

The first world war impact on australian economy



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The Australian economy was fundamentally impacted in various ways by the First World War (1914-1918). Australia and its isolationism from the key European battlefields ensured that the Australian economy avoided the worst of the conflict and economic devastation that resulted in countries such; as France and Belgium - due to the fighting between the allies and the entente powers. The impact of the First World War was felt through all sectors of the Australian economy and subsequently resulted in either short term and/or long term (even transforming) impacts on; the financial and general powers of the Commonwealth and its fiscal position, on economic growth, industry, protection and trade, the labour force, investment and total debt and liabilities.

The First World War subsequently brought about the need for the mobilisation of resources to support the war effort which undoubtedly led to the long term post-war enhancement and transformation of the Australian Commonwealth government's financial and legislative powers over the State governments. Prior to the war, in the 1912-1913 financial year, the States on average raised £43 032 445^[1] Australian pounds in revenue, equivalent to £9 and 1 shilling in per capita revenue^[2]. Over the same period the commonwealth only raised £23 721 951 in revenue^[3], the equivalent of £4 and 12 shillings^[4] in per capita revenue. From yearbook statistics it should be noted that the main sources of the Commonwealth's revenue were customs and excise duties, and during the 1912-1913 financial year these two sources accounted for 65. 6% (£15 553 034 of £23 721 951)^[5] of commonwealth revenue. Until the war the commonwealth government

collected no federal income tax, which was the sole responsibility of each individual state.

The First World War subsequently changed and transformed the commonwealth's legislative, financial and funding role- yet also its fiscal position and involvement in affecting domestic demand within the economy. The onset of the war led the Australian government to answer the call to defend the motherland, the United Kingdom, with imperial enthusiasm. On the 29th October 1914[6]the War Precautions Act[7]was approved by parliament which gave substantial powers to the executive in order to achieve victory in the war. A Trading with the Enemy act[8]came into force which practically prohibited and ceased all imports of entente nation's goods and prohibited Australian exports to Entente nations. Federal customs duties as a result of the onset of the war had fallen by 7.3% (from £13 055 925 in 1912-1913 to £12 105 698 in 1914-1915)[9]. The reduction in these wartime imports not only decreased import duties[10], but would have also adversely affected importing businesses, consumer import demand, and import derived employment.

Australian soldiers being sent to the European battlefields needed to be provided with the munitions, clothing, transport and income; all of which would come at a great cost to the government and individuals and business. To finance the war the Commonwealth entered into the foray of creating new commonwealth taxes (alongside the states[11]) and raised a series of war loans.[12]The biggest money earners of these new Commonwealth taxes were federal income tax (first levied in 1915-1916 financial year[13]), death duties, entertainment tax, increased land taxes and a wartime profits

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tax[14]. The growth in direct taxes levied on individuals and business was phenomenal. Not only were Australians taxed directly by the states, but they were also being increasingly taxed by the Commonwealth to fund the war effort. In 1912-1913 the direct taxes accounted for £1 564 794[15]- by the time federal income tax was levied in 1915-1916 the direct income tax base had grown to £6 599 426[16], and then to £8 916 753 in 1916-1917[17]. Over this period the direct federal income tax base more than quadrupled, and between the 1915-1916 and 1916-1917 financial years the direct tax base grew by 35. 2% alone. For example, probate and succession duties increased substantially from £39 646[18]in 1914-1915 to £1 062 168[19]by 1916-1917.

War loans were the primary means by which the government raised the necessary finances to fund the war. Pre-war the Commonwealth had a public debt as at the 30th June 1913 of £17 079 398, equivalent to £3 and 11 shillings of commonwealth debt per capita[20]. With each successive round of war loans the government's debt increased. War loans increased from £14 471 118 in 1914-1915 to £70 844 925 in 1916-1917[21], which had the effect of blowing out the commonwealth's debt to £169 229 557, equivalent to £34 and 11 shillings of commonwealth debt per capita[22]. This figure was almost 1000% higher than the pre-war figure. Public debt would increase in the post war period not just by the Commonwealth, but also by the states which led to an agreement in 1927 for the Commonwealth to take over state debts[23].

The long term impact of the war was that the Commonwealth did not vacate the field of direct taxation and its economic position strengthened[24]both during the war and in the immediate post war years that followed[25].

The First World War also had a profound impact on economic growth in Australia, on Australian industry and industrial structure, protection and trade.

Before the outbreak of the war the Australian economy had been experiencing economic growth. Economically, it could be argued that the war brought more benefits to most sectors of the economy rather than economic hardship[26]. The outbreak of war had a fairly swift effect on the economy.

The development of light industry and mining accelerated due to the cessation of German imports and Western European competing imports. Australia had to produce items which it had not produced domestically before.

Australia remained throughout the war a primary producing and exporting nation dependent upon commodity cycles of prices. Prior to the war industry was made up of small scale manufacturing firms.[27]But it was not the war that was solely responsible for the greater development of secondary industry and mining within Australia. In 1908, protection had doubled on imported manufactured goods[28]and the Customs Tariff Act of 1908 increased duties on imported iron and steel.[29]The Manufacturer's Encouragement Act[30]also provided for bounties of 12 shillings per tonne of Australian produced iron and steel[31]. Coupled together these policies paved the way for growing manufactures, mining and secondary industry.

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The war and Government prohibition of entente imports lead to the further discoveries and exploitation of deposits of iron ore in NSW and South Australia.[32]The company, Broken Hill Proprietary Limited (BHP) had initially been involved in the mining of silver and lead, but then went into the production of iron and steel[33], induced by bounties and protection. By 1915 a new heavy industry[34]had developed which could meet Australia's wartime iron and steel needs and also develop into a significant exporting business for the country. By the end of the war approximately 400 products were being produced in Australia which had not been produced before the war[35]. By the end of the war total manufacturing output increased by an amazing 272% from the post war period, while total primary and agricultural produce increased more modestly by 49. 8%. This had the effect of increasing Australia's manufacturing exports (manufactures grew to 6. 7% of exports at the beginning of the post war period) as a proportion of total exports, yet also increasing the secondary industrial base in the long run. Also shortages of allied shipping, and the government's purchase of a commercial fleet partly contributed to the development of a small shipbuilding industry[36].

Not all of the manufacturing industries which emerged were efficient[37], some were unable to compete once the war had ended, and they sought further tariff protection.

However, while Australia's manufacturing and light industry expanded, its economic fortunes continued to rely on primary products and commodities and this trend persisted throughout the war and post war period. Rising protectionism continued from just before the war and well into the post war

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period. If anything else the period is noteworthy for the emergence of the mineral sector and mining companies[38], such as BHP, which continue to play a pivotal role in the sector even today.

The initial stages of the war brought about decreased economic growth, but only in the short term. In the 1914-1915 financial year, real GDP fell by approximately 12%[39]. The reasons behind such a large drop in Australian real GDP can largely be explained by the impact of heightened freight and insurance charges by shipping liners, a drought in 1914-1915 which affected crops such as wheat, the loss of some overseas export markets, the increasing shortage of shipping vessels (which were vital for Australia's trade) and anticipated shortages by businesses which lead to domestic price rises, lower aggregate demand and consequently higher unemployment[40].

Tasmanian and Broken Hill zinc mines which were highly dependent on German markets were some of the first to close and shed jobs[41], as government trading with the enemy acts all but rendered such contracts void and economically debunked.

As a result the war had a particular effect on inflation in the Australian economy due to government imposed restrictions on certain goods and services, and expectations of future shortages. For example, profiteering by some wholesale grocers in NSW increased the prices of imported goods by between 7.5% and 20% during the month of August 1914[42] alone.

Combined with higher tariff protection, war-time shortages and government increases in the monetary supply (the government increased the amount of currency notes by 300%[43]) - inflation continued to increase. Within the

first year of the war, inflation increased by over 11.2%^[44], and by the end of the war the cost of living rose by nearly 50%^[45], which eroded the purchasing power of the Australian pound and wages fell by 8%^[46] in real terms. Further price rises, tariff protection and wage rises would create an inflationary spiral that continued in the long term in the Australian economy well into the 1920s. The loss in the purchasing power of real wages over the war time would not be offset^[47] until the year 1922.

The labour force was particularly impacted in a number of ways by the war effort. Prior to the onset of the war, in 1913, Australia had an unemployment rate of 5.3%^[48]. With the onset of war, many men of working age were drawn to join the army and the war effort. Subsequently employment and output within the economy were adversely affected. For example, the percentage of males employed in factories had fallen 4%^[49] in 1914-1915. By the end of 1914 unemployment reached 11%, before decreasing to 5.5% in 1918^[50]. The long run impact of which would be higher unemployment in the post war period. For example, in 1920 at the start of the post war period unemployment was 7.8%^[51], higher than it had been prior to the war. The deficiency of many men, coupled with the initial effects of the war on the economy had a double edged impact on Australian aggregate demand. In 1914 men earned on average 55 shillings a week, while women earned $\frac{1}{2}$ that figure of 27 shillings per week.^[52] Since men were higher income earners than women in employment, further substitution of women into the workforce and the absence of such a large number of men consistently depressed domestic demand^[53] expenditure. Women increasingly filled the gap in the workforce; but largely in jobs considered to

be traditional areas of women's work – i. e. in clerical, shop assistant[54], teaching, textile, clothing and footwear job roles. By 1918 women made up 37%[55] of the workforce.

Some labour strikes occurred in protest at the rising costs of inflation and the erosion of workers' incomes. Most noticeably were the NSW Miner strike of 1916 and the NSW Railway strike of 1917[56] which brought the war effort almost to a halt.

Immigration literally dried up during this period and as such the country could no longer rely on arrivals from Europe to spur local production, agricultural production and economic growth. By the post war period the intake of immigration was by no means near the levels prior to the war.

Though, in the post war period male employment growth in manufacturing would recover and in 1919-1920 increased by 11.3%[57]. Coupled with rising protectionism and a growing secondary industry manufacturing employment would grow to 376 734 people[58], or by 13.6% by the beginning of the post war period.

The end of the war and post war period led to further impacts on the labour force. Many of these working age men (approximately 60 000[59]) never returned home, and many others that did were wounded physically or mentally. The Commonwealth would be responsible for paying for training programs, medical care, hospitalisation, pensions, gratuities and benefits to soldiers or their next of kin. By 1935, £238 million[60] had been spent on such schemes since the end of the war. For those men that were able to secure their previous jobs, it came at the expense of many female

employees who were pushed out of work, and so in the post war environment female unemployment rose.

For those men who were not taken back into their old jobs, the government set up soldier settlement schemes with the aim of increasing pastoral and agricultural production and giving men the opportunity to 'make a go of it on the land[61].' These resettlement schemes ended in failure which not only cost government but ex soldiers and their families (as they were often given unproductive farmland).

The war had a particular impact on Australia's international trade, affecting both the size of its trade and its markets for trade. The first year of the war had a subdued effect on exports, imports and total trade as some traditional markets in the export of minerals to Germany and Belgium disappeared. This disruption to trade was particularly serious[62]for Australia which relied on distant overseas export and import markets for its prosperity. Prior to the war in 1913 (see figure 1. 1[63]), Australia exports amounted to £78 572 000[64]and imports accounted for £79 479 000[65](a total trade value of £158 321 000 pounds, see figure 1. 2). In 1913 the trade balance was -£907 000 pounds[66]. By the financial year 1914-1915, exports had fallen 22. 9% within a year to £60 593 000[67], and imports had fallen by 18. 9% to £64 432 000[68]pounds. The trade deficit subsequently ballooned by 423% to -£3 839 000[69]pounds. The net effect on the Australian economy within the first year of the war was depressed economic and GDP growth and lower international trade (see figure 1. 2).

As the war progressed Australian exports, particularly exports of primary products such as; wool, wheat, tin, copper and zinc, began to boom. These primary and mineral products were increasingly demanded in the wartime production of blankets, uniforms, and armaments[70]. As such commodity prices rose remarkably – for example, the price of wheat in London markets soared from £31 and 8 shillings[71] in 1913, to £72 and 10[72] shillings by 1918 (a 232% increase on pre-war prices). The price of tin per tonne increased from £206 and 5 shillings[73] in 1913 to £329 and 11 shillings[74] by the end of the war in 1918 (a 59.7% increase), while the price of zinc per tonne increased by a phenomenal 338% from £21[75] in 1913 to £71 18 shillings[76] in 1918. The government's compulsory acquisition of the whole wheat and wool harvests[77] assisted a co-ordinated and centralised export effort. The government managed to secure Britain's purchase of Australian wheat, wool, lead and zinc exports throughout the war years[78] above market prices. For example, the wool clip was brought at approximately 55%[79] above pre war market values.

As a result, these commodity prices and Australian exports would remain inflated above pre-war levels well into the 1920s. The country's trade deficit would improve, and Australia subsequently recorded a trade surplus and significant improvements in the terms of trade statistic from 1915-1916 until 1920 (see figure 1. 1).

Australia recorded a trade surplus with Britain during the war[80], and with other nations such as Italy and New Zealand. Australia's distribution of exports and imports with allied nations did not change considerably during the war (see figures 1. 3 and 1. 4), notably with the exception of greater

imports and exports to Japan and the USA. The war highlighted how much Australia relied on Britain and British Empire dominions for its trade wealth.

The war decimated Australian exports to and imports from Western European markets. Australian imports from Germany fell 8.8%^[81] of total imports in 1913 to a negligible statistic by 1919/1920 and 1921-1922.

Australian exports to Belgium, France, and Germany all suffered serious decline (see figure 1.4). For example, Australian exports to Germany fell from 8.8%^[82] of total Australian exports to 1.3%^[83] by 1919/1920 and 1921-1922. Notably businesses that relied on such markets for their prosperity would have suffered adversely.

Investment was seriously impacted by the war. The movement of capital flows had all but ceased, and Australia had to rely on raising war and peace loans particularly at home and in London in order to finance investment.

During the war the public sector was responsible for half the investment in the economy^[84], much of went to building new ports, railways and infrastructure. In the long term, British investment resumed, particularly in the primary sector which in turn supported domestic demand.

The war had some serious implications for Australia's balance of payments. With so many soldiers abroad receiving incomes, Australia in effect imported vast quantities of foreign goods^[85], as soldiers spent their incomes in these countries abroad. The current account and income, services and transfers account deficits increased markedly as a result, during the war period (see figures 1.5 and 1.6). The current account deficit blew out from about £5.4 million^[86] pounds in 1914 to an average of £32 million^[87] pounds over the

next five year period. While both the income and services and transfers accounts would similarly balloon. For example, in 1914 the balance of the income account, had more than tripled from £7.8 million pounds to £24.6 million pounds in 1918. To make matters worse the usage of foreign capital in the mechanisation of increasing volumes of Australian primary exports - resulted in higher net repayments to foreign entities which further worsened the current account balance. While the balance of payments figures would improve in the 1920s, it highlighted just how reliant Australia was on primary exports (rather than higher priced manufactures) and commodity price cycles.

Australia's debt and total liabilities exploded as a result of the war. By the end of the war total debt had exploded to £722 million pounds in 1919, with £225 million pounds of overseas debt having been added through the post war decade. The debt servicing ratios steadily increased, but fortunately Australia's exchange rate was tied at par to the British pound, which made the serviceability more manageable than if the Australian pound was set at a lower rate below the British pound.

The impact of the war can be best described as having a mixed effect on the Australian economy. Initially the economy suffered due to lost export markets and the dislocation of many labour inputs into national production. But with the continued war effort, the export of agricultural and mineral commodities at often fixed and inflated prices improved Australia's trade balance, somewhat broadened the industrial base, improved the strength of the minerals and agricultural sectors (emergence of BHP) and supported and negated the effects of depressed domestic demand. The long term impact of

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such a costly war on the Australian economy would be dangerously high levels of public and total debt which left the Australian economy teetering on a precipice prior to the Great Depression.