position in the market for land they occupied (pre-emption rights). This

³⁹ Quoted in Roberts (1988, p.200).

⁴⁰ Roberts (1988, p.201) seems to think this was the position of the British government more generally.

⁴¹ In 1840, Governor Gipps wrote to the Colonial Secretary that "As well it might be attempted to confine the Arabs of the desert within a circle drawn on the sands as to confine the graziers or wool-growers of New South Wales within any bounds that can possibly be assigned them; and as certainly as the Arabs would be starved so also would the flocks and herds of New South Wales, if they were so confined, and the prosperity of the colony would be at an end." Quoted in Roberts (1924), pp.179-180.

compromise was achieved after several years of debate and policy shifts, in London and the colony. All the interests mentioned were involved. But it seems clear that the Governor, George Gipps (1838-46), was critical to securing a compromise outcome. He issued regulations in 1844 aimed at curbing abuses by requiring separate licenses for each run, with no run to exceed 20 square miles or have more than 4,000 sheep. He also sent recommendations to London about the broader problems, suggesting that the squatters be given pre-emptive rights but only over land around their homesteads and any permanent improvements they had made. But the process for purchase was to be highly restrictive. After five years of occupation a pastoralist could buy 320 acres, and another similar area after every eight years. If the original occupier did not purchase at these scheduled times, however, another person could do so, and they would get occupancy of the rest of the run. The displaced occupier would get compensation for improvements they had made.

When these proposals became known, there was a very strong reaction from the squatters. One authority claims that

“many a group on the dusty plains gripped their rifles. ... Even the hardest-headed pioneers spoke of resistance by force, and Australia seemed swirling in the vortex of rebellion. ... Australia was very close to tragedy...”⁴²

Unfortunately Gipps’ regulations and proposals coincided with a marked economic downturn in the wool industry and hence the colony. It is not clear how serious this simmering discontent was. It seems to have subsided somewhat as seasons improved and the depression passed. But the next few years saw the height of the lobbying against the 1844 regulations and the proposals, with new associations being formed in the colony, delegations being sent to England, and attempts made to rally the wool manufacturers there.⁴³ This I see as the critical time when events may have swung in favor of a more generous accommodation to the squatters’ demands. But Gipps did not concede to this pressure, and the Colonial Secretary backed him up. Indeed, one assessment is that “The center of opposition [to the squatters] came to be ... the personality of the Governor, Sir George Gipps” (Roberts 1988, p.200).

In 1846 the British parliament passed the Waste Lands Occupation Act, which was then implemented in the colony through Orders-in-Council in 1847. The

⁴² Roberts (1988, pp.202-203). Of this episode Roe (1974, p.92) comments: “Feeling rose high enough to prompt talk of revolution, and Gipps asked that imperial troops stay at full strength.”

⁴³ This intense rent-seeking behaviour by the squatters reflects both the weakness of the institutional arrangements in the colony, and also how much they stood to lose by an adverse decision.

pastoralists got increased security of tenure, but not through being granted freehold. In a decision that would have important long-run consequences, they were granted leases of up to 14 years in the ‘unsettled’ districts where pastoral occupation was still in progress, shorter leases in the settled areas where the land could be offered for sale at auction.⁴⁴ Variations on this were introduced in South Australia and Western Australia. Orthodox historiography regards what happened as a victory for the pastoralists: “the squatters acquired de facto their security of tenure and with it a monopoly of the grazing and agricultural land of Australia”.⁴⁵ What is more important to the present analysis is that this apparent ‘monopoly’ would survive only as long as the landlord (soon to be the colonial governments) continued to renew their leases, and took no action to alter the contract to the squatters’ detriment. The 1847 regulations thus meant that the squatters’ economic interests would now be determined not in London but in the colonial legislatures.

(c) Access to Alluvial Gold in the 1850s

The discovery of gold in 1851, first in New South Wales, then in much larger quantities in Victoria, dramatically changed the economy’s prospects. The population more than doubled to over a million by 1861. And the value of gold exports from Australia exceeded that of wool exports for two decades. As with the discovery in the 1820s of the economic value of the natural grasslands, the mineral discoveries required policy decisions concerning access, property rights, and taxation of the resource rents, decisions that would critically influence the impact of the discoveries on growth and the distribution of wealth. And the institutional context would, as in the case of land policy, be central to how the key outcomes were determined.⁴⁶

⁴⁴ In New South Wales in 1848-49 the number of squatters was 1,865. They occupied 85,125 square miles of pastoral land – an average of 45.6 square miles (or 29,211 acres) each. On their leases they had 5.5 million sheep and 880,000 cattle. Data based on Roberts (1964), Appendix V.

⁴⁵ Clark (1987, p.106). This orthodoxy reflects the assumption that most of this land was suitable for small-scale family farming. Experience across the next several decades showed this was not the case.

⁴⁶ Note that from an Engerman and Sokoloff perspective this is the third phase in the revelation of the endowment. Which of these three stages of revelation – 1788, 1820, or 1851 – is the one we should employ if our aim is to predict whether Australia will evolve more like Argentina or more like the American West? How fundamentally the ‘initial conditions’ changed between 1788 and 1851 can be well illustrated by two thought experiments. First, what would Australian growth after 1820 have been like had there existed no extensive areas of natural grassland suitable for raising sheep? Second, what would Australian growth have been like had gold not been discovered?

The institutional context in 1851 was clearly very different from that in 1788 or 1820. And this is partly because the previous resource (pastoral land) discoveries set in train pressures to change the institutional framework within which the economy operated. Indeed, as previously described, the Act to allow the colonies to draft their own constitutions was passed in Britain in 1850 just prior to the gold discoveries. A major issue for historians has been the extent to which the drafting of the colonial constitutions during the 1850s was influenced by the events that followed the gold discoveries.⁴⁷ But there is also feedback: the political climate surrounding the granting of responsible government, and design of the constitutions, undoubtedly influenced the governor's reactions to the demands – and especially the grievances – of the miners.

Gold production may occur within a variety of institutional contexts. In California, the miners devised their own institutions to determine property rights and establish and enforce some basic laws. Alternatively, in the Engerman and Sokoloff account of Latin American historical experience, mineral rights were assigned to favored individuals who then employed miners.⁴⁸ Clearly, the two systems will differ in their distributional effects and thus also (directly or indirectly) in their growth effects.

In Australia the gold deposits were discovered on crown land, hence the colonial governor was (theoretically) able to determine access to this resource. In practice he faced severe constraints. One issue was control: it would not be possible to police access to the deposits since they were being discovered in many locations in almost uninhabited areas scattered over hundreds of miles. Another responsibility of the governor was to prevent economic and social dislocation – which would certainly result from an exodus of labor from other occupations to the goldfields.⁴⁹ The governor of Victoria, La Trobe, tried to strike a balance in the face of competing pressures. On the one hand, goldfields regulations were issued specifying small maximum claim sizes, increasing the number of potential winners in the search to strike it rich, and clustering the miners into a smaller area thus economizing on policing costs. On the other, a miner's license fee was imposed before any prospecting could begin, to deter too great an out-migration of labor from other

⁴⁷ See, for example, Hirst (1988), chapter 6, "The Effects of Gold."

⁴⁸ See Engerman and Sokoloff (2002), pp.12-13.

⁴⁹ The detailed analysis of La Croix (1992) is especially relevant to this topic.

occupations, and provide revenue to the government for goldfields administration. The balance was not successful, with miners' resentment directed especially at a tax on entry not production. After a small rebellion, miners' representatives were included in the administration of each goldfield, mining regulations were amended, and the point of taxation was shifted (to a gold export tax).

The question is why this institutional arrangement was chosen and not some other (for example, as occurred in Latin America). One obvious influence is British law: it would not be easy for the governor to hand over (or auction off) rights to each gold field to a single highest bidder, or to give them leasehold for a fixed term. A second influence is certainly the experience of what had happened in California – Australians were well informed of that event, so knew something of what might both be the costs and benefits of the discoveries. Third, the discoveries occurred in the context of the debates over the extension of the franchise and representative democracy, and the constitutional drafting was already underway: the governor could not in practice ignore popular demand if that was for easy and wide access to the gold fields lottery, even if in law he could have had all miners arrested for trespass on crown land. And he lacked enforcement mechanisms – few police, few military, no control over labor mobility between colonies or occupations, and not even border control over miners who flooded in from elsewhere, not least from China. Timing and sequence matter – how different would have been the governor's responses had gold been discovered in Australia prior to the discoveries in California, and prior to the onset of formal steps to introduce representative government?

It is possible that the location of the discoveries may also bear on the degree to which existing institutions produced a non-disruptive (in the short run) and growth enhancing (in the long run) solution to the issue of assigning access to the gold. The outcome might have been different had gold been discovered not 100 miles from Melbourne but in one of the remote areas where much of Australia's current mineral production occurs – for example in the Pilbara region of Western Australia. The legal, constitutional and political contexts would all be unchanged, but the economics of mining in the 1850s in the Pilbara would almost certainly have led to lower long-run economic benefits to Australia.

6. Institutional Consolidation From the 1850s

The passage through the British parliament in 1850 of the act to grant responsible government to the Australian colonies (together with the separation of Victoria and Queensland from New South Wales in 1851 and 1859 respectively) makes the 1850s a pivotal decade in Australia's constitutional and political development.⁵⁰ The six colonies became self-governing and independent of Britain in most respects, almost totally with respect to domestic economic policies, but less so in relation to international trade and currency issues. How adequate these political institutions proved to be to the task of sustaining the rapid growth and high standards of living which Australians were enjoying at mid-century would depend on the degree to which they proved adaptable in the face of the economic and social pressures unleashed by the discovery of gold and the population explosion that ensued. The flexibility of these political institutions, and the concomitant consolidation of representative democracy in the colonies, is thus an important component in the story of Australia's continuing prosperity – both in the late nineteenth century and beyond. This will be the first task of this Section.

The gold discoveries also transformed the economic prospects of Australia, whose natural resource base thereafter was diversified across minerals as well as farm land. Gold mining by the end of the 1850s was moving from its alluvial stage to one where quartz or reef mining (conducted on a capital intensive and hence corporate basis) was more prevalent, though minor 'rushes' occurred throughout the next three decades until the next major wave of discoveries in Western Australia in the 1890s. The institutional and policy responses to the short-lived rebellion on the Victorian goldfields in 1854 seems to have put that industry on to a stable and profitable basis, and removed the sources of distributional conflict over the benefits of the resource bonanza. But the same cannot be said for the institutional arrangements with respect to pastoral land, and a second phase of distributional conflict arose in the changes to land policies in the 1860s. This period of squatter-selector conflict is the second

⁵⁰ The 1850 act of the British government granting responsible government to the Australian colonies gave them authority to write their own constitutions. The drafting occurred in 1853 and 1854 in New South Wales, Victoria, Tasmania and South Australia, and resulted in the passage of their new constitutional arrangements in 1855 and 1856. The separation of Queensland (from New South Wales) in 1859 completed the establishment of fairly democratic parliamentary systems everywhere outside Western Australia. With a very small population at this time, the granting of responsible government to Western Australia did not occur until 1890. For a careful survey, see McMinn (1979), Chapter 4.

subject addressed in this Section. To conclude our inquiry into the post-gold rush evolution of key economic institutions, the Section concludes by reviewing the importation of indentured Melanesian workers – a practice that in the late nineteenth century had the potential to divert Australia back towards coercive labor market institutions and unequal social and economic outcomes, thus threatening the country’s long run economic prosperity.

(a) Consolidating Colonial Democracy

The drafting of the colonial constitutions in the early 1850s occurred in the context of the economic bonanza and population disruption associated with the gold rushes, and historians have debated the relationship between the two.⁵¹ In the context of the narrative in earlier sections, the battle by the landed interests to maintain as much of their political power as possible in the writing of the colonies’ constitutions, and hence through the design of the new colonial parliaments, was made more difficult. In particular, the open-access policy to alluvial deposits first attracted large numbers of immigrants; and the wide distribution of the benefits of the discoveries beyond the miners themselves boosted the relative social and economic significance of the urban middle class.⁵² In short, an exogenous and massive resource shock, occurring at a time of fundamental institution-building, played a pivotal role in the deflection of Australia from a possible Latin American growth trajectory.

In the battle to enshrine democratic forms in the new political institutions in the Australian colonies, one major issue was the composition and power of the upper houses of the new legislatures. And it was in the upper houses that the squatter interest retained greater influence. A key point of contention was thus whether membership of these would be by nomination or election. The former mode was

⁵¹ One point of agreement is that the discovery of gold accelerated political reform already underway. Crawford (1979, p.104), for example, writes: “Historians have warned against a temptation to find in these gold-rushes the cause of developments which would have happened, if more slowly, without them. Merchants, shop-keepers and artisans would have fought the squatters’ monopoly in any case, and would in time have won their victories for ‘democracy’.” And Ward (1992, pp.167-168) echoes this perspective: “Responsible government might not have been established when it was, if it had not been for the great strengthening of the middle class brought about by the gold discoveries. Moreover, without this middle order of liberal-minded but respectable townspeople, self-governing institutions would probably not have functioned as smoothly as they did.”

⁵² In the 1850s in eastern Australia there may be an example of the role an economically expanding and politically emboldened middle class can play in the transition to (or extension of) democracy as envisioned in some of the models of Acemoglu and Robinson (2006a).

adopted in New South Wales and Queensland. A second issue was the breadth of the franchise for these upper houses, especially the extent to which the property qualification would be more restrictive than for the lower houses. Other issues critical to the progress of democratic reform concerned the power of the upper houses to block appropriation bills or reject other legislation originating in the lower houses (where the government was formed); and the extent of the discretionary powers of the colonial governor in times of political deadlock between the two houses. Colonial politics for several decades were complex, messy and fluid, with recurring serious tensions over these fundamental issues. But the squatter influence in the upper houses, though able to frustrate and delay, was never sufficient to permanently block the will of the majority in the more representative lower house. Perhaps the touchstone issue here, to be examined in the next sub-section, concerned the land policies which aimed to sub-divide and redistribute the pastoral leases of the squatters to would-be farmers during the 1860s and 1870s.

In these early years of responsible government in the colonies there are other indicators of the rapid consolidation of representative and democratic institutions. In their analysis of political developments in the Americas, Engerman and Sokoloff point to the divergence in historical experience between Anglo America and Latin America in the nineteenth century in the timing of the widening of the voting franchise and in related democratic reforms. They account for the much earlier appearance of these in North America to the prior differences with Latin America in the initial distributions of wealth and of political power.⁵³ There seems little doubt that the Australian experience more closely matches North American than Latin American experience in the timing of the extension of democracy. Several Australian colonies incorporated universal male suffrage in their constitutions from the outset – at least for the lower house of parliament.⁵⁴ The secret ballot was also adopted in some colonies in the 1850s, and in all by 1877. The property restrictions on voting for the lower houses were never high and progressively lowered. And votes for women

⁵³ Their most explicit consideration of this contrast is offered in Engerman and Sokoloff (2005b).

⁵⁴ McMinn (1979, p.62) observed that in South Australia “universal manhood suffrage on the basis of ‘one man, one vote’ existed from the institution of responsible government, when the franchise in England was held by perhaps one-fifth of the adult males of the kingdom.”

were introduced from 1894 in South Australia, and by 1906 were granted throughout Australia.⁵⁵

Whatever theory of political conflict resolution or of interest group behavior best fits the evidence concerning the consolidation of democratic institutions in the self-governing Australian colonies after mid-century, the interpretation of the extension of the franchise in several European countries offered by Acemoglu and Robinson (2000) seems not to be applicable. They link the increasing social stresses and rising economic inequality occurring there, associated in particular with early industrialization, to a response by the elite designed to reduce the probability of revolution. They argue that acceding to demands to widen the franchise was the only credible commitment the elite could make to redistribute power towards the expanding middle class. In Australia, as we have seen, the period of greatest economic and political inequality probably occurred before 1850, when the squatter class appeared on the verge of entrenching its economic and political dominance. The coincidence in time of the delegation to the colonies of the power to write (and amend) their own constitutions, and the massive influx of immigrants triggered by the new and accessible source of wealth in alluvial gold, provided a new institutional framework for conflict resolution, and (one guesses) significantly reduced income and wealth inequality. Hence in the Australian experience of franchise extension, and related measures to consolidate democratic trends, other factors play a larger role – including the ideas and expectations regarding political rights that participants in colonial society held at this time.

Recall that in the Engerman and Sokoloff perspective there are really two stages or phases to the evolution of institutions that impinge on long run growth. The endowments and related conditions play a critical role in accounting for the type of institutions that initially arise. Then a lock-in mechanism accounts for the persistence of these fundamental institutional arrangements, possibly across centuries. We have seen that, prior to the gold rush, the attempt by the squatter interests to exploit their economic power, and their influence over the governor in New South Wales, was thwarted by opposition from other interests within the colony backed by the imperial power in the decision in 1947 not to grant freehold title to the pastoralists. The discovery of gold, one year after the British government had set in train the process

⁵⁵ Votes for women were legislated in the federal parliament in 1902, the year after the formation of the Commonwealth of Australia.

for granting self government to the colonies, radically changed the economic and social context within which their constitutions would be drafted and their new political institutions established. This further reduced – though still did not eliminate – the possibility that the landed elite might retain disproportionate political power. One of the principal battlegrounds on which the squatters fought for the preservation of their economic interests concerned the vexed issue of their pastoral leases.

(b) Squatter-Selector Conflict, 1860s to 1880s

The sudden and large increase in the population associated with the gold rushes of the 1850s led to a new round of demands for access to land. The labor-intensive alluvial phase of mining peaked, and in Victoria in the late 1850s and early 1860s there was both unemployment and out-migration to the newly discovered goldfields in New Zealand. The colonial government was anxious that the population gains be retained, and making land available to more would-be farmers seemed the principal way this might be achieved. Most likely the gold rush only brought forward a demand to ‘unlock’ (the term used at the time) the pastoral leases that would have arisen anyway with the continued but very much slower immigration of free settlers, the rise in urban demand for agricultural products, and the growth in knowledge of the agricultural potential of land currently used solely for grazing sheep. This conjecture is supported by the fact that agitation to unlock these lands was not confined to Victoria.⁵⁶

This second stage of the disposal of Australia’s public lands looks somewhat like that which occurred in the U.S., and close attention was paid to contemporary developments there. The aim was to open up large numbers of medium sized family farms for ‘selection’ from crown land currently on pastoral lease. Hence the episode is known as the ‘squatter-selector’ conflict. Here the economic interests are reasonably well defined. The resolution of this conflict occurred within the institutional framework created by the granting of responsible government. The pastoral interest had considerable political power, especially in the upper houses of the new colonial legislatures. But the economy and society in the 1860s were rather different from that of the 1840s, with the wool industry less dominant in the economy following the discovery of gold and a greatly increased urban population. Thus a combination of

⁵⁶ The main pieces of legislation were Robertson’s Act in New South Wales in 1861, Grant’s Act in Victoria in 1865, and Strangways Act in South Australia in 1868.

(the luck in) finding gold, and the timing of the constitutional concessions by Britain, had significantly reduced both the economic and political power of the squatters compared to their position immediately after the 1847 regulations.

Under the selection acts in the colonies, millions of acres of land were sold. Typical selection sizes were 320 or 640 acres, with survey before selection (other than in New South Wales), and a complex and changing set of auction or conditional grant mechanisms used for the allocation to would-be farmers. For contemporaries and historians alike the major issue has been the degree to which the original intention of the framers of the legislation was undermined – that is, the extent to which the squatters were able to preserve the best land for themselves and their families through corrupting the selection process. The consensus is that the squatters’ sabotaged the aims of the legislation and retained considerable landed wealth, an assessment that appears to support the conjectural history sketched earlier, and suggests the squatter ‘victory’ a decisive outcome of significance to Australia’s development.⁵⁷

Wool growing in semi-arid areas is subject to scale economies and requires large land holdings.⁵⁸ Also, both contemporary critics and historians have judged the selection acts in terms of how much crop production expanded – in contrast to sheep numbers or wool production – employing this as an indicator of the desired ‘agricultural’ (rather than ‘pastoral’) development selection was designed to promote. But the Australian climate and soils are such that even today the area cultivated remains small compared to the area of grazing land. The relevant information about soils and climate simply was not available at the time. Hence confusion about the economics of pioneer agriculture, as well as powerful ideological impulses, lay behind the campaign to break up the squatters’ runs. Assessment of the agricultural (as distinct from pastoral) potential of much of southeastern Australia was way too optimistic, driven by the development aims and revenue needs of the colonial governments, as well as a mistaken belief that much of the squatters’ land could be turned into viable small family farms based on cropping.⁵⁹

In a long-run development perspective the squatters did not emerge victorious. The selection acts prevented those squatters who occupied good land from keeping all

⁵⁷ Historians also concur that the selection process was most corrupted by the squatters in New South Wales and least in South Australia.

⁵⁸ Butlin (1964, p.89) notes that “climate, finance, technology, transport all operated against small farming in Australia, except for limited coastal areas.”

⁵⁹ But this is not what is reported in much of the historical literature. An exception is the case study by Gammage (1990).

of it. In areas where small-scale agriculture was viable, they had to make way for the selectors, even if they (often corruptly) gained ownership of more of this land than was intended.⁶⁰ In the semi-arid zones, attempts to replace large grazing properties with small-scale crop farming failed spectacularly, and farm amalgamation or abandonment and reversion to wool production followed.⁶¹ In the arid zone further inland, only large-scale pastoral holdings were profitable. The chaotic selection process vastly increased knowledge about land use in Australia, however costly the acquisition of this information proved to be for the failed selectors. Within the rural sector, the squatters' economic position was diminished, but they survived wherever the most efficient use of land was large-scale pastoral farming.

The squatters' economic power also waned for other reasons. The emergence of the mining industry, some expansion of manufacturing, the rapid growth of the urban population, and the concomitant rise in food production (wheat, dairy products, horticulture), all reduced the relative importance of pastoral production in the economy. Following a final phase of pastoral expansion into marginal inland areas in the 1880s came financial collapse and drought in the 1890s (the sheep population of 100 million was halved). The rise of mixed (wheat-sheep) farming, and the growth of the meat export trade following the introduction of refrigerated shipping in the 1880s, blurred the once sharp distinction between squatters and farmers.

Hence, in the analysis presented here, the squatter-selector conflict was not the potential turning point the historians make it out to be. Sequence matters. If the squatters had been granted freehold title in 1847, the legislative fight over selection and closer settlement after 1860 would have been a closer run thing. What form of compensation would the squatters have demanded? Did the constitutional powers of the colonial governments permit large-scale resumption of private property without compensation? Would court challenges have led all the way back to the Privy Council in London, and with what result? But the squatters had not been given freehold in 1847. And at issue was the non-renewal by the government of crown leases when the (fixed-term) lease expired.

⁶⁰ "Despite the frauds and conflict which the [selection] acts produced, and their failure to promote rapid development in agriculture ..., thousands of people were able to use them to settle on the land. These success stories should not be gainsaid." (Hirst 1988, p.152.)

⁶¹ In one of many regional studies of the implementation of the land acts, Meinig (1962) provides a good account of the reasons for the failure of the selectors in the mid-north of South Australia.

The squatters could, and did, fight to retain their privileged access to the land. And the historians' consensus about the squatters being able to retain considerable chunks of good agricultural land in some areas where smaller farms might have been viable is correct. But it was a rearguard action. With the passage of the selection acts the landed elite had lost their ability to protect the economic institution (large pastoral holdings on long-term leases from the crown) on which their wealth was based by means of their dominance of the new colonial parliaments. Hence they attempted to maintain their economic position by undermining the selection process in practice. This is the situation that Acemoglu and Robinson discuss, where there is "coexistence of change in political institutions with persistence in the underlying economic system" (2006b, p.44). They illustrate this outcome with the example of the persistence of a segmented low-wage labor market in the U.S. South following the abolition of slavery. Unlike in the post-bellum South, the land retained by the squatters did not constitute an economic system distinct from the rest of the farm sector and, as noted, other forces gradually reduced the relative economic importance of the remaining large pastoral landowners without the need for further institutional change.⁶²

In this perspective, the squatter-selector conflict of the 1860s is better seen as a major challenge to (or test of) the political institutions created in the 1850s, but not so critical a challenge that these democratic institutions were themselves under threat. Whether specific aspects of the colonies' constitutions and electoral rules were influential in limiting corruption during the process of land selection, or exacerbated the problem of rent capture by the squatters and hence slowed economic growth, requires separate and more detailed examination.⁶³ Nonetheless, the partial and messy re-allocation of considerable areas of Australian farmland occurred without bloodshed or revolution. The new political institutions, and early Australian democracy more generally, provided the context for peacefully resolving what under other (Latin American?) conditions might have provoked serious conflict, hence turning the country along an altogether different path of development.

⁶² The colonies were too large in area and/or diverse in the composition of their economic activities to contain an example of a pastoral-only (or even predominantly pastoral) economy and society. Rather, a pastoral 'zone' ran through each. It is interesting to speculate what might have happened had, for example, something closer to a purely wool-growing colony been created in, say, western New South Wales. Note the contrast here with the experience of state formation in the United States – in the South (cotton) and Midwest (corn and hogs) where less diverse economies emerged at the state level.

⁶³ Persson and Tabellini (2003, Chapter 7) report evidence that associates certain characteristics of political institutions to levels of rent seeking and hence productivity growth in cross-country studies.

The critical importance of the 1847 regulations governing the use of pastoral land, and their facilitation of the subsequent widening of land ownership in Australia, was clear to a leading scholar of Argentine economic growth writing in the 1980s. “Australian land policies are in substantial contrast to those of Argentina. For many years the British government did not surrender ownership of Australian land and, before independence, the Iberian monarchies followed a similar policy in their American domains. Sheep ranchers failed to get clear titles to their enormous enterprises during the crucial, formative years of Australia; opposition to their claims [came] from miners, land-hungry ex-miners, and urban groups. Ranchers remained an important political force in Australia, but one which did not control government machinery as did landowners in Argentina. When cereals became an important Australian export, family-operated, medium-size farms were relatively more important than in Argentina, where tenant farming under contracts of about five years were more common than in Australia. A system of rural production, where tenant farmers moved frequently from one region to another, did not seem to damage Argentina’s rural productivity and output growth before 1929, but it had deleterious effects on income distribution as well as on social and political life” (Diaz Alejandro 1985, pp.101-102). And the marked divergence in economic performance in these two otherwise comparable settler economies after 1929s has been attributed to precisely these distributional, institutional, and political differences.⁶⁴

(c) Tropics, Crops, and Melanesian Indentured Labor

Australia is unusual among developed economies in that a significant part of the continent lies in the tropics. In some current debates among growth economists, latitude matters: the tropics seem not to have been as conducive to modern economic growth as more temperate zone regions.⁶⁵ And the settlement of tropical Australia indeed lagged that of the rest of the country: the population there remains small, and there are no large urban areas. One early attempt to exploit the region helps clarify the nature and evolution of institutions in the course of successful development in the tropics. This was the importation of Melanesian indentured labor to Queensland, primarily to assist in the cultivation of sugar.

⁶⁴ See, for example, Duncan and Fogarty (1984), and Duncan (1985).

⁶⁵ See Hall and Jones (1999), and Easterly and Levine (2003).

In the Engerman and Sokoloff framework, the combination of sugar production and imported (coercive) labor is a central element.⁶⁶ This is the pattern of development they say arises from the initial endowments characteristic of regions in the Caribbean: labor intensive crop production subject to scale economies at the level of the firm but a shortage of local labor leading, in turn, to the importation of slave or indentured workers for the plantations. The resulting unequal distribution of wealth and political power persisted, and the path of development resulted in long-run growth that has led to relatively low incomes despite initially reporting some of the highest incomes in the western hemisphere.

Early development in coastal north Queensland has some similarities with the Engerman and Sokoloff story for the Caribbean sugar economies. The newly established Queensland government had received permission from the Secretary of State for the Colonies to import 'coolie' labor from India, and in 1861 passed an act for its regulation. However, attempts to secure Indian or Chinese labor for the pastoral industry failed in the face of British and Indian objections (as previously discussed). The Pacific islands were an alternative source. In 1863, 60 Melanesians were brought to the Brisbane area to work on a private venture to grow cotton, which was experiencing high prices as a result of the American civil war. But it was primarily the sugar industry that took off in the 1860s. Initially, production was on 'plantations' that grew, milled and refined their own sugar, using Melanesian labor. Between 1863 and 1904 more than 62,000 indenture contracts were written, though because of the practice of re-indenture this overstates the number of Melanesians brought to Queensland. The average annual number recruited was 1,699 during the 1870s, 2,536 in the 1880s, and 1,307 between 1893 and 1900.⁶⁷

The labor came on 'contracts' for fixed periods, so appears voluntary. However, there has been controversy over the degree of coercion used in recruitment in the islands, and over the extent of the Melanesians' understanding of the terms and conditions they were agreeing to. It was certainly indentured labor, regulated by the colonial government, but at the time, and since, has often been regarded as semi-coercive. From the beginning there was widespread opposition to the system in the rest of Queensland, in the other Australian colonies, and in London. Partly this was on

⁶⁶ See, for example, Engerman and Sokoloff (1997), p.273.

⁶⁷ Cited in Shlomowitz (1982, pp.345 and 349). This source provides an excellent overview of the key institutional and economic features of the market for Melanesian labor in Queensland.

moral grounds, as with the earlier anti-transportation – and the British anti-slavery – movements.⁶⁸ Partly it was on economic grounds, the fear of cheaper labor lowering agricultural and pastoral wages. And partly it was on social cohesion – or outright racist – grounds. So who was in favor?

The sugar industry was locating in coastal areas in tropical Queensland, and the pastoral industry was also extending inland in the north of the colony. They both sought cheap labor. It is unclear how much the demand for imported labor reflected costs – that white labor could only have been obtained at wages and conditions that would have rendered sugar or pastoral production unprofitable. The other factor discussed at the time was climate. The planters appeared to believe they needed non-European labor; and one governor of Queensland was “dubious of the possibility of cultivating sugar-cane in the tropics with white labour”, but the colony’s premier disagreed – “The same thing used to be said about Moreton Bay [Brisbane]”.⁶⁹

The extent to which the colonial government supported the planters varied. When opposition in the colony to the Melanesian labor arrangements mounted, the response in the north was to threaten separation – the formation of a new colony that, presumably, would be unfettered in devising its own labor recruitment policies and labor market institutions. This intensified following an election fought on the issue of imported Indian and Melanesian labor, and the passage of legislation in the Queensland parliament in 1884 to limit the employment of the Melanesians to unskilled occupations in tropical and semi-tropical agriculture, and to make it illegal to import Melanesians after 1890 (a decision which was reversed in 1892). The pressure for separation reached a turning point in 1887. The British government alone had the power to change boundaries, but decided it would consider the request it had received from the northern separatists only after a majority vote in favor of separation in the Queensland parliament – which, of course, would not be attainable.⁷⁰

Part of the story of the gradual demise of the use of Melanesian labor in sugar production was the rise of the ‘central mill’ system for crushing the cane and refining

⁶⁸ There was related concern at evidence of high death rates among new arrivals: see Shlomowitz (1982), pp.346-348.

⁶⁹ Samuel Griffith, quoted in Shann (1988, p.312).

⁷⁰ Shann (1988, p.311) suggests that the reasons the British might have taken this position include a fear that a precedent might otherwise be set for secession elsewhere in the empire (including home rule for Ireland); and a fear in the City that Queensland bonds might be less secure from repudiation after the loss of the north, as had happened in the U.S. during the formation of new states.

the sugar.⁷¹ It was found that by shifting these two stages of production from the plantation to a local sugar mill and refinery, scale economies were realized, lowering costs, and making smaller cane growers competitive in the cane-growing stage. Hence by the mid-1880s sugar plantations were being subdivided, and the colonial government provided financial support for the construction of the central mills on condition they bought cane from farms employing only white labor. However, white labor was generally confined to the mills, with the small cane-growers each employing a few Melanesians (who were not permitted to own land).

Following the federation of the six colonies into the Commonwealth of Australia in 1901, one of the first pieces of legislation in the federal parliament was the Pacific Island Labourers Act, ending indentured labor in (the now state of) Queensland through the deportation of the Melanesians (from 1906), with compensation paid to the employers – bounties and subsidies/protection for the sugar industry. In some small part, the Commonwealth was brought into existence to remedy a perceived failure in the existing institutional arrangements.⁷²

Perhaps the most interesting aspect of the story of indentured Melanesian labor in Australia is thus not why it emerged – the preconditions seem to have been similar to that found elsewhere in terms of climate, crop, and factor endowment – but how it ended. Contrary to the impression of institutional lock-in and persistence central to the Engerman and Sokoloff perspective, the practice of using indentured labor was abolished. This was partly as a consequence of changes in production methods that made alternatives to plantation-based sugar growing more efficient (although colonial government regulations and subsidies encouraged these market forces), partly through popular opposition from within Queensland expressed within the framework of existing political institutions, and partly through a newly created institution – the Australian parliament. The interaction of economic and political institutions here seems critical to this outcome, as suggested by the analysis of institutional persistence and change in Acemoglu and Robinson (2006b).

⁷¹ These organizational changes in the industry are described in Shlomowitz (1982), pp.339-344.

⁷² There was a fear in the other colonies that the Melanesians brought to Queensland might subsequently move, unrestricted, elsewhere on the continent. Since federation would lead to the transfer of immigration powers to the federal government, this fear would be assuaged. It is important to note that the discussion of the Melanesian problem in the debates leading to federation were often linked to the wider debate on immigration policy, and that the act relating to the Melanesians in the federal parliament was followed by the Immigration Restriction Act of 1901 – the origin of the notorious “White Australia” policy.

Might it have ended differently? The critical point seems to have occurred in 1887 when the north Queensland separatists failed in their bid to gain support from the British government for the creation of a new colony. Had the British agreed – they only had to follow the same procedure that had led to the separation of Queensland from New South Wales in 1859 – would a society and economy have emerged that looked similar to those in the antebellum South or the Caribbean? Writing in 1933, a leading Australian economic historian considered this counterfactual: “Political separation for north and central Queensland, had it come in the ‘eighties, would have set up a type of colony which Australia had escaped, an aristocracy of white planters seeking the wealth needed for their ascendancy by the obsolete and stagnant method of semi-servile labour.”⁷³

7. Conclusion

In the Australian story initial factor endowments matter – but only to initial growth and the distribution of its benefits. In the pastoral industry, wool was successfully produced for the world market using a production technology biased towards an extreme degree of labor and capital saving, and land intensity, reflecting prevailing relative factor supplies and prices. In the semi-arid pastoral zone, climate and soil quality also helped determine that the optimal size of enterprise would require very large acreages. The squatters emerge in the 1820s and 1830s as monopolists not just of the land but potentially also of political life. Hence this wealthy elite appeared destined to dominate the future direction of the country – its politics, society and economy.

But the sustained attempts by the pastoralists over many decades to entrench their economic and political power by exploiting existing institutions, or creating new ones to their liking, were resisted and, eventually, curbed. Their attempts to meet their labor requirements by perpetuating the transportation of convicts, or importing Asian indentured labor, were successfully blocked. And their attempt to gain immediate and free ownership of all the land they occupied was thwarted by the 1847 regulations

⁷³ Shann (1988, p.313). Blainey (1982) also ventures an explicit counterfactual: “In North Queensland in the 1880s arose the kind of separation movement which, had it existed thirty years earlier, would have had quick success” (p.198); and “The refusal of the British government to create a separate colony in the late 1880s was probably a turning point in our history. At the time it seemed a decision of no great importance but it probably prevented the emergence of a seventh colony which could have become a stronghold of coloured labour” (p.201).

granting conditional leasehold. Following the introduction of self-government and the gold rushes during the 1850s, the power of the squatters was reduced, but remained considerable, especially through their disproportionate representation in the new colonial parliaments. Within these, the second phase of the battle over land was played out. Anti-squatter groups succeeded in passing legislation that opened the pastoral leases to selection by small farmers. The consensus among historians is that the squatters got most of what they wanted by subverting the intention of the legislation through corruption. A more considered view, freely taking advantage of hindsight, is that there was only a portion of the pastoral land suitable for small-scale family-farm operation. More significant was the extension of the franchise and adoption of the secret ballot that brought more representative government. This permanently removed the threat that Australia's political history would remain under the shadow of a small group who had claimed early property rights to the principal source of wealth in the country. Similarly thwarted were the plans of the north Queensland sugar-cane growers for a plantation-type society and economy based on the importation of indentured labor, even though the initial conditions there appeared favorable to such an outcome.

In any attempt to offer a parsimonious explanation of this story of institutional evolution and successful growth, it is hard to ignore the influence of exogenous shocks to what might have been a deterministic story based on the lasting influence of initial conditions. The discovery of gold in 1851 is such an event: it seems safe to assert that without the resulting population explosion, the moves towards representative government in the colonies would have taken a different path, and the pressure to 'unlock' the leased pastoral lands would have been greatly reduced. It is also hard to ignore the way timing and sequence matter to outcomes: the generally sympathetic reaction by the Colonial Office and British government to the colonists' claims for self-government in the 1840s was heavily influenced by recent events in Canada as well as by the earlier loss of the American colonies. Ideas also figure prominently in this narrative: the views of the systematic colonizers were influential in mobilizing official support against the land grab of the squatters in the 1820s and 1830s, and the practical expression of these ideas in South Australia after 1836 gave bite to their claims of an alternative mode of public land disposal with different distributional outcomes. Finally, the influence of key individuals seems on occasion

to have mattered: Governor Gipps worked out a compromise on land policy in the 1840s that had eluded the less pragmatic Governor Bourke in the 1830s.

It has been seen that, at several critical junctures, it was the imperial power, its officials, and its representatives in the colonies, who exerted an important influence on the course of institutional change in nineteenth-century Australia in a direction that generally had favorable implications for economic growth, distributional outcomes, and political stability. This element is not easily captured in models of institutional change that include only actors or groups within the society who have a personal or direct (economic) interest in the outcome. This feature may also stand in some contrast to experience in the Americas, where full independence from the colonial power had come earlier than in Australia, or where colonial policy had, perhaps, been less 'enlightened' than that of Britain after 1820.

Australia might have failed to gain the growth-promoting institutions that, in general, it acquired during the nineteenth century. The British government might have decided in the 1820s or 1830s to grant the squatters freehold to all the land they occupied. In 1850 it might have granted its Australian colonies constitutions with a much narrower franchise, hereditary upper houses, and a two-thirds requirement for any constitutional change. Officials in London may have permitted the importation of Chinese and Indian labor to New South Wales following the ending of transportation there in 1840, or permitted the new colony of Queensland to receive convicts at its founding in 1859. Gold may not have been discovered in 1851 at a critical time in the political history of the country, or it may have been discovered in a location where the population inflow was transitory and the economic stimulus leaked to imports rather than to domestic demand. And in 1887 the north Queensland sugar planters might have received a favorable response from the Colonial Secretary to their request for separation. Any one of these would likely have led to a significantly different institutional context for the economy that, in turn, would have had growth-retarding consequences in the long run. Furthermore, some of these hypothetical possibilities would have been causally inter-related, and their cumulative negative impact on (counterfactual) institutions and growth even greater.

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