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Post-war Economies (Australia)

By Frank Bongiorno

World War I had a damaging effect on the economy. Although it stimulated new industries, some were not competitive. As an importer of labour, capital, and manufactured goods, and an exporter of commodities, Australia benefited from its relationship with the British Empire. It had difficulty, however, placing some of its products on an international market suffering from over-production. Australia inherited from the war an inflationary economy and a large debt, and its post-war borrowing increased the economy's vulnerability to external shocks. Nonetheless, Australia's economy was industrialising, a process that would contribute to a very different experience in 1939-1945.

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Introduction

The First World War was, in economic terms, a bad one for Australia. Real aggregate gross domestic product declined by 9.5 percent between 1914 and 1920.[1] Like so many other governments, Australia's funded its war effort by increasing the money supply, a stimulus to inflation that extended into the post-war era until Australia, with Britain, returned to the gold standard in 1925.[2] Unemployment and prices both climbed from 1914, eroding living standards and provoking social and industrial conflict.[3]

The loss of hundreds of thousands of men from the economy depressed demand. The eventual loss of 60,000 men – many in the prime of working life – along with incapacitation among many who returned, reduced the availability of productive labour.[4] The continuing effects of these blows, as well as the impact of a sluggish post-war international economy, are discernible in the unusually slow average growth rate during the 1920s of 2.7 percent, which compares with 4.8 percent during the long boom between 1861 and 1889.[5]

The war's impact could have been worse. Australia was protected by its place in the political economy of the British Empire. William Morris "Billy" Hughes (1862-1952), the most powerful figure in the government and prime minister from October 1915, persuaded Britain during the war to buy meat, wool, and wheat at favourable prices for Australian producers, despite shipping shortages that meant that much of it could not be transported. Australia also entered into long-term metals contracts, such as for the supply of zinc, that were favourable to producers and extended above-market prices into the post-war years. The war saw industries emerge to take advantage of the opportunities offered by the cessation of commerce with the enemy and the disruption to world trade. But some Australian exporters, such as the highly successful Melbourne-based firm H.V. McKay, manufacturer of the Sunshine Harvester, permanently lost pre-war markets in Argentina and South Africa.[6]

The Spoils and Costs of Victory

After the war, there were strong political, commercial and industrial pressures to ensure that such industries were not overwhelmed by competition, as more normal conditions were restored. Australia emerged from the war determined to take economic advantage of victory. Its insistence at the Paris Peace Conference on control of the former German colonies south of the equator, including the former German New Guinea, had roots in concern about defence but was also connected with aspirations for commerce. At Versailles, Hughes was a British representative on the reparations committee, speaking in favour of harsh treatment of Germany and arguing that it should have to pay for the full cost of the war to the Allies.[7]

Hughes's efforts in this direction, resisted by the United States, were closely related to Australia's war debt: almost £100 million. An agreement between Australia and Britain in 1921 determined that the war debt would be repaid over thirty-six years. But when a drop in wool prices undermined Australia's ability to make repayments, the government pushed for the schedule to be extended to forty-eight years, thereby reducing the annuities that it would have to pay. The federal government argued that Australia was being made to pay a higher rate to British lenders than the British were paying to their creditors in the United States. The British government, however, was determined that, considering the extent to which Britain had subsidised payments to Australian exporters during the war, Australia should not now be permitted to renegotiate its debt at below-market rates.[8]

Post-war Problems and “Protection All Round”

The Australian government’s determination to gain a more favourable deal from British creditors was driven by its aspirations to post-war development in the context of lower commodity prices, unfavourable terms of trade, and unstable external balances. Australia’s current account balance shifted from a surplus of £18 million in 1920, to a deficit of almost £43 million in 1921, on the back of rising imports during a short-lived post-war boom.[9] Falling commodity prices were also problematic. The 1920s saw many new areas of the world brought into cultivation; the result was downward pressure on international prices that producers sought to mitigate through higher production. Australia’s terms of trade did improve from 1922, but declined dramatically from 1927 as commodity prices dropped in the lead-up to the Great Depression.[10] Imports flowed into the country, contributing to a balance of payments problem, and interest payments were a major burden on national income. War debt alone accounted for between one-fifth and one-sixth of the interest, dividend, and related overseas payments in the 1920s.[11]

The course of economic development pursued after World War I compounded these difficulties. Initially, Australia moved to protect its manufactures, especially those that had emerged under a wartime stimulus. Many of these industries were inefficient and would have been highly vulnerable to foreign competition without state support. The so-called “Greene Tariff” of 1921, a wide-ranging revision of the tariff schedule carried out by customs minister Sir Walter Massy-Greene (1874-1952), was intended to promote manufacturing development. It widened the proportion of imports by value being protected from 57 percent before the war to 71 percent. Existing tariff rates also increased.[12]

The political context of the new tariff regime helped ensure that it had especially wide-ranging economic effects. The Greene Tariff was passed at the very time the Country Party was emerging as a new force in Australian politics, representing itself as the farmers’ voice. Especially once it assumed the balance of power in the federal parliament at the 1922 election, forming a coalition with the conservative Nationalist Party and using its clout to have Hughes replaced as prime minister by Stanley Melbourne Bruce (1883-1967), the Country Party made new policy demands. Its leader, Earle Page (1880-1961), became an influential treasurer. One result of these changes was the emergence of “protection all round”, which offered farmers state assistance in compensation for the protection that tariffs gave manufacturers. Because of these bounties and incentives, local customers paid higher prices for goods such as sugar, butter, and fruit than these products attracted as exports.[13]

Tuning in with Britain: “Men, Money and Markets”

Australia’s key economic relationship was with Britain, a reality expressed in a slogan associated with the Bruce-Page Government: “men, money and markets”.[14] Britain provided Australia with the overwhelming majority of immigrants, many of them helped by a mixture of British and Australian government assistance. In the context of low birth-rates, immigration accounted for more than forty percent of Australia’s population increase in 1927, down from about half on the eve of the war.[15]

The loan money to support Australian development also came mainly from Britain. Australian governments – especially state governments – borrowed heavily on the London money market, also turning on occasion to New York.[16] The 1920s saw expansion of a consumer economy that included motor cars, radios, and the telephone, as well as various household appliances such as electric kettles, irons, and vacuum cleaners. These needed an elaborate infrastructure, especially good roads and reliable electricity. In this way, overseas loans supported suburban expansion and improved living standards in town and country, more than they underwrote productive capacity.[17]

The scale of public investment funded by government borrowing, and the uses to which it was put, increased the vulnerability of the economy to external shocks and undermined investor confidence. In the late 1920s, a growing proportion of Australia’s overseas income was servicing debt. If commodity prices collapsed and loan money dried up – as would happen in 1930 – the result was likely to be dire. Some of the investment, such as that in electricity, did support industrialisation, but governments also spent big on repatriation of World War I servicemen – in the form of pensions, healthcare and housing, and educational support. On the eve of the Second World War, well over a quarter of a million Australians were being supported by war pensions, almost as many as were being paid old age and invalid pensions. In 1938 the federal government spent about one-fifth of its budget – or £18,000 – on repatriation benefits.[18]

Soldier settlement schemes were also expensive, placing 40,000 men and their families on the land. Not only did they require spending on infrastructure such as roads and irrigation, they also led to bad debt owed to increasingly hard-pressed governments, as well as financial, social, physical, and psychological distress for settlers and their families.[19] Although soldier settlement was not quite the unmitigated failure that historians have sometimes painted it, many abandoned their holdings. Losses were calculated at £45 million in 1944.[20]

The third element in the Bruce-Page government’s trifecta was “markets”. The British government established an Empire Marketing Board to promote imperial goods to British consumers. Nonetheless, the British economy was sluggish in the aftermath of the war, and the growth of world trade slow during the 1920s. Demand for wheat – which accounted for a fifth of Australian exports – was mainly flat during the 1920s, but Australia benefited from rising British demand for meat, dairy goods, fruit, nuts, and wine.

Britain remained overwhelmingly Australia’s most important trading partner, but its share of

Australia's exports declined from over half in the early 1920s to an average of 37.6 percent in the 1925-28 period, subsequently recovering to more than half again in the 1930s through agreements such as that signed at Ottawa in 1932. As a response to the depression of the early 1930s, the British Empire sought by preferential arrangements to maximise trade within it. The United States and Japan, however, were becoming more important during the interwar years, with Japan emerging as a significant market for Australian wool and taking about 10 percent of Australia's exports in the early years of the depression.[21]

Structural Transformation: Industrialising Australia

The Australian economy was undergoing a structural change in these years. The commencement of a steelworks by the Broken Hill Proprietary (BHP) at Newcastle in New South Wales in 1915 signalled the arrival of a new phase of manufacturing development. While the war itself had not been an engine of industrialisation, it had diversified Australian production as enterprises filled gaps left by the disruption of world trade and shipping shortages. The war boosted the chemicals industry, zinc refining, and steel production; these areas formed the foundation of interwar industrialisation. Manufacturing still only represented 11 percent of gross domestic product in 1919, but it expanded rapidly until about 1926, when over-production of consumer goods began to create difficulties. By 1930 manufacturing had grown to 18 percent of GDP.[22]

Tariff protection contributed something to this growth, but so had the development of a consumer economy that included firms such as Holden in Adelaide that assembled cars for General Motors, using US production methods, from a mixture of imported and locally produced parts.[23] It is also notable that during the most prosperous years of the mid-1920s, the US accounted for almost a quarter of Australia's imports (up from 13.7 percent in 1913).[24] Here was another measure of the developing taste for consumer products. The growing American dominance of the global cinema industry, and the enormous enthusiasm of Australian audiences for the Hollywood product, squeezed the local industry.[25]

The receipt of the "basic wage" – a standard set by the Commonwealth Court of Conciliation and Arbitration that was supposed to be sufficient for a man to marry and support his wife and three children – had extended to most male workers by the 1920s.[26] Yet, even as the court increased wages, post-war inflation ate into their real value. Automatic cost-of-living adjustments were introduced to respond to price increases in 1922.[27] On the labour movement side, class-struggle ideology played a part in conflict between capital and labour, but the pressure on profits that resulted from declining commodity prices and the flood of imports was a more significant influence on the deteriorating industrial environment from the mid-1920s. Unemployment, which had never dipped below seven percent from 1923, also climbed in the late 1920s. Employers looked to wage rates in their efforts to cut costs, and they found an ally in the federal government. Bitter and occasionally violent strikes and lock-outs on the waterfront and in the timber and coal industries formed part of the backdrop to Australia's gathering economic crisis of the late 1920s. The Bruce-Page Government's blatant favouritism towards an aggressively anti-union owner of a coal mine, John Brown, received wide condemnation, but Bruce's desperate proposal to transfer jurisdiction over industrial relations in all but the maritime industry to the state level was decisive in his government's downfall in 1929.[28]

The Depression

The frailties of the economy to which the war had contributed so much led to the depression of the 1930s. Australia, with its exposure to international fluctuations in trade and investment, would have experienced a depression irrespective of the nature of its development in the 1920s. But war debts and post-war borrowing greatly increased its vulnerability to external shocks, such as the collapse of commodity prices and the virtual cessation of international lending. When Australia was indeed hit by these problems in 1930, it experienced a catastrophic balance of payments problem and strong pressure from creditors. A new Labor government led by James Scullin (1876-1953) responded by raising tariffs and by launching a 'Grow More Wheat' campaign that greatly increased production in a depressed market – with the result that the government could not pay the price that it had promised growers.[29]

The adoption of the Premier's Plan in 1931 helped restore a measure of confidence. The government reduced pensions and spending and cut interest rates for local bondholders – but it did not default on its overseas debts. The federal Arbitration Court, which determined conditions for many Australian workers, cut wages by 10 percent in addition to automatic adjustments to account for deflation, although some tribunals in the states increased wage rates.[30] Australia benefited from the Ottawa Agreement of 1932, in which it gained preferential access to the British market for some of its primary products in exchange for concessions to British manufacturers. The Australian economy took advantage of Britain's recovery from the depression. To promote industrialisation and absorb the unemployed, who probably accounted for a quarter of the workforce during the worst period of the depression around 1932, the government encouraged British and foreign multinational firms to set up operations in Australia, behind its high tariff wall. Local manufacturing contributed to helping Australia out of its balance of payments problems by reducing dependence on imports.[31]

Conclusion

World War I, in wrecking the global financial and trading systems that had helped underwrite Australian prosperity, played an instrumental role in the protracted problems of the Australian economy between the wars.[32] While some critics blamed high wages and tariff protection for poor economic performance, a more significant factor was the slower growth experienced by the international economy, largely because of the war's continuing effects.

It would take another world war to usher in a new prosperity. In contrast with World War I, Australia in

1939-1945 managed to avoid excessive overseas debt, partly through financing the war via taxation and bonds sold locally. It also benefited from its greater level of industrialisation, which placed it in a strong position to supply its own forces and eventually, the Americans as well. Australia had developed defence industries between the wars, motivated in part by the sense of isolation and vulnerability it had experienced during World War I.[33] In this way, World War I continued to reverberate for Australian policy-makers as they grappled with the problem of mobilising for the second world war of the century.

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Notes

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