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Book review: Ian W. McLean. Why Australia prospered: The shifting sources of economic growth

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Abstract

In a series of articles written over many years, Ian W. McLean has addressed the dual questions of how Australia attained high levels of prosperity less than a century after European settlement and why it has since remained amongst the wealthiest of nations. Although this book is not a comprehensive study of Australian economic history, it builds on this earlier body of work and brings together his answers to these questions. It is engagingly written, helped by the minimal use of technical material and the creation of counterfactual scenarios in several places. Most important of all is McLean's impressive use of the comparative approach. While arguing that Australia's path of development has been strongly shaped by international influences-immigration, investment, trade, and political institutions- he interrogates closely its performance relative to that of other specific nations to tease out national differences as well. These are appropriately selected in most cases: the role of differences in land ownership patterns and political institutions with Argentina, or the greater connection of Canada's timber and grain industries to manufacturing than Australia's wool and mining. However, New Zealand might have featured more strongly in the comparative story.

Keywords

Australia, prospered, shifting, sources, economic, growth, book, review, ian, w, mclean, why

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IAN W. MCLEAN. *Why Australia Prospered. The Shifting Sources of Economic Growth.* (Princeton Economic History of the Western World.) Princeton, NY: Princeton University Press. 2013. Pp. xiv, 281. Cloth \$35.00, e-book \$35.00.

In a series of articles written over many years, Ian McLean has addressed the dual questions of how Australia attained high levels of prosperity less than a century after European settlement and why it has since remained amongst the wealthiest of nations. He brings together many of his answers to these questions in this book and adds some more. It is not a comprehensive study of Australian economic history, as he readily concedes, but has much to offer. It is engagingly written, helped by the minimal use of technical material and the creation of counterfactual scenarios in several places. Most important of all, though, is the impressive use of the comparative approach. While arguing that Australia's path of development has been strongly shaped by international influences – immigration, investment, trade, and political institutions – he interrogates closely her performance relative to other specific nations to tease out national differences as well. These are appropriately selected in most cases – the role of differences in land ownership patterns and political institutions with Argentina, or the greater connection of Canada's timber and grain industries with manufacturing than our own wool and mining. New Zealand, though, might have featured more strongly in the comparative story.

Overall, McLean's explanations of why Australia prospered centre on the significance of the natural resource base and its interaction with the quality of institutions. In particular, he argues, political institutions generated property rights regimes that enabled efficient and flexible exploitation of the abundant natural resources. As evidence of this, he explains how Australia avoided the 'Argentine road' of a dominant landholding elite that might crush resource diversification and economic expansion. McLean emphasises the role of the British government in supporting the extension of democracy in Australia in the 1850s and the growth of countervailing manufacturing and urban power bases. It should be noted, however, that it was not until the 1930s that Argentina's prosperity began to decline relative to Australia. There are other aspects to McLean's thesis including the effectiveness of policy responses to shocks both from natural resources windfalls and exogenous events such as the two world wars.

Whilst the focus is on natural resources and institutions, the subtitle of the book, the shifting sources of economic growth, does some work, as he provides stimulating interpretations of many phases of economic history. Not all of his emphasis is on progress. His description of the extended downturn from 1893 and the comparison with Argentina's more rapid recovery is illuminating; the latter, unashamedly, rescheduled debt and reduced interest rates payable unconstrained by thoughts of showing goodwill to British creditors. Nor will all of his interpretations go unchallenged. Attributing the policy shifts of the 1980s to Australia's trade reorientation to East Asia ignores the documented prior shifts of opinion in government and academic circles and the fact that Japan was already a major trading partner several decades earlier.

Besides omissions necessary to eschew some of the detail of economic development, there are also missing aspects of the story that do not form part of the author's approach to economic history. The business sector is notable by its absence. For better or worse, few would deny the influence of big business in modern economies. Australia's leading corporations occupied a more dominant position in the economy of the twentieth century than those of Britain, Japan, and even the USA. Foreign multinationals have also been a key influence on modern Australian economic development through their impact on competition, knowledge and investment. Missing also is a discussion of behavioural and organisational influences on economic performance. Networking and social capital have been seen as important lubricants of Australian enterprise since the earliest days of settlement. Urbanisation, despite the early concerns of Timothy Coghlan that there was too much of it for optimal economic development, and more recent academic debates, is largely absent as also is the pioneering work of Graeme Snooks on the household economy. The latter omission seems all the more unforgivable given the emphasis in this book on measuring changes in national and per capita income.

Until fairly recently, there was a paucity of up to date studies of Australia's economic history, the previous major work dating back to the 1980s. Shortly, we will have three works that ably complement each other: a study of Australia's role in the international economy (B. Dyster, and D. Meredith, *Australia in the Global Economy. Continuity and Change*. Cambridge University Press, 2nd edition 2012.); an account of the sources of her prosperity (McLean); and, shortly, a detailed *Cambridge Economic History of Australia* (edited by Simon Ville and Glenn Withers, forthcoming in 2014).

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