Markets, debt and British imperialism in Australasia during the 19th century

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Panel: ‘British investment and the creation of Australia and Canada’
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The rentier and speculator were as important to the remarkable growth of the world economy during the nineteenth century as the manufacturer, merchant, emigrant and entrepreneur. Investors in the wealthier parts of Europe and later North America provided the financial resources that were indispensable for the creation of enterprises, industries and infrastructures throughout the globe, and in so doing spun threads of mutual interest that bound their material fortunes to those of distant societies. This much is well-known and does not require further elaboration here, save only to observe that dependence on imported capital was as great in British settler colonies as any other parts of the world, and that the capital imported – as we would expect – was predominately British. From the late 1820s, Wakefieldians, colonial reformers, and business communities in London, Edinburgh and elsewhere became increasingly conscious of the potentially profitable outlets for savings offered by the colonies. Moreover, as colonial societies took root and became self-governing, local entrepreneurs and governments actively solicited the interest of British investors, involving themselves in continuing relationships with creditors and the metropolitan financial institutions that acted as their intermediaries. The colonists’ desire to be active protagonists in their own economic development thus created new and different types of connection between the colonies and Great Britain, just as formal imperial controls slipped away. It was one of the ways in which colonial histories took place in Britain as well as the colonies themselves.²

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2 This was a point made recently by David Cannadine with reference to the consumption of colonial products in Britain at the half-day conference, ‘The Periphery Strikes Back: British Imperial History from a Canadian and Australian Perspective’, held on 16 April 2008 to mark the publication of the Canadian and Australian companion volumes in the Oxford History of the British Empire.
Markets, debt and British imperialism

The coincidence between colonial self-government and deepening colonial participation in the international economy has not been lost on historians.\(^3\) It raises the questions of whether, and how far, the colonists were simply subjecting themselves to new forms of power that, when exercised to protect British economic interests, meant they had merely passed from one kind of imperial subordination to another. As we know, the debate has been conducted largely within the conceptual framework of ‘informal empire’ and ‘collaboration’, albeit with new emphases on the ‘imperialism of invisible trade and capital exports’, and the structural power of metropolitan financial institutions.\(^4\) I don’t propose to enter that debate today, but only refer to it because it raises the question of where power actually lay in the relationships between colonists, rentiers and their intermediaries. This in turn, however, can only be answered if we first understand the nature and the dynamics of those relationships, as well as their institutional and organisational settings. It is about these that I wish to comment very briefly this afternoon with respect to the seven Australasian colonies during the nineteenth century.

Three points can be made about the nature and dynamics of the relationships created by British investment in Australia and New Zealand. First, in the colonies, as elsewhere, the political significance of investment by non-residents was a function of its magnitude and form. Before 1914, for example, the United States was the single greatest recipient of foreign capital, but these inflows accounted for an ever diminishing share of domestic capital formation, falling to only 2½ per cent in peak years immediately before the First World War. By then overseas capital was invested almost entirely in private enterprise, but it was impossible to regard non-residents as having any control over the national economy.\(^5\) In the Argentine, by contrast, foreign investment made up about half of the total capital stock by 1913, and a substantial proportion – more than three-quarters of the money subscribed for public issues in London between 1865 and 1914, for example – was placed in the private sector.\(^6\) Foreign ownership of large parts of the Argentine economy was thus conspicuous, and governments interacted with foreign investors both as the holders of their own bonds and as the controllers of most of the country’s major enterprises. In the Australian colonies, overseas capital also accounted for a large share of total investment, financing around 40 per

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\(^4\) Gallagher and Robinson, and Cain and Hopkins are the classic statements; see n. 3 above.


cent of domestic capital formation between 1875 and 1890, and was concentrated in the pastoral economy, urban real estate, and transport and communications. But it mainly took the form of debt, and governments or semi-public bodies were the principal recipients, absorbing three-quarters of the money raised in London in the period just mentioned. Ownership of the assets created was thus retained by the borrowers, which were mainly governments, and the debt created was dispersed amongst a large number of bondholders scattered about the United Kingdom and beyond. In New Zealand by 1890 the level of foreign investment was closer to that in Argentina and the share directed to the private sector greater than in the Australian colonies. But throughout the region the position was broadly similar. Debt was more common than foreign direct investment, and governments were concerned with overseas investors primarily as holders of their own bonds or as parties in dispute with them, who sought advantage by attempting to interfere with their borrowing operations.

The importance of British capital in Australasia points to a second set of factors affecting the dynamics of the relationship between colonists and investors. Like all British migrant settlements, the colonies in Australia and New Zealand were subject to a double form of imperialism. If we follow John Darwin and define empire as ‘the accumulation of power on an extensive scale’, then they were dependent parts of a British empire of commerce and investment, in which reliance on British money and markets reinforced their existing ties to the mother country. In these circumstances, the need to conform to metropolitan expectations of credit-worthiness was a potentially significant source of ‘structural power’. But the Australasian colonies also continued to remain securely within the formal empire. In reality the two forms of imperialism were simply different aspects of the same expansionary movement, and the colonists themselves their most important agents. Since the 1830s, the British occupation of Australia and New Zealand was, almost by definition, an extension of, and an act of incorporation into, an Anglo-centric international system. The colonies’

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8 Alternative estimates of New Zealand capital imports during 1871-90 suggest that this was somewhere between 48 per cent (Stone) and 56 per cent (Coghlan/Wilson) of Gross Capital Formation. The first is certainly an underestimate; the second probably too high. Overseas investment directed to the private sector during 1875-90 was somewhere around 40 per cent of the total. J. A. Downie, ‘The Course and Character of Capital Formation in New Zealand, 1871-1900’, *New Zealand Economic Papers*, 1966, vol. 1, table 1; C.G.F. Simkin, *The Instability of a Dependent Economy: Economic Fluctuations in New Zealand 1840-1914* (London, 1951), pp. 83-84; Stone, *Global Export of Capital*, table 9; Roland Wilson, *Capital Imports and the Terms of Trade* (Melbourne, 1931), p. 108.
Markets, debt and British imperialism

economic histories – to borrow from Brian Fitzpatrick – were indeed the story of the British Empire in Australasia,¹¹ and as part of the process of incorporation the institutional and organisational structures of modern capitalist economies were transferred – including legal systems and methods of public administration – that allowed the colonists to operate successfully in metropolitan business environments and present themselves as worthy recipients of credit. Unlike the weaker governments of minor Latin American republics or Middle Eastern states, they were never at the mercy of dubious loan contractors nor mismanaged their public finances to such an extent that the latter came under foreign control. Equally, finance could never be ‘the governor of the imperial engine’ in the settler colonies in the sense intended by Hobson because the colonists were never merely its passive instruments. The new imperialism stood ‘entirely distinct from the colonization of sparsely peopled lands in temperate zones, where white colonists carry with them the modes of government, the industrial and other arts of the civilization of the mother country’.¹²

The final factor affecting the dynamics of the relationship between investors and colonists was probably the most important, particularly if we wish to think about the location of power. Investment, after all, was fundamentally a form of economic behaviour and, therefore, affected by the same basic forces that determined the ways in which markets functioned. Investors purchased colonial assets with a view to obtaining income or profit. Their demand for such investments helped generate the market forces to which colonial entrepreneurs and public bodies were subject, and bearing most heavily on this demand were perceptions of colonial credit-worthiness and the balance between risk and reward. The history of Australasian public borrowing in London to the 1870s is the story of how the colonists attempted to ‘find the market’ for their bonds – that is to say, investors who were prepared to purchase them in the amounts desired and at rates of interest acceptable to colonial governments. Although by 1873, the outstanding Australasian government debt sold in the City, excluding bonds remitted from the colonies, was already £35 million, this is the context in which we should read Coghlan’s remark with reference to the slow pace of railway construction until then: ‘Money for the construction of the lines had been hard to procure, and the interest charged was relatively high.’¹³

Markets, debt and British imperialism

Membership of the empire, of course, was one factor that affected perceptions of the security of an investment. Yet given the official attitude of *caveat emptor* – and as the City of Hamilton default had shown in 1862 – this did not eliminate risk altogether. Although all price information should be interpreted with caution, one measure of the success with which colonial governments found a market was the falling differential between the yields on their bonds and British Consols, the safest and most liquid security traded in London. During the 1860s, Queensland struggled to find purchasers of bonds that yielded 7 to 7½ per cent to maturity and offered running yields more than double those on Consols. At the height of the Australian boom of the 1880s, the colony was selling bonds yielding 4 per cent, and the spread on Consols had fallen to one per cent, after touching 4½ per cent at the nadir of the colony’s credit in the mid-1860s. The widening of the market was experienced to an even greater extent by the strongest of colonial borrowers. From the late 1850s to the latter stages of the 1880s boom, the spread on Victoria’s securities fell from 2½ per cent to roughly one half a per cent. It was not without reason that Australasian stocks came to be known as ‘colonial consols’.

Yet however important the relationship between borrowers and the growing body of public creditors who were ultimately responsible for these falling yields, the links between them were largely indirect, mediated by the banks that sold debt on behalf of colonial governments, and the stock exchange firms that made the market in their bonds and retailed them to permanent investors. Unfortunately, it is impossible to say much here about these organisational and institutional arrangements. There is only time to note that borrowers obtained the best possible prices for their bonds by employing financial agents to invite bids directly from the public, rather than selling them to contractors who required a higher reward.

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16 Compare the results of the loans advertised 29 December 1858 and 5 January 1888. The average prices ex accrued interest from *Victorian Year-Book, 1919-20* have been used. For consol yields, Klovland, ‘Pitfalls’.
17 C.f. Francis Bell to Colonial Treasurer, 29 September 1883: ‘It is a novel and very acceptable feature that colonial stocks are now dealt with in the consol market’, *New Zealand, Appendices to the Journals of the House of Representatives*.
Markets, debt and British imperialism

for the risks thus taken. A highly developed colonial banking system also made it possible to award agencies on the basis of competitive tenders. In the City, however, the Stock Exchange’s support was critical to the success of any loan. A new issue was unmarketable without a stock exchange listing. Just as importantly, the stock exchange firms that specialised in colonial stocks were almost invariably the main bidders for Australasian bonds.

The drift of my argument is that, while the colonists were well-placed to manage the flow of British capital and to obtain it on the best possible terms once allowance is made for their credit, their access to the sums required was contingent on the accommodations that needed to be made with potential investors, as well as the professional market. By the 1880s, it is clear enough that they had found the market, and that the market had found them. There were several reasons for this.19 But the colonists’ ability to create a privileged position for themselves in imperial Britain, thus strengthening the bonds of imperial solidarity, was important amongst them. The decisive shift, I would suggest, occurred in the decade between Canadian confederation in 1867 and the first Colonial Stock Act of 1877, a period which also saw the passage of the Canadian Stock Act in 1874. Within a short-time, the agencies of all the Australasian borrowers but one were transferred to what effectively became imperial central banks: the Bank of England and the London & Westminster.20 Indeed, by 1878 it was possible for George Baden-Powell, elder brother of Robert and recently returned to the Inner Temple after a stint as the private secretary of the governor of Victoria, to refer to ‘that actual credit which is one of the main advantages of participation in the British empire’.21 Thus the empire of investment consolidated the political empire, and as far as both the colonists and an increasingly empire-minded Britain were concerned, it remained important to be British.

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19 Not least of all ‘the harvest of insolvency’ and reaction that set in against the riskier end of the foreign bond market during the 1870s; Leland Hamilton Jenks, The Migration of British Capital to 1875 (New York & London, 1927), pp. 291-93.
20 See n. 18 above.