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CRISIS IN PASTORAL CAPITAL ACCUMULATION: A RE-INTERPRETATION OF THE 1840s DEPRESSION IN COLONIAL AUSTRALIA

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Introduction

THE ESSENTIAL FUNCTION of cyclical crisis in capitalism is the overcoming of barriers to capital accumulation in the previous phase of economic growth. While conventional studies of economic depressions tend to focus upon issues of causality, they lose sight of the regenerative function of the crisis, as well as the consequent structural shift in the economy allowing renewed capital accumulation. The study of Australian economic history is noted for its empirical debates around causal explanation of the crisis itself (1840s, 1890s, and 1930s). It is not noted for analysis of the longer term role of the crisis in the process of development of capitalism in Australia. This essay pursues that task by positing alternative terms of reference for analysis of the 1840s crisis. In this way, it is hoped to make explicit the barriers to capital accumulation in the colonial economy—barriers deriving from its world-economic context. While this represents the focus of the essay, the intention is thereby to account for the transitional character of the crisis, making it as much a threshold (if not more so) of colonial economic development as the gold rushes of the 1850s.

Crisis in pastoral capital accumulation

The 1840s depression represented primarily a crisis in colonial pastoralism as a world-economic industry. Contrary to existing accounts,¹ which have adequately documented the course of the crisis, the approach here will be to analyze the circumstances of the crisis as a phenomenon crystallizing fundamental aspects of staple commodity production in a settler colony.

in this period.¹³ Extensive appropriation of the land, with sanction by the imperial state as landed proprietor, was the *modus operandi* of the squatting phenomenon, fostered as it was through its relation to an expanding imperial mercantile system.

Returning now to the contradictions of the pastoral form of capital accumulation, and the generation of barriers to accumulation, leading to crisis; the constraints on pastoral capital accumulation derived from its 'primitive' character. At the most immediate level, its accumulation was limited by the supply of labour (and its cost), and this was manifested most clearly with the abolition of assigned convict labour in 1840. At a second level, the relation with merchant capital imposed a set of constraints also. As an agent of industrial capital, commercial capital strove to provide a regular and increasing supply of wool as raw material for textile production. Thus the web of credit was extended to speculative proportions, reflected in the haphazard spread of the grazing frontier. In this environment (with primitive transport), agricultural development was outstripped and was necessarily limited by the character of the mercantile relation itself—in the pattern of credit and centralisation of squatter marketing requirements at the coast. These circumstances precluded the settlement of a small-farmer labour-supply on the frontier, and contributed to a rising level of food prices (and therefore wages) as the pastoral economy was forced to import grain. This inflationary tendency was exacerbated by the dominance of merchant capital and its monopolisation of colonial trade. Rising production costs for pastoralists, in addition to rising interest charges on loans, completed the profit squeeze experienced with falling wool prices.

Trends in the circuit of capital in textile production

The period in question (1830 and early 1840s) was a transitional one for British industrial capitalism, as it represented the *dénouement* of the early phase of industrialisation based on textiles. The next phase would be geared to the production of capital goods, under the stimulus of industrialisation elsewhere in the world economy. As Hobsbawm put it: 'The age of crisis for textile industrialism was the age of breakthrough for coal and iron, the age of railway construction'.¹⁴

Early British industrialisation, led by cotton textiles, was premised on commercial strength and an imperial division of labour, providing access to raw materials and European and colonial markets. British commercial hegemony was the cutting-edge of world economic development at this time, a period characterised by Schumpeter as the 'industrial revolution Kondratieff'—the long cycle of world capitalist economy between (roughly) 1790 and 1850.¹⁵ In the quarter-century following the Napoleonic Wars, cotton textiles production increased at a rate of 6-7 per cent per annum,¹⁶ including an expansion of industrial production in this period unsurpassed in the rest of the nineteenth century.¹⁷ The financing of the process of application of technical innovations in the new industrial sectors of textile manufacture, transport, and coal and iron, was facilitated by the rise of the London discount market, which, through the practice of bill broking,

served to channel funds from country banks with surpluses to banks in industrial districts.¹⁸

The rise of Lombard Street also stood behind the commercial expansion of this period, on which the growth of industry was based. Trade with the United States, Britain's principal customer,¹⁹ was developed through merchant banking agencies in London and Liverpool,²⁰ with cotton leading the way.²¹ Following cotton exports was the category 'woollens' in the commodity structure of Britain's export trade, as the accompanying table of 1838 shows.²²

| Commodity | £m | % (rounded) |
|--------------------|------|-------------|
| Cotton piece-goods | 16.7 | 34 |
| Cotton yarn | 7.4 | 15 |
| Woollens | 5.8 | 12 |
| Linens | 3.6 | 7 |
| Iron and steel | 2.6 | 5 |
| Hardware | 1.5 | 3 |
| All others | 12.2 | 24 |

The woollen textile industry (composed of woollen and worsted manufacture) expanded in the shadow of cotton manufacture, but nevertheless adopting its revolutionary methods of factory production, once high-speed machinery was adapted to work with wool fibres. Worsted manufacture (using long staple wools), led woollen (using shorter, more easily matted wools) manufacture in this development, being less inhibited by centuries of tradition that characterised the woollen trades.²³ It was not until the 1830s that the power-loom was adopted by both cotton and wool textile industries, causing a 50 per cent reduction in handloom weavers' wages almost overnight.²⁴ The resulting expansion of woollen textiles production is described by Checkland:²⁵

Between 1835 and 1838 the number of woollen mills in the West Riding rose by 30 per cent; worsted showed an increase of 65 per cent. The number of workers grew on a similar scale. Such growth was extraordinary. It showed a burst of confidence in the industry that was almost unlimited.

The relation of the Australian pastoral industry to the secular expansion of English woollen textiles production was secured through worsted manufacture. John James commented:²⁶

The rapid rise in the value of South Down and Australian wool may be attributed, in the main, to its being now (1830), from the improvements in machinery, adapted to the worsted manufacture.

A further development in worsted manufacture after 1837, arising in

response to initial demands by American merchants for a suitable type of luxury cloth ('orleans cloth'), was the introduction of cotton warps in the weaving of worsted stuffs—of which James remarked:²⁷

. . . of all the eras which have marked the history of this manufacture none exceeds in importance . . . It has imparted a new character to the worsted industry, enabled the manufacturer to suit the requirements of the age by producing light and elegant stuff goods, rivalling in the cheapness articles from cotton, and in brilliancy and delicacy those from silk. Henceforward the trade assumes a new and broader aspect, and exhibits a power of adaptation for all classes of goods, and a capability of expansion which, a few years previous to this period, could not be conceived.

In Schumpeter's schema, this expansion in the 1830s represented the working-out of the process of technical advance in consumer goods production through the downward phase of the Kondratieff cycle. The latter would trough before consolidating a new technical basis for expansion in producer goods industry—the foundation of the next long cycle of world capitalism. Schumpeter identified railroads as the compelling new technology. And Hobsbawm agreed, stressing that an ongoing process of industrialisation required the stimulation of 'heavy capital goods industries of coal, iron and steel', and arguing that industrialisation on the basis of one sector of the textile industry was 'limited' and 'neither stable nor secure'.²⁸

Superimposed on this emerging technical barrier to capital accumulation in 'textile industrialism', was the particular trade cycle (in Schumpeter's terms: Juglar cycle) of English capitalism represented in the early 1830s boom and the late 1830s crisis. This cycle was closely woven, through commerce, with a similar cyclical course of American capitalism. As Jenks writes:²⁹

The increased sale of American cotton was more than matched by the purchases of British implements and cutlery, silks and cloths, and some railway iron. Between 1830 and 1836 the volume of Anglo-American trade doubled, and in the year ending September 30, 1836, the imports from Great Britain exceeded the exports to that country by more than twenty million dollars. On her entire trade the United States was debtor for the year to the extent of sixty million dollars. And she was debtor besides for interest upon previous borrowings. The export of British capital had created a relation which only still larger capital exports could sustain.

The severe drain on the Bank of England's reserves triggered an increase in the discount rate and a subsequent crisis in accommodation of American merchants, beginning in the cotton trade.³⁰ The cycle of expansion was reversed, leading to a sharp decline in British exports to America.

Although the 1837 crisis in the cotton trade did not induce a general commercial depression in Britain, according to Jenks it certainly affected the stability of the British textile industry. As Matthews stresses, the state of the U.S. market largely governed the fluctuations in exports of woollens at this time;³¹ and, indeed, about 30 per cent of all British woollen exports were accounted for by the U.S. market.³² The accompanying table indicates the

disruption in woollen exports associated with the fluctuations of the U.S. economy, with an overall declining tendency after the mid-1830s.

EXPORTS OF BRITISH WOOLLEN AND WORSTED GOODS³³

| Year | Quantity of exports to the U.S. (pieces) | Value of woollen and worsted exports (£m) |
|------|--|---|
| 1832 | 337 000 | 5.2 |
| 1833 | 512 000 | 6.3 |
| 1834 | 342 000 | 5.7 |
| 1835 | 560 000 | 6.8 |
| 1836 | 461 000 | 7.6 |
| 1837 | 127 000 | 4.7 |
| 1838 | 316 000 | 5.8 |
| 1839 | 498 000 | 6.3 |
| 1840 | 273 000 | 5.3 |
| 1841 | 498 000 | 5.7 |
| 1842 | 285 000 | 5.2 |

The disruption in the British woollen textile industry resulting from the uncertainties of the American market was emphasised by the English wool-importing firm, Robert Brooks and Co. Ltd, in various letters to colonial merchants and growers. For example:³⁴

To Messrs. R. Campbell Jnr & Co.

London, 8th May, 1841

. . . I enclose you particulars of the 15 Bales Wool shipped by you to my consignment on the *Jane*—I regret to report that the Public Sales are going off more heavily than usual. I really wish I could hold out to you any fair and reasonable prospect of an improvement in prices: we cannot look to the United States of America for customers for our manufactures to any extent as nothing can be more gloomy than the monetary affairs of America . . .

To W.J. Macmichael Esq.,

Cornhill, 27th Sept., 1841

. . . Although the monetary affairs of the United States are yet in an unsatisfactory position yet there becomes a little growing demand for our manufactures and I am led to believe that the demand will be considerably increased next spring, hence we may look forward to better prices for wool . . .

The instability in the woollens export market was matched by a decline in the price of wool after a peak in 1836. Wool prices remained unfavourable until the 1850s.³⁵ This price decline reflected both demand and supply trends—the former, a short-term cyclical phenomenon, exacerbating the longer-term secular trend in supply conditions. But this secular trend was not independent of demand for wool. The latter was changing with the process of industrialisation, involving alteration in the type of wools required both in production and as a result of competition with cottons in the cloth trade. The rise in demand for long-stapled colonial wools was one component in the long-term displacement in the London wool market of Saxon and

Spanish supplies, which had been developed as short wools for the cloth trade earlier.³⁶

Integral to this process of relocation of wool-growing for the London market was the shift in social conditions of world wool production. That is, emergence of specialised wool-growing on the periphery of world-economy (e.g. Australia) was linked with development of the German home market for industrial capital. Social transformation in German economy resulted in both a decline in German wool exports as German textile industrial production developed around mid-century, and rising costs of wool production, giving Australian supplies the edge at London. In Germany, following early 19th-century land reform which undermined manorial and estate systems of land tenure and fostered treatment of land as a commodity, agricultural capitalism (commercial landlords and kulaks) began to emerge. This was furthered by the engrossment of common lands (enclosure), extending land areas for cash cropping, and expropriating small cottagers who became agricultural labourers. The consequences for wool-growing (particularly in Eastern Germany) were rising rents on pasture land, as arable farming to supply growing urban markets expanded, and a secular decline in green fodder crops.³⁷

German attempts to raise wool-growing productivity scientifically,³⁸ tipped production costs in favour of Antipodean wools. This worked in two ways. On the one hand, colonial squatters paid nominal rents to the state, as landed proprietor, so that profits of the colonial wool trade were retained among merchants and growers, thereby enhancing the competitive position of colonial wools. On the other hand, German wool exports were increasingly specialised in very fine wool, such that John McLaren remarked in 1843 to his colonial agents, Frew Bros & Co., that '... the demand for Australian was much aggrandised by the discovery that has been made that the German fairs cannot supply us with middling quality wool... on nearly so good terms as the Colonies can...'.³⁹ Hence the displacement, between 1830 and 1850, of German by Australian wools on the London wool market involved a secular fall in wool prices. This trend combined both the reduced production costs on open pastures in a settler colony lacking a landed property class to inflate rents, and the secular decline in circulation costs, as Australian wool freights dropped from 4½d per lb in the 1810s, to 1d per lb in 1850.⁴⁰

Returning to the demand conditions affecting wool prices, by 1839, according to James, not only were the accumulated stocks of wool very extensive (thereby aggravating the price decline into the 1840s), but declining profitability in the textile mills was asserting itself in the reduction of time of operation of the machinery. Further, it was '... estimated that in the month of October there were no fewer than three hundred spinning frames in the Bradford district alone unemployed, owing to the insolvency of their owners'.⁴¹ Mann cites a Yorkshire manufacturer's lament in 1840 that '... in the woollen industry it was extremely difficult, even in good times, to make the average profits of the country'.⁴² Matthews summarises the depression in the woollen industry thus:⁴³

In the trough of the slump, wool and worsted were even harder hit than cotton. Unemployment in Leeds in 1842 was worse than in Manchester. Halifax—after Bradford the most important centre of the worsted industry—showed a greater proportional decline in brick production between 1836 and 1842 than anywhere else in England, although until 1839 the level maintained was quite high. *The burden of the extra capacity created during the boom was very widely complained of.* Woolen and worsted manufacturers did not have the same facilities for dumping their wares abroad as were enjoyed by cotton manufacturers.

The excess capacity of the textile industries at the end of the 1830s, referred to in the previous quotation, reflected the barrier to further industrialisation on the basis of textiles. The series of practical applications of technical processes in an age-old industry, in response to widening urban markets, had run its course. The maturity of this process (and therefore its limit) was propelled forward in a speculative boom, ultimately financed by the larger merchant-financier interests, with their stimulation of U.S. commerce through investment in securities and their easy accommodation of American merchants. This kind of speculative promotion of commodity circulation characterised the social environment of 'textile capitalism' as well as its limits. This was the age of transition from mercantile to industrial capitalism.

A new phase, or cycle, of capitalist development required a revision of investment opportunities, to shift capitalist production to a more advanced technical base while the textile industry concentrated its capital resources under crisis conditions. The opportunity was provided by the stimulus that foreign industrialisation gave to British capital goods production, including the railway, which arose on the destruction of pre-industrial domestic production. In the meantime, the crisis in the early phase of 'textile industrialism' was expressed in both declining levels of profitability in textile production with falling prices, and a general economic crisis in the early 1840s. In the colonial branch of the British textile industry, accumulation of pastoral capital also suffered under the joint pressures of wool-price decline, and restriction of British capital imports. The importance of Britain's re-export business in her world trade relations thus focusses the world-economic context of Australian wool-growing in this period.⁴⁴

The 1840s crisis in colonial capitalism

Interpretations of the 1840s depression in colonial economy divide causal explanation between emphasising the role of 'external' or 'internal' factors. Current conventional wisdom gives precedence to the latter interpretation.⁴⁵ This rather awkward dichotomy pervades most interpretations of Australian economic history, with the dominant emphasis reflecting the particular state of historiography at the time (e.g. politico-cultural climate, empirical state of the discipline).

Traditional interpretations⁴⁶ of the slump assigned primary causality to the interruption of capital flow from Britain, following the tightening of

the London market in 1839 when the Bank of England raised the discount rate. The effect of this financial stringency, according to Fitzpatrick, was to undermine the colonial land boom and hence the condition of stability of pastoral expansion. Wakefield's 'beneficent cycle—land purchase, immigration financed from land sale receipts, increased production, increased land purchase . . .'⁴⁷ had been checked by an 'external' factor, namely 'English capital shyness', which was also due to falling wool prices. Colonial government intervention to finance immigration from its bank reserves exacerbated local capital shortage, undermining further the land and stock markets.

Butlin's re-interpretation, which stands as the current conventional wisdom, set out to replace ' . . . the Australian tradition of explaining every slump as caused by overseas events'.⁴⁸ He posits a thesis of a 'natural limit' to physical expansion of the pastoral industry, which resulted in decreasing returns with rising costs of production. The industry suffered ' . . . apparent exhaustion of opportunities for profitable expansion into new areas after a decade in which its profits and its technique of growth had been reckoned in terms of geographical spread',⁴⁹ leading to a general contraction in credit, land sales, prices and incomes. A variant of this interpretation is expressed in Lynette Peel's study of Port Phillip, where she argues that sheep prices fell as land availability declined, thereby undermining the value of the pastoral enterprise.⁵⁰ The notion of geographical limits, however, is contradicted by rising export figures for wool throughout this period, and evidence of expansion of squatting regions at this time, which are reproduced later in this essay.

Because of the explicit thrust of Butlin's argument for 'internal' causality, subsequent representations of the protagonists in the historiography of the 1840s depression fall into the trap of viewing it as a controversy involving *dichotomous* explanation of the primacy of 'internal' or 'external' causality.⁵¹ Actually the difference between Fitzpatrick's and Butlin's interpretations is methodological. Whereas Butlin considers the Australian colonies as his unit of analysis, and therefore is constrained to follow the empiricist logic of noting the chronology of events, Fitzpatrick considers the Australian colonial economy as an integral part of the British empire, and is thus committed to considering the logic of this relationship with regard to the concurrence of depressions in metropolis and colony, and how downturn in Britain was transmitted to colony.

Thus Butlin contests Fitzpatrick's identification of 1839 as marking the reduction of British capital export to Australia, arguing that the available statistics (which are actually import trade figures) demonstrate that this reduction did not occur until 1841. He remarks: 'The truth is rather that the sharp fall in British investment was initiated by bad news of returns in the colonies, and that its role is in greatly accentuating a slump already begun and so producing the dire disasters of 1842-43'.⁵² Fitzpatrick's point, however, was that while capital inflow continued in New South Wales through 1840, land speculation in South Australia was halted following the Bank of England's action. This 'deprived New South Wales stockowners

of an important market',⁵³ and, *in conjunction with* falling wool prices, dampened new capital investment in Australia, thereby disrupting capital accumulation in pastoral production.

The capital inflow issue is certainly not clear, because the data Butlin uses is distorted by the fact that it incorporates the great speculative importations of goods in 1840-41 that he refers to in his study of the ANZ Bank.⁵⁴ And Fitzpatrick cites only circumstantial evidence. Hence the dispute is reduced to the determination of limits to expansion of the pastoral industry. Fitzpatrick's limit is essentially profitability (a price squeeze), and Butlin's limit is a natural one, producing a cost squeeze through the impact of declining marginal productivity. If indeed crisis in the pastoral industry is a question of limits to expansion, it follows that, to avoid the pitfalls of arguments based on sequencing of events, attention should be directed to the method of analysis of the *sources* and/or *conditions* (and therefore *limits*) of expansion. This would avoid the geographical determinism of Butlin, and the one-dimensional tendency of Fitzpatrick's argument, ascribing external causality.

It has been argued that the conditions of expansion of the pastoral industry were comprised of: (a) the system of relationships whereby wool was grown to meet the reproduction needs of the English textile industry, and that the process of reproduction of pastoral capital was contingent on a continuous supply of commercial credit; and (b) a determinate supply of labour, in the absence of a viable local labour market, in order to match the expansion of colonial flocks, *qua* capital. These conditions will now be investigated in order to more fully understand the constraints upon pastoral capital accumulation.

Circulation constraints on pastoral capital accumulation

Fitzpatrick's framework of analysis is basic to an understanding of the *context* of boom and slump of the pastoral industry. In a general sense, its significance is affirmed by Hartwell who, noting Herbert Heaton's study of the fluctuating fortunes of the English woollen industry between 1835 and 1843, remarks: 'This chronology of events in the woollen industry, with a year time-lag, almost exactly parallels events in Australia'.⁵⁵

The time-lag mentioned by Hartwell would correspond to the time of circulation of money-capital (*qua* circulation credit), that is, the time lapse between realisation at London wool sales, and communication of price trends through the mechanism of the accommodation policy of English importers. This was the process by which the law of value⁵⁶ was mediated (with considerable delay) from the English textile industry to raw material supplier industry. Thus the declining wool price trend in London would, along with the general stringency of the London money market following 1839, raise the price of circulation credit (increased discount rate) and this would in turn lower the aggregate profits of grower and merchant-factor in the colonial economy. A useful illustration of this *mechanism* (of communication of loan-capital price rises) is an 1837 letter received by George Russell of Geelong, from his agents, Eddie, Walsh and Co., of Launceston.⁵⁷

We think you must be aware ere now of the serious fall which has taken place in the Wool Market at home, and the consequent large losses here. At this moment our best Wools are worth no more than 1/6, & the general run of Wools 1/- p. lb. Port Philip Wools will not bear this value, *unless very clean & strong in the staple*, which none of them were last year; and the same fault will apply, we fear, to all sheep sent over during last season, as the sea voyage rots the first clip completely.

We are amongst the largest buyers of & advancers on Wool in V.D. Land, but without inspection we would not venture on giving even 1/- p. lb. for any of the P.P. Clip; we shall, however, be happy to give you an advance on your Wool of 9d. p. lb., which we are confident is more than any one else would do.

This mechanism of restriction of credit by raising the price of discounting, highlights an aspect of the capital inflow issue which is confused and misrepresented. This concerns the actual conception of 'capital inflow', which is incomplete and therefore distorting—particularly in so far as debate concerns identification of the turning-point in capital inflow, and its effects on pastoral expansion. Both Butlin and Sinclair base their arguments on trade statistics, which register only capital on trading account.

There were three forms of capital inflow from Britain—the import of specie, the sale and issue of bills of exchange on London, and imported goods accompanied by a bill of trade drawn by the British exporter of goods on the colonial importer. The latter bill would normally be a three-month bill settled in London through the medium of the colonial mercantile or banking firm's London agency.⁵⁸ The condition of acceptance of bills of exchange and bills of trade in the London money market, was, therefore, the credit system established between metropolis and colony. Financial stringency—either in the London money market, or in the accounts of the wool importing agent, given the declining wool price—would necessarily be expressed in a rise in the rate of discount, thereby checking the flow of credit. It would therefore be normal to expect that the interruption of 'capital inflow' from metropolis to colony would be initially triggered by a rising metropolitan discount rate. For the colonial merchant the restriction of credit would accordingly be reflected in discounting advances to wool-growers—as illustrated in the foregoing letter to George Russell. Thus the rate of accumulation of both merchant and pastoral capital would be slowed, as realisation of value declined and was communicated back through the chain of credit. Because of the integral relation between grower and London money market, the dampening effect of declining prices and rising discount rates was bound to check pastoral expansion, even if there was a time-lapse of up to one year.⁵⁹ It stands to reason that Fitzpatrick's inclination to date the beginnings of economic downturn in the pastoral economy with the combination of falling wool prices and the Bank of England's action in 1839, is valid. The effects, of course, would be lagged for a sound structural reason, given the prominence of circulation time in the wool trade.

But this does not resolve the issue of capital inflow. What also requires attention is the import surpluses which Butlin and Sinclair focus on. The

trade statistics of New South Wales, 1836-45 (including Port Phillip), were as shown in the accompanying table.⁶⁰

| Year | Imports £ | Exports £ | Surplus | |
|------|--------------|--------------|--------------|--------------|
| | | | Imports £ | Exports £ |
| 1836 | 1 237 406 | 784 624 | 488 782 | |
| 1837 | 1 297 491 | 760 054 | 537 437 | |
| 1838 | 1 579 277 | 802 768 | 757 509 | |
| 1839 | 2 236 371 | 948 776 | 1 287 595 | |
| 1840 | 3 014 189 | 1 399 692 | 1 614 497 | |
| 1841 | 2 527 988 | 1 023 397 | 1 504 591 | |
| 1842 | 1 455 059 | 1 067 411 | 387 648 | |
| 1843 | 1 550 544 | 1 172 320 | 378 244 | |
| 1844 | 931 260 | 1 128 115 | | 196 855 |
| 1845 | 1 233 854 | 1 555 986 | | 322 132 |

Butlin's comment, unguarded as it is, goes:⁶¹

Recorded trade figures, for what guidance they give, show the great drop in capital transfer as occurring in 1842 with 1840 as the great peak. *These facts hardly point to stringency in the English capital market as a major circumstance.*

A strong case can indeed be made to the contrary of Butlin's view, as the high import surplus in 1840 and 1841 most likely represented a redirection of commodity stocks from depressed markets in both England (with high food prices in addition, due to poor harvests in 1838-9 and high grain imports) and the U.S.⁶² That is, with the difficulties of sales in these two markets, English exporters turned, with 'imperial impugntiy', to the Australian colonies to unload their unsold stocks.⁶³ Butlin himself writes in his history of the Imperial banks (The Bank of Australasia and the Union Bank of Australia Ltd):⁶⁴

A general fall in import prices, the result of excessive speculative shipments from Britain, produced a liquidity crisis in the last months of 1840 and early 1841. Sales by auction of a wide range of goods were recorded because they were subject to duty; those of 1840 were two and a half times those of 1839, and those of 1841 nearly as great.

Contemporary evidence of dumping of British goods is provided by a statement of Sydney merchants in a January 1842 edition of the *Sydney Morning Herald*, entitled CUSTOM OF MERCHANTS:⁶⁵

Our attention has been drawn to a practice, which is anything but honorable, although we have reason to believe that it has been extensively acted upon by many honourable men. We allude to parties in London who receive orders for goods drawn up so as to suit this market, from persons resident here, sending out at the same time similar goods on their own account, thus availing themselves of the judgement of their constituents to meet them in their own market. A shopkeeper who called upon us on Saturday stated, that he had just seen an exact duplicate of the invoices sent from the same house that he

had employed to send him a particular description of articles, and the trade being a peculiar one, he considered that his goods were rendered almost valueless by the competition likely to be induced. Some time more the same person assured us that the goods sent out in accordance with his orders were lost by the wreck of the *Ocean Queen* in Bass Straits, and that shortly afterwards he ascertained that by another ship which left England about the same time, an exact copy of the goods was forwarded to Sydney and sold to a shopkeeper in town, who thus in fact reaped the benefit of another's tact and industry. We have no reason to believe that our Sydney merchants are implicated in this fraud, for such it really is, but they might do a good deal towards stopping its continuance, were they to write stringent letters to their London friends. Such breaches of faith are positively repugnant to the character of a British merchant, and we are surprised to find that men standing high in the professional world should be guilty of such conduct. But apart from the interest of the party sending for the goods the trade of the Colony is affected by this practice. If every person who receives an order for goods sends out as many on his own account as he sends to his constituents, it must disarrange the proceedings of the merchants here, and tend to bring about that great commercial evil—an overstocked market.

Evidently, the dumping of British commodity stocks was very much a response to stringency in the London money market, and English merchants tried to gain liquidity by drawing bills on their colonial counterparts, relying on the time-lag of shipments. The liquidity needs of imperial merchants in a tight money market were thus transmitted, again with a time-lag, to the colonies in the form of excess commodities, touching off the colonial liquidity crisis of 1840.

The point, then, is that because of the structural relations of the wool trade, forged by merchant capital between metropolis and colony, the depression in British capitalism was inevitably communicated to the pastoral economy. Not only did the import surplus reflect illiquidity in London, but also its contribution to a colonial liquidity crisis (manifested in the slump in land sales in 1841), was bound to affect further the wool-growers' supply of credit. Where pressure for settling accounts and generally for ready cash was increased by the import market glut, mercantile capacity to make advances to pastoralists would be threatened. The inevitable premium on credit to the producer was even higher interest charges, reaching up to a discount rate of 40 per cent.⁶⁶ The burden of increasing interest charges was an inherent problem for pastoral capital where production conditions were impermanent (lack of tenure security and fixed capital), thereby raising the risk premium on mercantile advances. The further the crisis developed the more untenable became the security of pastoral capital to the merchant, especially with declining wool prices.

Production constraints on pastoral capital accumulation

We have argued that pastoral capital was fundamentally dependent on a labour supply to match its accumulation of sheep, which constituted its productive capital. Contemporary evidence indicates that the scarcity and

high price of labour impeded pastoral capital accumulation to such an extent that the labour constraint appeared to some colonists a primary cause of depression.⁶⁷ A glance at the Minutes of Evidence in the various Committees of inquiry in the N.S.W. Legislative Council during these years attests to this. In the 1842 Committee on Immigration, for instance, Robert Scott was questioned about the effect of the scarcity of labour and its high price on the pastoral economy. His reply was:⁶⁸

Certainly, we are now suffering from that cause; the high rate of wages running away with all profits, no man would enter into pastoral pursuits, and in consequence there has been no sale for our surplus stock. This has, as a natural consequence, deteriorated the price of land, as the less the surplus derived from land, of the less value that land becomes, whereas, in the face of this, the Government have increased the price of their land from 5s. to 12s. an acre, and thereby, I am of opinion, disorganised the agricultural system, and the relation between land and produce. The squatting system also, has materially contributed to the effects, as it has deteriorated the price of land, and prevented its sale; I may say I am an extensive squatter myself.

Scott went on to say that the squatters, by employing labour without contributing to the land fund, were responsible for raising the price of labour. What is significant about his statement is his articulation of the nexus between land and labour—a nexus that was fundamental to the social basis of capital accumulation in pastoral economy. The supply of labour for capital was the object, and the condition, of operation of the law of value. Breakdown in the process of entry of labour into pastoral economy threatened the process of self-expansion of capital. Labour itself was capital, and the phenomenon of an emigration fund, tied to land sales, was basic to the system of accumulation.

Contemporary statements regarding causation of the depression often included a variety, or arbitrary cataloguing, of influences. However, in establishing the essential condition of breakdown in the process of accumulation of pastoral capital, bearing in mind that its basis was in the squatting system, the supply of labour becomes the key. Arguments that connected depression and the high price, or scarcity, of labour with the government's land price rise and the depletion of the emigration fund were, in assigning causality to institutional interference, or breakdown, in the supply of labour, merely expressing its fundamental importance. This is reminiscent of the difficulty Wakefield had in distinguishing, for his contemporaries, between the *theoretical* requirement of guaranteeing wage-labour for settler capital by pricing land, and the *practical* system of using revenue from land sales to finance emigration of labour. He wrote:⁶⁹

... as the only object of selling instead of giving is one totally distinct from that of producing revenue—namely, to prevent labourers from turning into landowners too soon—the pecuniary result would be unintended, one might almost say unexpected.

The point was to emphasise simply that settler capitalism was nothing without a labour supply.

As far as timing and proximate causes of labour scarcity are concerned, witnesses at the Committee on Monetary Confusion of 1843 made pertinent comment. Thus Thomas Stubbs, auctioneer, attributed primary causality to the 'sudden stoppage of transportation, at a time, when the landed interest, spent immense sums of money in the extension of their estates, under the promise of assigned labour'.⁷⁰ And Charles Roemer, an emigré from Leipzig by way of London, colonial merchant and one-time Director of the Commercial Banking Company of Sydney,⁷¹ brought to bear his particular 'world-historical' perspective:⁷²

The distress has arisen from the failure of speculations on prices which were too high to be maintained; the value of wool in the Colony, had been regulated by prices which were obtained in England previously to the failure of the large American houses in about 1837; and the prices of Colonial produce were then notoriously driven up by the assistance of newly created Joint Stock Banks, in England, as well as in America. It must be remarked, that almost at the same time when persons flattered themselves with the continuance of high prices of wool, they also calculated on the continuance of prison labour, which has since been withdrawn; and under this impression, they made purchases of land, at prices which appear now quite preposterous.

The point was that the ending of the system of assignment was the ending of supply of cheap labour and, for the squatting districts particularly, the ending of a *reliable* supply of labour.

With respect to the price of labour, bond labour was a considerably cheaper proposition than free labour—Wentworth estimated the difference at £14 a year between employment of a convict for £22, and wages of £36 for a free labourer.⁷³ And this margin increased with rising wages in a scarce labour market, where the convict's wages-in-kind were a legally specified quantity of provisions. The conversion to free labour, in a mode of production where technical adjustment of labour in relation to capital was limited, necessarily became a formidable barrier to pastoral capital accumulation. Rural wages rose with the cessation of assignment, being highest at the perimeter of the squatting frontier.⁷⁴ The impact of this conversion was not confined to small and medium pastoral capitals, as the Australian Agricultural Company found:⁷⁵

... Much to their dismay the directors learned that the assignment of convicts to private individuals was soon to cease and that they would, therefore, be faced with greatly increased costs ... Captain King found his most difficult task in the change from convict to free labour, and, whereas this was of no moment in the coal trade, where the company controlled prices, it was serious in the Stock Department, particularly as the necessarily increased expenditure was coincident with a drop in wool values.

The cessation of assignment affected wool-growers particularly, as they were compelled to seek labour on the open market, offering unattractive employment.⁷⁶ According to Coghlan, '... when assignment was abolished in 1839 there were 25 322 convicts in assigned service in New South Wales, and these were reduced by the expiry of sentences at the rate of about 5000 a year.'⁷⁷ As far as the New South Wales squatting districts were concerned,

the accompanying table⁷⁸ indicates the extent of the conversion from bond to free labour.

| Year | No. of stations | Population | | Cattle | Sheep |
|---------------|-----------------|------------|------|---------|-----------|
| | | Free | Bond | | |
| December 1839 | 694 | 4143 | 3144 | 371 699 | 1 334 593 |
| December 1843 | 939 | 6277 | 1296 | 501 541 | 1 804 046 |

It is clear from this table (which, incidentally contradicts Butlin's physical limits to squatting) that labour requirements overall did not match the stock increase on squatting runs—even where many of the runs were small and some labour was provided by the squatters themselves (included in the 'free population' category).

Because of the labour constraint, and its exacerbation by the reliance on an undeveloped free labour market, the wool-growers developed the bounty system. This involved private contracting of immigrant labour, and the government paid a bonus, or bounty, out of the land fund for approved immigrants. This system initially paralleled government-assisted immigration. Although begun in the latter half of the 1830s, and operated irregularly for the next twenty years, the most significant period of the bounty system was in the years 1840 and 1841, when it supplied 6675 and 20 103 immigrants respectively.⁷⁹ During this time, government immigration was suspended under pressure of the wool-growers through their influential representatives on the New South Wales Legislative Council. In spite of arguments about the superiority of the bounty system in terms of lesser cost, greater selectivity, proportionately more single persons and so forth,⁸⁰ the motive behind the Legislative Council's decision to rely primarily on the private bounty system was economic. Essentially pastoralists were compelled to regulate directly their labour supply in the interests of sustaining their enterprise. By concentrating on the bounty system they attempted to minimise the competitive forces of the labour market. That is, by seeking to contract for immigrant labour they could bypass the urban labour market and hold down wage costs as well as effect some control over the quantity and regularity of labour. This move to avoid the competitive forces of an open labour market constituted a rearguard action on the part of pastoral capitalists.

The prominence of the bounty system, as a method of control over supply of labour by pastoral capital, did not last. Its private character generated increased power on the part of recruiting agents and/or shipowners—causing unpredictable supply; and its increasingly speculative operation transgressed the principles of imperial land and emigration policy.⁸¹ In 1843, following intervention by British authorities, government-assisted immigration was resumed on a limited basis.

In spite of the short life of the bounty system as an initial attempt to control the supply of labour for the pastoral industry, its introduction was significant for the argument here; that is, heavy resort to bounty emigration was a form of substitution of quasi-indentured labour in place of a lapsed system of assignment of bonded labour. It was a logical response by pas-

toralists to intensification of the labour constraint on pastoral capital accumulation, with the ending of assigned convict labour.

Social constraints on pastoral capital accumulation

The concept of 'social' constraints on pastoral capital accumulation refers to the system of relationships within which pastoral capital was reproduced: the system of 'pastoral economy'. The primary relationships were those of merchant capital to the production unit, and the nexus between land, labour and capital. The discussion so far, in focussing upon the credit nexus and labour supply as the proximate vehicles of crisis, has carried an implicit assumption of the social context of reproduction of pastoral capital. It was in and through this particular social context that the character of crisis in the pastoral economy was determined.

The nexus between land, labour and capital was essentially a mode of establishing the social relations of settler capitalism. Colonial state policy (as arm of the imperial state) guaranteed a labour force for pastoral capital through discrimination against small farming, and assignment of bonded labour to private capitalists. The Wakefield principle of pricing land to generate a labour force formalised this policy.⁸²

The constraint in this social nexus was the assurance of a productive expansion of wool-growing to stimulate 'Wakefield's beneficent cycle' in order to maintain value in the pastoral economy. Many observers proceed from the position of considering land, labour and capital as 'factors of production', and therefore they pose the problem of crisis in colonial pastoralism as a breakdown in the supply of, or in the particular proportions among, these 'factors'. Thus, the raising of the price of land becomes a causal factor of the depression; or the cessation of convict assignment, or the physical exhaustion of the frontier, are singled out to explain crisis. These can only be, at the most, partial explanations because they ignore the fundamental social relation among these categories, through which the law of value operates. That is, capital accumulation, or the self-expansion of value, proceeds less on the basis of the empirical presence of these (discrete) factors, than on their *relational* quality in the process of reproduction of the social environment for capital.

Thus the 'land' component of this nexus was, through the medium of an artificially imposed price, the practical instrument of financing, and guaranteeing, a supply of labour for capital. This process of reproduction of the capital relation broke down only when the cycle was checked by the decline in profitability in wool-growing to a level at which insufficient new pastoralists were attracted to the industry. The profitability crisis meant not only insolvency of pastoral capital in relation to merchant capital, but also a rising cost of credit. Newcomers tailed off, causing a slump in the stock market: whereas sheep prices in 1838-9 ranged between 30s-60s a head, in 1843 they had fallen to 6s-7s a head.⁸³ The result was devaluation of pastoral capital, and a corresponding crisis in merchant capital accumulation.

With regard to the labour constraint on profitability, where pastoral expansion was checked, Benjamin Boyd's evidence to the Select Committee

on Immigration of 1843 is instructive. (It also directly contradicts Butlin's notion of the geographical limits to pastoral expansion.):⁸⁴

... it is well-known that nearly one-third of the ewes last year did not get the ram, not for want of room for increase, for plenty of runs in the back country were still open for new stations; but from scarcity of labour, and the consequent high prices demanded for it, which completely checked any inducement to increase. Stations far in the interior, but often most calculated for sheep, are almost considered valueless from distance, and difficulties attendant on getting up supplies, and forwarding wool; but this also proceeds from the same cause, namely, the want of labour in the interior, so much so indeed, that I have found it cheaper to purchase wheat in Van Dieman's Land, and to forward it two or three hundred miles into the interior, instead of growing it upon the stations, nor have I, at this moment, a single acre in cultivation. Had there been a supply of labour, however, every necessary might have been raised on the stations, and the only supplies for the return wool drays to bring back, would have been a few slops, tea, and sugar.

Boyd's remarks about the grain importing forced upon him by the scarcity of labour, draws attention to the contingent nature of the staple-producing economy. The issue of cheap supply of grain is clearly relative to the social conditions in the economy. In an immediate sense, the scarcity of frontier labour discriminated against local provision of subsistence needs in favour of wool-growing, causing grain-importing. But the pastoral economy generally was never self-sufficient in grain in this period.⁸⁵

The drain in foreign exchange due to grain importing was exacerbated by a severe drought in eastern Australia from 1838-40, which of course added to inflationary trends in the colonial economy. Prices of wheat in New South Wales, which fluctuated around 7s per bushel in the 1830s,⁸⁶ rose to between 20s and 30s in 1839, and 18s in May 1840 (although by the end of the year the price fell to 5s 6d per bushel with restored harvests).⁸⁷ Such price inflation of basic foods contributed to the rising wage trend at the turn of the 1840s, which was one of the checks to profitability of wool-growing (remember the grain component of the squatter's payment of wages-in-kind to his labour-force was an increasing market item according to Boyd's evidence). Price inflation was also engineered by the colonial merchants, who, in special credit relation with the banks, were in command of the market and able to 'demand double prices from the settler'. This was allegedly achieved through the establishment of trade monopolies for buying up commodity cargoes and raising prices, many settlers not having ready cash and access to the market.⁸⁸

The point here is that the limits to pastoral capital accumulation which were revealed in the 1840s crisis were not simply based on scarcity of labour and declining wool prices. The limits were inherent in the *character* of accumulation itself, which indeed dramatised the scarcity of labour precisely because of the particular labour *constraint* on this form of 'primitive' capital accumulation. The labour constraint in turn was a barrier to subsistence production on the sheep-farm, which would have held costs down. Grain import requirements were a result of the specialised character of the staple-producing economy. Here, mercantile promotion of staple commodity

production, and the pastoralist tendency to monopoly of the landed economy, retarded the settlement of a small-farming sector in the countryside. In consequence, the lack of a smallholder population exacerbated the problem of labour supply in the wool-growing regions.

In other words, the *limited* character of accumulation in pastoral economy — 'limited' in a twofold sense: in terms of specialisation in staple commodity production, and in the 'primitive' form of accumulation (quantitative, rather than qualitative, expansion of value) — *crystallised* in the phenomenon of scarcity of labour, which became most acute when the assignment of convict labour was terminated.

Subsequent transformation in the conditions of pastoral capital accumulation was foreshadowed in economic and political responses to the 1840s crisis. The crisis focussed the contradictory character of the 'staple-producing' economy, generating social divisions in the 1840s and 1850s around the issue of squatting and its contribution to colonial economic development.⁸⁹ While squatters won tenure security from the imperial state in 1847, this only intensified opposition from an emerging urban bourgeoisie to the patriarchalism and monopoly of landed economy of pastoralism. The second half of the 19th century witnessed a political struggle between urban-mercantile and pastoral capital, which transformed the shape of the settler economy. With land reform as their political weapon, and mortgage-finance and railways as their economic agent, urban capitalists loosened the impact of the imperial division of labour by re-integrating rural economy into the urban-based (local) economy. The political challenge to squatting compelled leaseholding pastoralists to *secure* their land through capital investment in land and fixed capital, such as fencing—financed by mercantile and banking interests.⁹⁰ The result was increased pastoral productivity, as wool-growing shifted towards a properly capitalist basis, dispensing with the pre-industrial system of shepherding, and systematically applying scientific techniques to production.⁹¹

Conclusion

This discussion of the 1840s depression has attempted to find the explanation for the particular crisis in the colonial economy in the conjunction of contradictions within the pastoral industry, and the cyclical downturn within the metropolitan economy. The approach has been to emphasise the analytical framework of the world division of labour, of which the pastoral economy was an integral branch, as well as to consider the crisis as a manifestation of the contradictions of the particular forms of capital accumulation in metropolis and colony respectively.

In Britain, 'textile industrialism' had run its course as the first phase of industrial capitalism, and the downturn in textiles production followed an overproduction based primarily upon speculation in the American market. Falling wool prices resulted, strengthening the declining trend of prices due to social change in the conditions of world wool production, as the latter was shifted to the Southern Hemisphere. This, in conjunction with the

straitened London money market in 1839, checked and suspended the flow of mercantile credit to the colonial economy.

The dependence of pastoral capital accumulation on mercantile advances for its reproduction reflected the speculative character of wool-growing as industrial raw material. This, in conjunction with the lack of tenure security, placed pastoral capital accumulation on a 'primitive' basis, where technical change was not integral to the expansion process. Necessarily, labour productivity in pastoral production was stationary, and labour constituted the fundamental constraint on accumulation. This constraint asserted itself decisively, following the cessation of assignment of convicts, rendering labour sufficiently scarce and expensive to discourage further investment in wool-growing and threaten the value of pastoral capital. A crisis of profitability in this conjuncture was the outcome, and the foundation, of the 1840s economic depression.

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- 3 The 'circuit of industrial capital' refers to the process of purchase by textile manufacturers of wool (raw material), its subsequent fabrication in the labour process (with machinery), and its sale on markets as cloth. In this way the wool-grower is linked to the final consumer, and the economy of wool-grower and manufacturer, as well as mediating merchants, is dependent on the sale to the final consumer. Sale marks realisation of the value produced in the whole circuit.
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- 5 These were considered leaders of the squatting rush by Alan Barnard, *The Australian Wool Market 1840-1900*, Melbourne University Press, 1958, p. 135.
- 6 See Applications for Licences to depasture Crown Lands beyond the Limits of Location for one Year from the 1st January, 1837. (N.S.W. State Archives, 4/1117.1)
- 7 See Barnard, *op.cit.*, ch. 3.
- 8 However, the staple character of the colonial economy had a short life—the limits of it being determined by the competition among merchant capitals. Colonial merchants were drawn into the wool trade through their involvement with smaller pastoral capitals originally (1820s); they engaged then in consignment in the 1830s to retain their share of the trade, and in the 1840s, with engrossment by British mercantile capital following the 1840s depression, colonial merchants diversified into transport and urban commerce, mortgage-financing becoming more acceptable in the colonial economy also. These activities facilitated, alongside political changes, the demise of the staple economy.
- 9 Commercial ('circulation') credit is differentiated from 'investment' credit in the following way:
Circulation credit is intended to realise in advance the value of commodities already produced; investment credit has for its purpose to increase the capital of an enterprise. In both cases the amount of surplus-value increases, either by reduction in the rotation-time or by growth in the amount of capital.
Ernest Mandel, *Marxist Economic Theory*, Merlin, London, 1971, p. 223.
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In the second type of colonies—plantations—where commercial speculations figure from the start and production is intended for the world market, the capitalist mode

of production exists, although only in a formal sense, since the slavery of Negroes precludes free wage-labour, which is the basis of capitalist production. But the business in which slaves are used is conducted by capitalists. The method of production which they introduce has not arisen out of slavery but is grafted onto it. In this case the same person is capitalist and landowner.

Karl Marx, *Theories of Surplus Value*, Progress Publishers, Moscow, 1968, part II, pp. 302-3.

- 11 Here we use the concept 'primitive accumulation' to characterise (world) commodity production not yet based on the full technical (fixed capital and the application of science to production technique), and social (wage-labour *market*) relations most adequate to 'capitalist' accumulation of capital. In this sense the concept also refers to the world-economic process of guaranteeing a (bonded) labour force for capital on the periphery, through political means. Passage through this state represents development of settler capitalism.
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- 15 J.A. Schumpeter, *Business Cycles*, McGraw-Hill, New York, 1939, vol. I, pp. 170, 252.
- 16 Hobsbawm, op.cit., p. 69.
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- 27 *ibid.*, p. 470-1.
- 28 Hobsbawm, op.cit., p. 69, 72.
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