

Incorporation, the Architect of Australia's 19th century economic and business development

Brian Scott

Abstract

British influence played a prominent role in determining Australia's seminal economic and business development, both institutionally and directionally. A review of the stimuli that shaped the British Empire, Australia's colonisation, and ultimately, the growing institutional independence of Australia includes capital, labour and the entrepreneur that were the prime motivators. Although initially sourced from Britain, as British influence waned, Australia's distinct economic identity and achievements emerged so that by 1900 Australia had one of the highest GDP per capita in the world. The importance of capital and its evolution motivates this scholarship.

This study traces the underappreciated role played by Australian 19th century colonial company formations and enhances the earlier work of Scott (2021) which studied enterprise and entrepreneurship in NSW through the lens of company formation in the 19th century. Risk capital, identified through company formation, developed as a catalyst for growth. Capital became increasingly mobile, whilst risk, due to incorporation, was mitigated. These features attracted greater investment capital and entrepreneurial activity.

Capital shaped sectoral change.

The British entrepreneur (Payne 1974), the provider of capital who played a primary role, was attracted to incorporation and with the support of progressive legislation, substantial institutional change. Sectoral change was identified through volume and value of incorporation. This development was often aligned to the broader macroeconomic understanding with surprising results. The rise and decline of development can be traced through valuation and entrepreneurial conduct. The mining, manufacturing, agriculture and property, and finance sectors were leading examples. The investor and entrepreneur sought greater opportunities and reward though often confronted with changing fortunes at both the macro and micro levels. Selected British investments in Joint Stock Companies (JSCs) and companies incorporated under local legislation that highlight change to British attitudes to Australian investment. By 1900, Britain was impacted by war and increasing international competition and retreated economically, impacting the scope and extent of investment. New company formation evidence is introduced to quantify the impact on Australia's broader business.

Existing data

Scott's NSW study (2021) examined NSW company formation through the NSW Company's Act (1874) from 1875 to 1900. It used chronological and sectoral analysis: company valuation and longevity then concluded with macroeconomic comparison. The sectoral results were mainly consistent with that of the limited studies of Butlin's (1964) study of Victorian company formation from 1874-1893 and Graham's (2019) Australasian study of JSCs from 1790-1860. Inconsistencies within established economic and business history did appear within some sectors, challenging earlier observations.

New data:

This study involves a detailed sectoral analysis that observes the correlation between broader Australian company formation for Queensland, Victoria, Western and South Australia which

is then contrasted to NSW. Where possible, valuation and pattern of formation is introduced to deliver a meaningful comparison to the established macroeconomic understanding for most colonies.

In respect of the new JSC's data, over 3,000 gold miners are examined for the late 1890s, and quantify investment in Australian operations for all colonies. All material formation is considered. These data reveal: company name, registered office, date of formation, company directors, and colony of operation and importantly, the issued and nominal capital for each company. Valuation becomes a leading indicator for investment. These data form a matrix of additional data enabling chronological formation, valuation, and colonial business activity. Initially, the study focuses on the 'Gold Mining Sector' and has been related to Australia's Balance of Trade and broader economic indicators, including GDP. Mining enjoyed greatest company formation, but was one of the lesser components of GDP. In the 1890s, all colonies enjoyed different rates of company formation, but one colony stood out.

Western Australia (WA) is a focal point of national difference. The WA economy, whilst small relative to like colonies, enjoyed a large investment both directly and indirectly. Public debt rose, railways expanded, population grew as did GDP and mining was a principal driver for development. WA became the world's leading gold producer. The infancy of some aspects of Australian legislation encouraged JSCs as late as 1900. Despite this, colonial incorporation and JSC formation require analysis.

These data permit examination of British and colonial speculation and inevitably, a discussion on moral hazard. Moral hazard is a situation in which one party engages in risky behaviour or fails to act in good faith because it knows the other party bears the economic consequences of their behaviour. Any time two parties come into an agreement with one another, moral hazard can occur.

Whilst JSCs were inevitably replaced by local company formation, the aggregation of the two delivers a better understanding of business development by 1900. The Australian study of local colonial incorporation is also considered. These data examine 9,000 companies delivering an analysis of incorporation and exploring its part in shaping Australian business and economic history. They demonstrate a quantifiable connection between the economic historian's view of the prosperous 1880s and the challenged 1890s, coupled with identifying the interaction of the private and public sectors and the increasingly dominant role of incorporation capital from 1864. Not only did capital finance encourage business growth and sectoral change, but it progressively replaced the colony's reliance on British investment to stimulate colonial business and the economy.

Conclusion

Incorporation data convey an important entrée to this topic. In many respects, it supports McLean's (2013) work from a microeconomic perspective. The underlying theme of British influence is clearly witnessed and its participation in adapting the factors of production within the broader context. The economically successful 1880s and the challenged 1890s can now be discussed from an altered perspective.

Company formation (Lipton 2007, McQueen 2009) was instrumental in mobilising and directing capital impacting on both economic and business development. Institutional development played a leading role as did the entrepreneur. The evolving Australian entrepreneur and investors assumed a greater role because of incorporation, notwithstanding that all sectors reacted differently and at a different pace.

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