What Australian Federation Can Teach Us About the Future of World Politics, and *Vice Versa*.

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In 1901 six political entities that could have been independent states chose instead to federate. When New South Wales, Queensland, South Australia, Tasmania, Western Australia, and Victoria – but not New Zealand – ceded sovereignty to a collective, they acted on some goals or interests that were prior to their desires for autonomy. Which goals or interests? I develop a theory of political confederation driven by interests in market regulation. When the governing coalition of a state can enrich itself by creating a common market with a partner but these gains come with risks of the partner’s opportunism, it will willingly cede authority to a federal government that can make credible assurances. I discuss existing scholarly work on Australia’s founding and present some new evidence from the decision-making process in New South Wales that supports the argument that the commercial motives for federation were pivotal.

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This version of the paper (from the ANU RSSS web site) is missing four pages of figures and the bibliography; please contact me by email to obtain these or for any of the data or for information on any of the sources cited here. This paper is based on my dissertation, forthcoming, from UCSD, and refers to research conducted while funded by the University of California’s Institute on Global Conflict and Cooperation while a Program Visitor at the Research School of Social Sciences at The Australian National University. I thank both institutions for their generous support. Please excuse my Americanized spellings of certain words.
I draw on two sources of literature that, until now, have developed in isolation from each other. The first is from Australian political development studies, specifically on the political history of the Australian federation movement and the choices of six colonies to give up their independence and form the commonwealth. The second is from political economy and international political studies, specifically on how governance issues influence how states form in the first place. Each of these scholarly pursuits can benefit by taking the other seriously; that is, our ideas about the future of world politics apply in an interesting way to Australian federation, and *vice versa*.

I proceed in three parts. First, I describe existing theories in international relations and political economy on how the demands of governance shape political institutions. These arguments address changes in macro-institutions – changes such as the amalgamation and breakup of states, the growth of empires, and the creation of international organizations – and explain these changes with changes in patterns of trade, economic production, and military technology. Here I present a part of the general theoretical argument I make in my dissertation on political confederation. The argument I present in this paper demonstrates, in the abstract, that a common desire for a common market may lead a group of states to form a federation (an arrangement in which they cede authority to a common federal government that has the power to issue binding laws) even though it might not lead them to form a customs union (a less drastic arrangement in which they pledge to each other to cooperate without creating a common authority).

Second, I consider the scholarly literature on the Australian choice to federate. There are, roughly, two schools of thought: one sees the federation as being predominantly a business arrangement designed to enhance the commercial interests of important groups within each state, while the other sees the federation as being largely an expression of a common political and liberal democratic identity. A more broadly comparative approach could enhance both arguments, but neither the economic argument (as currently conceived) nor the identity argument is entirely satisfying. I show how my argument demonstrates that the economic interpretation is still viable and accounts for the states’ choices at least as well as any alternative interpretation.
Third, I present my empirical work on a small part of the federation decision. My analysis of federation politics in New South Wales during 1894-96 suggests that individual NSW members of parliament were motivated more by economic concerns than by identity considerations; I suggest several reasons why these individual choices meaningfully address the broader question of why Australia federated.

I conclude by explaining how my study of the Australian federation period can generate ideas relevant to several important questions involving the future course of world politics.

1. The Political Economy of Political Confederation.

Why would states that could otherwise be independent instead choose to join with each other to form a federation?

The question can just as easily be turned around, since states that choose to continue to remain independent (even if they cooperate with each other) are choosing not to federate. States that choose to federate reveal by their choices that they find anarchy to be insufficient to meet their interests. (By “anarchy” I do not mean “chaos,” but rather simply the lack of a centralized political authority that can make decisions that are binding on subordinates.) The study of federation addresses the general question of anarchy by showing the limits of anarchic cooperation.

There are two threads in the theoretical literature on federation. William Riker (1964, 1987) argues that states only voluntarily federate when they face a common security threat. Absent such a threat, federations will inevitably fail.

Existing economic theories of the state begin with the analogy that states are like firms with a local monopoly on the production of certain public goods, including economic regulation such as setting standards and enforcing contracts. Alberto Alesina and Enrico Spolaore (1995) examine the supply and demand for goods that governments provide. Voluntary federation occurs when groups of people have similar enough tastes that they are willing to live together with a government that gives them all the same bundle of goods (Bolton and Roland 1997).

Both of these projects raise but do not answer an important question – why does authority matter? States can resolve security and governance problems in anarchy through decentralized action, and have done so in the past through cooperative arrangements like NATO and the WTO. A complete theory must
therefore describe and account for all of the types of relationships states can have with each other.

In this respect, the academic literature on Australian federation has progressed further than the broader theoretical literature, since Australians studying their origins have long noted that the relevant question to ask is why the Australian states federated when they had an alternative available: coordinated action through decentralized cooperative arrangements, such as a customs union or an alliance (Hirst, 2001 and Irving, 1997, make this point; it shows up as early as Baker, 1897a, and Reeves, 1902).¹

Another way in which the Australian historical literature is ahead is in its recognition that Australia is a case that demonstrates that a common security threat is not a necessary condition for federation. The near-universal consensus among Australian scholars writing on the federation period is that security was not a real motive for federation, given the extreme implausibility at the time of any genuine military threat reaching Australia and the relative ease with which the colonies would be able to form a military alliance in a crisis (Coulthard-Clark, 1988, p. 121-123; Donovan, 1990; Grey, 1990, p. 43, 53; Grey, 2001, p. 6; Johnson, 1975, p. 176; La Nauze, 1972; Martin, 1980; Norris, 1975; Serle, 1969, p. 50; and Trainor, 1970). This is consistent with the expressed views of many of the leaders involved in colonial governance and the federation movement (Colonial Defence Committee, 1890, p. 30; Duckworth, 1899; Edmond, 1900; see also Trollope, 1873, p. 260). It is also consistent with an implicit message in many of the pro-federation political writings during the period. Many advocates of federation took great pains to note in their written treatises on federation that the historical examples of the United States and Canada proved that a security motive was unnecessary for a federation to succeed; whether or not their claim is valid in scholarly terms is less important that the fact that they obviously felt the need to make it in order to advance their political cause (Gardener, 1945, reviews these generally; see Baker, 1891, p. 15-16; Moore, 1902, p. 55; and Willoughby, 1891, p. 35).

What about political economic theories of federation? For any theory to be able to account for Australia’s or any other federation, it needs to explain why the

¹ A third possibility is that states could attempt to address joint issues through empire. I consider this extensively in my dissertation, but I do not refer to it in this paper since there was no short-term potential for the Australian states to enter into hierarchic relations with each other.
relevant decision-makers chose a federation instead of an alternative arrangement that did not involve political authority. That is, the process of federation creates an authoritative actor, a federal government. Given that groups of states can achieve many ends cooperatively, without a federal government, any theory of federation needs to explain what specific advantage the states gain by having a federal government directing the states to pursue those collective ends.

Consider a theory that begins with the premise that states provide market regulation, among other things. That is, a state often allows different pairs of individuals within the geographic realm of its authority to engage in exchange; the state enforces contracts, provides a common unit of exchange (currency) to facilitate the transaction, and refrains from levying prohibitive taxes on the exchange. Societies generally benefit from this type of regulation, even if the costs and benefits are distributed unevenly.

In order to demonstrate the meaning of the different options that the states have, I use an extremely simplistic thought experiment. I do not intend this mental construct to be a full explanation or theory of federation; rather, I use it to make the limited points that federations and customs unions are two different things, and that are some conditions in which a state might be interested in forming a federation with a partner in order to achieve a common market even though it might not be interested in forming a customs union with that same neighbor. This can be true even though, in this thought experiment, both federations and customs union are designed to achieve the same end and forming a federation is a more drastic and costly step than forming a customs union.

Suppose politically-influential groups within two different states would secure substantial benefit from market integration. That is, they would be wealthier if there were no specific taxes on cross-border exchanges and if there was a common system of exchange and contract law that regulated commerce.² Suppose each of these

² The latter consideration is as important to genuine market integration as the former. Even today, states without border duties on each other’s goods suffer from a border effect that depresses levels of cross-border economic exchange. John McCallum’s (1995) research on recent U.S.-Canadian trade suggests that the national border is a strong inhibitor of commerce (also Engel and Rogers, 1996; Helliwell 1996, 1998; Wall 2000). Other scholars find evidence for a border effect across other sets of countries (Wei, 1996; Ades and Glaeser, 1999). The lowest estimate of the border effect among the current economics literature on the subject is from Anderson and van Wincoop (2000), who estimate
groups is influential enough within its state to secure whatever policy it wants. What are the options? One option is for the two states to cooperate to merge their markets, without forming any sort of authority like a federal government. This is, essentially, a customs union. In this case, each state promises to abide by the mutual understanding. Another option is to create a federal government that will have the authority itself to create a unified market and to enforce any policies that that goal involves. Federation, then, does not require trust on the part of the states (or at least not to the same degree).

So, states may form federations to resolve a contracting dilemma: afraid that a partner may promise to agree to market integration but then cheat, a state may prefer to form a federal government to enforce the agreement. Other scholars (Frieden, 1994; Lake, 1999) have argued that the threat of cheating, or opportunistic behavior generally, may lead states to try to establish empires over untrustworthy partners; the same logic should apply to federation agreements. (Note that this does not suggest that federations and empires are the only way that states can trade with each other; most states most of the time engage in exchange with their trading partners and simply assume the risks of the usually limited costs that their partners may impose on them by cheating.)

At first glance, this argument may seem circular. If states want to cooperate, then they should cooperate without federating; federation is a way to cooperate when there’s a threat of cheating, but if the states want to cheat, then it’s because they don’t like the agreement, so why would they join the federation in the first place? Or, put another way, why would states go through all the trouble to form a federation to force them to cooperate when they would cooperate anyway? And why would they bind themselves to a federation to force them to cooperate if they thought there was much chance that they would later decide they wanted out of the deal?

that borders reduce U.S.-Canada trade by 44% and reduce other inter-OECD trade by 29%. In addition to the general finding that “borders matter far more than can be explained by tariffs, quotas, and formal impediments to trade,” some evidence suggests that differences in national political institutions play a role (Anderson and Marcouiller, 1999, p. 1). Dani Rodrik (2000) suggests that trade is inhibited by differences in national laws, even if those laws are not intended to be trade barriers. This argument is not particularly new; Richard Hudson (1891) argues that the North German Confederation formed due to an interest in creating a uniform set of commercial laws.
The answer is that some of the costs that a partner’s cheating imposes go beyond the initial gains from cooperation in the first place. That is, there are some instances in which going from isolation to cooperation might bring a state some economic gain, but if the state’s partner cheats and the cooperation ends then the losses exceed the initial gains, so that the state is actually worse off that it would have been had it never begun cooperating in the first place.

Why might this be, in the example of trade? First, there are simple transactions costs of starting and then stopping cooperation. A state that, for example, joins a currency union has to withdraw its old currency from circulation and replace it with the joint currency. If that currency union then ends, the state then has to withdraw the joint currency from circulation and replace it with its old currency. These steps are all costly, and the state could have spent that time, effort, and resources on more productive ends.

Second, there are adjustment costs that have to do with specific investments in a cooperative relationship where those specific investments are not useful outside of the relationship. For example, suppose two states increase their level of economic exchange. As a result, within each state, individuals and firms make investments in production for, and exchange with, the part of the common market that is in the other state. They may, for example, build factories that are designed to make products suited for the particular tastes of only the partner’s market, so that if trade is cut off the factory will be useless. They may also train workers to work in sectors that complement the partner’s economy. In either case, opening a common market and then abandoning it is worse than not opening it in the first place.3

So, suppose these two states think they can benefit from having a common market. Their decision about whether to pursue that market though simple anarchic cooperation or through a federation will depend on their ideas about at least two things. The first is the extent to which they will materially benefit from a common market as compared to the extent to which they will be hurt by any sort of opportunistic behavior. The larger the difference, the more they will be interested in federation instead of anarchic cooperation. The second is each one’s estimate of the likelihood that the other will change its mind and cheat. The less reliable the partner

3 I do not suggest, by any means, that these costs are necessarily symmetric across the two states. One of the states may be more dependent on the two-way relationship than the other – that is, one may face higher costs than the other if its partner cheats.
is, especially if the difference between the benefits of cooperation and the costs of opportunism are large, the more appealing federation will be.

Figure 1 about here.

In Figure 1 I show a hypothetical example, continuing on with this simplified, abstract thought experiment. Here, I assign monetary payoffs to a state, depending on the choices it makes; these are obviously arbitrary values designed to make a point about federations and customs unions in the abstract. Again, I do not mean to suggest that this model necessarily or accurately describes any actual decisions in the real world.

Suppose a state with no common market with its neighbor gets an annual income of £7. If it forms a common market with its neighbor, its annual income will rise to £10. There are two ways to form such a common market. First, it can form a federation. Suppose that the excess annual cost of maintaining a federal government (that is, the net increase in government costs from moving to a federal system, plus the costs of lost autonomy in other ways) is £2. So, in this example, federation, which nets £8, is better by £1 than no cooperation at all, which only nets £7.

But there is another choice. The state could agree to market cooperation without a federal government to endure compliance, and just hope that the other state will not cheat. If it thinks that the other state is not likely to cheat, then anarchic cooperation without a federation will be a good bet. Suppose that cheating by the other state will make the first state worse off than it was initially, yielding an income of £5. If the state thinks that there is an 80% chance that its partner will not cheat, and only a 20% chance that the partner will cheat, then the expected payoff from the gamble of entering into cooperation without a federal authority is £9. Since having £9 is better than having £8, the state would prefer not to have a federation and just take its chances under anarchy.

4 It should be obvious by now that the “money” in this example is more a metaphor for costs and benefits than actual money. The true costs of government and costs and benefits to commerce are impossible to quantify, even in principle. However, it is still reasonable to think of these costs as potentially being higher or lower in different circumstances. This comparison is all that is necessary for the thought experiment to be useful for my purposes here.
Suppose, however, that its partner is not particularly trustworthy, so that the state thinks there is only a 40% chance that its partner will stick to the bargain under anarchy. In that case, the expected payoff from anarchic cooperation is less, only £7. This is because the prospect of getting cheated and only coming up with £5 looms larger. In this case, since £8 is more than £7, the state would prefer to have a federation. What if, for some reason, federation is impossible, perhaps because its partner rejects the proposed federal constitution? The state is not likely to choose to cooperate under anarchy, since it has no particular inducement to do so (£7 versus £7).

My point is that when potential partners in market cooperation are potentially unreliable, states may seek to form a federation for commercial reasons even though they may not be interested in forming a customs union for commercial reasons. In fact, they are interested in federation not despite but rather because they are not interested in a customs union.

Was this the position in which the Australian states found themselves? It is impossible to prove that it was. The hypothetical model is just an abstraction; applying it to any real case requires knowing the values that the real players assigned to the various outcomes (e.g., whether it was £10 for a common market, £5 for being cheated on, an 80% chance of cheating, and so forth), when in fact it is unlikely the actual Australian decision-makers did any such thing and it is even less likely that, if they did, I would be able to measure those values. However, the implication is still valid: just because states don’t choose a customs union doesn’t mean that, when they federate, it is not to pursue benefits that they could have had through a customs union.

2. Australian Federation.

The Australian federation is therefore quite interesting, given the theory I investigate. The states attempted several times in the second half of the 19th century to form a customs union; none of these attempts got past the negotiation stage. Richard Baker, a participant in the constitutional drafting, writes:

There are some people who suggest that we can have Intercolonial Freetrade without Federation; they must be very sanguine and unpractical. Ever since 1873, when the Imperial Parliament first authorised the colonies to levy intercolonial preferential
Can the goal of a common market have motivated federation? The academic literature on the sources of Australian federation, as I read it, has gone through two phases. The first several generations of Australian historians and political scientists described federation as primarily a commercial arrangement designed to promote trade (Allin, 1907, p. 410-12, 1929; La Nauze, 1972; Martin, 1964; Norris, 1975; Parker, 1964a, p. 172). This echoes the public claims by most of the leaders of the federal movement and by the things that they wrote even after federation had been successful. The federation, to them, ensured a stable market and solved decades of trade wars and disputes (Beach, 1899; Deakin, 1963, p. 11; Galloway, 1899; Moore, 1902; Westgarth, 1889; Wise, 1913).

Recently, however, an alternate view has emerged. This view focuses on the role of identity. Until recently, most scholarship has downplayed the role of identity in federation-era politics, and has argued that Australia lacked any sort of consciousness of political or social community until well after federation (Alomes, 1989; French, 1978; Gross, 1948; Lewis, 1976; Norris, 1975, p. 30; see especially Sinclair 1986b). Some of Geoffrey Blainey’s (1964) work is the beginning of an alternate view. He argues that community and social identities, not the potential commercial benefits, may have motivated people to favor federation.

Much of the literature today follows this trend, and argues that identity factors were central to federation. The particular identity considerations that drove federation were not necessarily ethnic in composition, but rather revolved around civic community. That is, federation was an expression of political liberalism, on par with the expansion of voting rights and the development of the alternative ballot. William Pember Reeves (1902) links these issues together as common “state experiments,” but scholars have only recently posited a causal connection (Craven, 2001; Sawer, 2001).

Several prominent proponents of this view (Hirst, 2001, p. 2; Irving, 1997, p. 80-82) argue that identity factors do a better job explaining federation than economic factors, specifically because the states did not reach an agreement on a customs
union. The abstract economic argument I outline, however, demonstrates that this conclusion does not necessarily follow.

Hirst and Irving are correct to ask the question “why not anarchy?” That is, since the commercial motive to federate apparently could have been achieved in another way, an economic theory of federation needs to address the choice between a customs union and a federation. This same question, however, applies to proponents of an identity motive for federation: why authority? That is, given that Australians shared a common interest in a liberal, democratic political identity, why did that identity necessarily find a natural expression in federation? What is it about a shared idea of liberalism that cannot be expressed through anarchic, decentralized relations within a group of states? I do not know of an answer to this question; it may be answerable, but to my knowledge no one has answered it.

A passage from a memoir by Bernhard Wise (a leader in the New South Wales free-trade movement and a rival within the party to both Parkes and Reid) neatly summarizes the two alternative views on federation, my economic argument and the identity argument. He quotes a Tasmanian federalist, whom he does not name, as explaining the case for federation while touring Southern Tasmanian orchards. The speaker raises the specter of William Lyne, who was then the leader of the Protectionist party in New South Wales and hence the bane of Tasmanian apple exporters’ existences:

‘Gentlemen,’ he would say, ‘if you vote for the Bill you will found a great and glorious nation under the bright Southern Cross, and meat will be cheaper; and you will live to see the Australian race dominate the Southern seas, and you will have a

5 Hirst goes further and claims that businesses actually preferred a customs union to federation (p. 2), but does not provide evidence. At the Intercolonial Free Trade Conference of 1889 (a private association of merchants), conferees concluded that federation was the best way to have free trade, because of the benefits from “uniform legislation on matters such as patents and trade marks” (Martin, 1964, p. 224) and rejected a customs union as being impractical since negotiations kept failing.

6 A better argument that Hirst could have made is that any theory that applies to Australia should apply to other cases as well, and if common trade interests were all it took to trigger a federation then there would be many more federations around the world than there in fact are today. My argument avoids this potential criticism as well.

7 One possibility, of which I am skeptical, is Kant’s argument about liberal federations. His normative argument does not specify a causal mechanism other than a concern for security, and is therefore implausible in the Australian case anyway.
market for both potatoes and apples; and your sons shall reap the grand heritage of nationhood, and if Sir William Lyne does come back to power in Sydney he can never do you one pennyworth of harm.’ This, delivered in one level sentence, invariably won high applause; and, indeed, as a farmer remarked to one who derided the quaintness of the mixture, ‘It was a dam good speech; every word of it was true.’ (1913, p. 356).

Another issue is New Zealand. The seventh Australasian colony participated in ministerial and premiers’ meetings throughout the 19th century on the same basis as the other colonies, and even participated in some of the federal conventions. It did not, however, join the federation, despite some expectations at the time that it would (Westgarth, 1889, p. 371); scholars today should not think of New Zealand’s exclusion as having been a forgone conclusion (Sinclair, 1970, p. 175).

According to both the secondary literature (Arnold, 1970, 1987; Wood, 1968; see also Catley, 2001, for the argument illustrated with some bawdy line drawings) and accounts written at the time (Jebb, 1905, for one), New Zealand and Australian political culture were indistinguishable. Reeves (1902), after all, refers in his title to state experiments in both Australia and New Zealand.

The trade argument, however, can account for New Zealand quite easily. By 1900, slightly over 85% of New Zealand’s trade was with states other than the other six Australasian colonies. This means that by joining the federation New Zealand would lose the ability to regulate a great deal of trade (that is, it would no longer be able to raise or lower tariffs on its trade with the rest of the world) but only lock itself in to a guaranteed market for a small amount of trade. The ratio of external trade to intercolonial trade for New Zealand, 85:15, was by far the highest of any of the seven colonies, and much higher than the same ratio for Tasmania, 30:70. This suggests that the potential benefits to market integration were lower for New Zealand than the other colonies.

This argument is not likely to convince anyone, however; nor should it. First, my coding of the motives is based on my subjective reading of the secondary literature along with an incomplete sample of primary sources. Second, even if the coding is correct, the discrepancy of New Zealand is only one observed “failure” for the identity argument; this should not by itself warrant rejecting the argument. I therefore need more persuasive empirical results – ideally ones that test the difference
between identity and commercial motives in the decision-making process itself. I present such results below.

3. Some Empirical Results.

My argument suggests that the economic motive may have been pivotal in the Australian choice to federate. How can I demonstrate this using empirical evidence? In particular, is there any way to compare the relative contributions of economic and political-identity motives to the federal movement? This last point is crucial for both Australian historical studies and political science generally. Since both motives were potentially present in the Australian case, distinguishing between them will give us a better idea of Australia’s history. Since we want to say intelligent things about potential confederations in the future (the European Union, say, or Australia and New Zealand), whose components may have only one of either a common political identity or a potential commercial gain but not both, we need to settle on a single, parsimonious theory.

In order to do this I need to examine the internal politics of the Australian colonies. For the colonies that federated, the choice is overdetermined – that is, since both identity and commercial motives were present, considering any of the Australian states as a unit would not be useful. An examination of the pro- and anti-federation coalitions within each colony can, however, yield valid conclusions about Australia as a whole, for two reasons.

First, the shape of the political coalitions that formed over federation contains clues about the relationships among different issues. What was special about people who supported federation that made them different from people who opposed federation? If the people or groups within a given colony who most supported (or most opposed) federation were also the people or groups who most supported (or

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8 My argument, in fact, goes further, since I suggest that it was a combination of the diversity and inconsistency of trade preferences across the different colonies and their intrinsic interests in forming a common market that drove federation. However, the specific evidence I will reference here is only useful in distinguishing between commercial and identity motives generally; it is not helpful in comparing my specific economic argument with previous versions of the economic argument that previous scholars have made. The first part of this paper is still useful for this study, however, since it demonstrates that an economic theory is not inconsistent a priori with the broad history of federation.
most opposed) the expansion of regional commerce by other means, or the promotion of military security by other means, or the expression of democratic political ideals by other means, then this linkage can tell us something about the motives behind federating.

Second, I seek to make a specific counterfactual claim about what a colony would have done if it had had a governing coalition with different aims. This necessarily implies that I need to have information about the most plausible alternative governing coalitions. As it actually happened, the pro-federation coalition with specific ideas about trade and democratic ideals held power in, for example, New South Wales. But if an anti-federation coalition had held power, then federation would not have happened. By analyzing coalitional politics, I can specify what changes in underlying preferences about trade and/or political identity would have produced an anti-federation coalition. This second reason means that this approach has the added advantage of being a valid tool for inference even if it is the case that people in the colonies who made decisions relevant to federation were themselves unaware of either their own true motives or some deeper forces influencing their decisions.

I supplement my qualitative analysis (which I will not discuss here; see my forthcoming dissertation) of the coalitions behind the federation movement with a quantitative analysis. I use voting patterns – the record of the divisions – in parliamentary bodies as a way of uncovering coalitions, simply because parliamentary votes are recorded in an unambiguous way and I can use existing inferential techniques to draw conclusions about coalitions from these votes. Here, I describe results from my study of the New South Wales Assembly during the period from 1894 to 1896.

The New South Wales Assembly in this period has two specific characteristics that make it ideal for my study. First, the parliament considered many diverse issues over which there was considerable difference of opinion, from women’s suffrage to electoral qualifications to labor wage bargaining to trade policy to defense spending to federation. In nearly all cases, the public nature of the debates and the profound implications for society at large meant that individual members of parliament were under constant scrutiny by those to whom they were responsible (whether this was their public constituents or party leaders is unimportant for my analysis) and had incentives to maintain a consistent position in the parliamentary divisions. So, by
observing the nature of the coalitions as they reveal themselves through voting, I can get a plausibly accurate read on the relationships between different issues.

Second, the New South Wales parliamentary decisions on federation in this period were important for their own sakes – individually, they were more crucial to the shape of Australia today than any other single set of colonial parliamentary decisions. In 1896, the NSW parliament set the rules for that colony’s referendum on the federal constitution. In all of the colonies except New South Wales, the rules specified that the referendum would pass if it got a majority of the votes of the voters voting on that day. In New South Wales, however, a parliamentary coalition skeptical of federation set the rule so that the minimum number of “yes” votes had to be either a majority or 80,000, whichever was higher. As it happened, there were 71,595 yes votes on the first attempt in 1898, and 107,420 on the second attempt in 1899. The 80,000 figure was, of course, a compromise; opponents of federation initially sought a series of higher numbers, and 80,000 was the lowest threshold that Reid was able to engineer. Had some of the early proposals (one was for 120,000) held, the referendum may never have passed. As a result, New South Wales (and therefore in all likelihood Queensland and Western Australia as well) may never have joined “Australia.” A counterfactual argument about these divisions – what would have had to be different in order for these divisions to have come out the other way – is therefore a counterfactual argument about Australia as a whole.

Many of the 1896 NSW decisions were made by informal legislative deals, behind closed doors. Some, presumably those that were close, were made in the open in recorded parliamentary divisions. Therefore, for some of the choices there is a record of members’ individual votes. I use these individual votes as a rough measure of where each MP stood on the issue of federation.

The next step, then, is to relate members’ positions on federation to their positions on other issues. One way of doing this is using a small number of legislators’ well-known positions on other issues. For example, Crisp (1979) describes eight NSW legislators, shows that there is one each of the eight possible permutations of for and against federation, trade, and political liberalization, and concludes that federation politics cut across both trade and political reform politics with no consistent pattern.
I use an approach that is both more systematic and less reliant on specific judgments about individual members. I compare each member’s vote in 1896 to his\textsuperscript{9} position on all other issues simultaneously, as expressed by his votes in all the other divisions in parliament over the previous two years.

For the period from August 30\textsuperscript{th}, 1894, through December 19\textsuperscript{th}, 1895, there are 563 assembly divisions on issues other than federation that are recorded in the New South Wales Hansard. For each of these divisions, there is a record of the choice of each of the 149 MPs who were in the assembly during the period – yes, no, or abstain. I use the record of these divisions to draw conclusions about each individual member’s position on a variety of issues.

What do I mean by “position?” Simply that each member produces a history of votes that can yield clues about his preferred set of policies. “Ideal” or “ideal point” refers to the specific bundle of government policies that a person prefers above all others. For example, George Reid’s ideal point was a liberal program that included the expansion of the franchise to women and a free trade program that included significant reductions in tariffs and a shift to a land and income tax as a means of raising revenues. By observing a legislator’s choices over many votes, we can begin to pin down his or her policy preferences in relation to other legislators.

I use a statistical procedure called \textit{NOMINATE}, which American political scientists commonly used in studies of the U.S. Congress, to derive an estimate of each member’s ideal point (Poole and Rosenthal, 1997, describe the procedure).\textsuperscript{10}

Space is a common metaphor for political preferences, as in “right” and “left.” The following representation of political positions should not be particularly puzzling to anyone observing the November 2001 Australian federal election:

\textsuperscript{9} They are all male.

\textsuperscript{10} The technique I use depends on estimating individual ideal points based on each member’s voting pattern in relation to every other member’s voting pattern. In a pure Westminster system, all members of a party always vote the same way in every division, so there is no diversity and, hence, the type of estimation I use is impossible. The procedure is used in studies of American legislatures since party discipline in the United States tends to be weak. Since each member of any given legislative body in the U.S. tends to be relatively unconstrained by party leaders, each typically has a distinct set of preferences that he or she expresses through recorded votes. Australian parties during the mid-1890s were still relatively weak, as I will demonstrate below, so the expressed ideal points of the assembly member are quite diverse. Thus, even though political scientists, appropriately, do not use the technique to study Australia today, its use to study earlier periods is warranted.
Here, space along a single physical dimension represents differences in political ideal points along a left/right ideological dimension. In ordinary language, for someone to hold a view that is “to the left” of labor means that that person holds a view that is also “to the left” of both the Coalition and One Nation as well.

A straightforward implication of this common metaphor is that each individual issue divides these five parties into two groups. For example, suppose a simple yes-or-no question were put to each of the five parties: should Australia increase its intake of refugees? The Greens and the Democrats would say yes, while the other three would say no. The refugee issue, then, creates a “cutting line” between Despoja and Beazley. Other issues create other cutting lines that divide the parties into two groups in other ways.

To the extent that this ideological dimension is generally meaningful for understanding politics, many (or even most) issues will divide the parties in one of only four ways: the Greens against everyone else, the Greens and the Democrats against everyone else, the Coalition and One Nation against everyone else, and One Nation against everyone else. There may, less often, be issues that divide the parties in other ways, for example the Greens and Labor against the Democrats, the Coalition, and One Nation, but these will be rarer than the more common four ways. Other combinations would be more rare; rarest of all would be an issue in which the Greens and One Nation stood on one side of a political issue while the Democrats, Labor, and the Coalition stood on the other side.

I devised this example knowing from the beginning what the approximate, relative ideological positions of the parties were. Suppose, however, that I had no knowledge of Australian politics or understanding of any of the issues but I wanted to reconstruct this dimension anyway. I would list all of the issues in which there was

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11 This example is for illustrative purposes only, based on my reading of some of the campaign websites prior to the federal election. If this or any other assertion related to this example is wrong, please accept it as simply hypothetical.
some disagreement. Then, I would consider all of the possible arrangements of the parties (that is, ABCDE, ABCED, ABECĐ, ABDCE, and so on).

Of these arrangements, I would pick the one that minimizes the “error.” That is, I would choose the one in which issues most often divide along a single cutting line that divides the parties and individuals on the left from those on the right. Furthermore, when errors do exist – that is, when there are issues that scramble the order to some extent – I would try to have the arrangement I choose be one in which, as much as possible, the errors involve parties being only a short distance out of place rather than a long distance. So, if out of many issues there were several in which the divisions had two parties that I provisionally put next to each other switching positions, this would be less of an error than two parties on extreme opposite sides joining against the center.

Once the parties are put in order along the line, the error process can provide an additional set of useful information. Say, for example, that although the ordering is correct most of the time there are some issues in which there are errors of the following sort: on some issues, the Democrats and Labor appear to switch places, with the Democrats appearing to the right of Labor and Labor appearing to the left of the Democrats. If these particular errors were frequent, then I would put the Democrats and Labor close together on the line. If the Coalition and One Nation switched places less frequently than the Democrats and Labor, then I would make the distance between Coalition and One Nation greater than the distance between the Democrats and Labor.13

Note that this procedure takes a history of positions on various yes/no questions and produces a spatial map of the relationships – that is, positions and relative distances – among different actors’ ideal points. It does not provide any information about the content of the space. So, for example, although I might get the order and spacing correct, if I had no other source of information about the parties other that which ones were on the same side as which other ones on a number of

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12 A point of clarification: the word “error” in this context refers, technically, to my errors as an analyst, not in the ordinary sense of an error that the parties make. An error here simply means that the metaphor of a one-dimensional line only imperfectly represents all of contemporary Australian politics; this is unsurprising.

13 In this way, the NOMINATE procedure is superior to a simple index of similarities, such as a factor analysis or the more traditional Guttman scale.
issues, then I would be just as likely to put One Nation on the extreme left and the Greens on the extreme right as I would to get the correct placement. The final step in this process is therefore to examine at least some of the issues that make up the yes/no questions posed to the parties in order to gather some clues about the underlying dimension of conflict. In this case, figuring out that the dimension of political conflict is fundamentally a left/right ideological space and that One Nation is on the right while the Greens are on the left should not be particularly challenging.

This is the methodology I apply to New South Wales. Figure 2 shows the ideal points of the 149 people who were members of the assembly during a 16-month period from August 1894 through December 1895 as revealed by the 563 assembly divisions taken then. Again, each assembly division is a yes/no question, allowing me to plot each member’s position, using space as a metaphor for differences in policy opinions.

Figure 2 about here.

Unlike the earlier example, in Figure 2 I show the results of plotting ideal points in two dimensions, rather than one. The same logic, however, applies. Each of the 563 divisions can be thought of as a cutting line that divides the 149 members, such that the members on one side of the line vote yes and on the other side of the line vote no. Of all of the individual votes in this sample, 88.2% are correctly classified; that is, for any given member voting in any given division, there is an 88.2% chance that the procedure correctly “predicts” his choice. (This is a better accuracy rate that comparable studies of the U.S. Congress, where comparable two-dimensional studies yield a percentage correct classification in the low 80s.) The 563 cutting lines (not shown, although see below for examples) cross the space and each other at different angles.

In the figure, each x represents a member, with the exception of seven prominent figures – for reference purposes I use last names to represent George Dibbs, William Morris Hughes, William Lyne, E. W. O’Sullivan, A. B. Piddington, George Reid, and Bernhard Wise.

Note that although there is some clustering of members’ ideal points around the parliamentary leaders, namely Reid and Lyne, there is also a great deal of scattering. This dispersion of preferences, analogous to getting a diverse sample of
respondents in a poll or a medical study, allows for a great deal of inferential leverage. (It also suggests that party discipline was far from rigorous.)

The next step is to identify the dimensions that the procedure recovers. Do they have any meaning that makes sense in substantive terms? Recall that the procedure simply shows relationships and plots them geometrically; making judgments about the nature of the dimensions requires qualitatively assessing the issues. The first dimension explains most of the sources of difference; I show this on the horizontal axis. This represents economic conflict, primarily the differences between free-traders (on the left) and protectionists (on the right). The further to the left a member is, the more radical a free-trade proposal he will support; the further to the right a member is, the more radical a protectionist proposal he will support.

I make this determination using two sorts of evidence. First, trivially, I note that Reid and Wise were members and leaders of the “Free Trade Party” while Dibbs and Lyne were at different times leaders of the “Protectionist Party.” Generally, Free Trade members tend to be on the left side of this dimension while Protectionist members tend to be on the right (I have kept most of the names out of the figure in order to make it easier to read).

Second, more reliably, I examine the cutting lines of divisions that represent major issues. The procedure records the position of the cutting line for each of the divisions, allowing me to plot any one of them in the space. In order to make a judgment about the issues around dimension 1, the horizontal dimension, I use the substance of the bills for which the cutting line is most nearly vertical. Why? Because any cutting line that is vertical, regardless of whether it is on the right side, the left side, or the center of the graph, separates members only by their positions along the first dimension. In other words, a fix on a member’s position on the first (horizontal) dimension is sufficient to predict how he would vote in a division with a vertical cutting line; his position on the second dimension is inconsequential.

Which divisions have nearly vertical cutting lines? Of the 50 most nearly vertical, 29 of them (or 58%) directly concern Reid’s program of scaling back the tariff and replacing it with a land and income tax. The next largest group is on procedural issues – these presumably each had substantive policy issues behind them, but the hidden agendas are not recorded. Of the rest, most were budgetary matters and miscellaneous regulatory provisions whose meanings are obscure. Only two seem at all related to political and social reforms. The first was a procedural vote on
an amendment to a bill that, as a whole, generally referred to electoral qualifications, while the second was a resolution calling for the expansion of suffrage to women. Neither of these cast reasonable doubt on economic label for this dimension; the electoral qualifications amendment (which failed) was probably specifically targeted at particular members, and the female franchise resolution came on the second week of the Reid government and was part of a set of party manifesto pronouncements.

Consider dimension 2, the vertical dimension. Divisions with horizontal cutting lines represent issues that fall mainly along this dimension. I tabulated slightly over 70 divisions with cutting lines that were almost exactly horizontal. (As it happens, there were many more divisions with nearly horizontal cutting lines than there were divisions with nearly vertical cutting lines; this finding has no substantive meaning.) Of these, none concerned revenue measures or related to the tariff. Slightly over half concerned government spending on administrative offices while the third largest group directly concerned civil service reforms. I speculate that these were directed at perceived corruption – advocates of many of these bills, motions, and amendments spoke in the assembly about the menace of American-style graft accompanying the spoils system of distributing salaried government offices. The second largest group, making up over one-fifth of the divisions with nearly horizontal cutting lines, concerned two different kinds of labor regulation: one that generally limited the number of hours contracted laborers could work and one that regulated an office to mediate labor disputes. Three of the divisions were on female suffrage, including one crucial division that postponed consideration of extending the franchise indefinitely. Two more dealt with electoral reforms generally. In the entire set of 563 divisions, only three address the issue of overall military spending, and all three have a nearly horizontal cutting line (these were all proposals to reduce the overall defense budget.) The rest of the bills in this group are varied: two concern legislator pay, two concern working conditions in mines, and the rest are procedural matters. In general, they seem to mostly fall under the category of political and social reforms.14

14 This dimension is as much about labor reforms as it is about political identity. William Morris Hughes was, of course, an early Labor leader; he shows up on the upper-left side of the figure (consistent with Crisp’s 1990 placement). Labor reforms and broader political reforms seem to have been related generally, though, with members of the early labor party supporting suffrage expansion, etc., as the cutting lines on these issues reveal.
In Figure 3, I show the same graph as in Figure 2, but with the addition of two cutting lines. The horizontal cutting line is from a division from 18 September 1894 on a procedure measure to prevent female franchise from coming to parliamentary consideration. (In an example of the dangers of coding procedural divisions superficially, it was actually the proponents of franchise expansion who engineered the move to prevent its consideration, since they knew that they did not have the votes to pass the reform at the time. Opponents of expansion voted against the measure and in favor of bringing the issue directly to consideration.) This division broadly represents many of the other divisions that I have labeled “political and social reform” and divides the chamber along the vertical dimension – between the more reformist “top” of the graph and the more conservative “bottom.”

The vertical cutting line represents the division on the third reading of the land tax bill on 20 June 1895. Again, this division is representative of most of the other divisions on economic and especially tariff issues; it divides the free-traders, on the left side of the graph, from the protectionists, on the right.

Note that my reconstruction of the political map of New South Wales is consistent with that of other scholars, who in qualitative work have found that the primary difference of opinion was over tariffs and that there was also a strong conflict over reform (Crisp 1979, 1990; Hewett, 1969; Hughes and Graham, 1968; Loveday, 1972; Norris, 1975; Serle, 1969). Contemporaneous accounts also support this view (Deakin, 1963; Galloway, 1899; Piddington, 1929; Reeves, 1902.)

Finally, consider federation. To keep the initial measures of policy preferences distinct from federation, I do not include any divisions that directly concerned federation in the initial sample of divisions. In addition, in order to keep the distinction between the underlying preferences on non-federation issues and the

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15 In New South Wales’ politics, the Assembly, which I study, was substantially more liberal than the more conservative Senate. Thus, nearly all of the figures prominent in the Assembly are, to varying degrees, liberal reformers. The leading conservatives that L.F. Crisp (1979) highlights, for example, are all Senators. This is not ideal for my purposes, since I would prefer to have a sample of the whole range of opinion; however, as the figures reveal, there is still substantial variation along the reform dimension, meaning that I can still evaluate the marginal consequences on federation of changes in this set of attitudes.
preferences specifically on federation as clear as possible, I apply the preference map I derive from the history of divisions in 1894-95 to divisions over federation from a later parliament. Specifically, I apply the spatial map from Figures 2 and 3 to a series of divisions over federation that occurred in 1896. In other words, how did where members initially stood on the two basic issues of the day, trade and reform, influence where they later stood on federation?¹⁶

Or, simply put, are the cutting lines for divisions on federation more horizontal, like a division on political and social reform, or more vertical, like a division on trade?

Figure 4 about here.

The answer is that federation is much more like an economic than a reform issue; furthermore, to the extent that federation has an implication along the reform dimension, it is the reverse of expectations.

Figure 4 shows a division on the referendum bill taken on 29 October 1896, where a “yes” vote is to allow the assembly to continue amending the referendum bill – this was a ploy to stall for time while opponents of federation, now led by Lyne, tried to secure support for further raising the threshold of voters necessary to approve the federation bill in the referendum (this is my interpretation based on the floor debates and from my reading of Deakin, 1963, p. 87; see also Piddington, 1929, and Wise, 1911). The assembly defeated the measure.

The angle of the cutting line is representative of the other votes on federation during 1896 (and, indeed, in the earlier 94-95 period as well). Regardless of the origins of any particular issue – that is, whether the particular division on federation is in response to a proposal by the government, a private bill, or a floor amendment – the pattern is quite stable: the cutting line is mostly vertical, with a slight angle. In all of these votes the revealed proponents of federation were generally on the lower left side of the line while the opponents were generally on the upper right.

¹⁶ By “influence” I mean only in the sense of being connected to. Whether the influence works by a legislator consciously deciding that a core set of preferences on trade and/or reform lead him naturally to a certain belief about federation or whether the influence works by unconscious means, selection, or in some other subtler way should not, I believe, influence the appropriateness of this method as I apply it here.
So, the more oriented toward free-trade a member was, the more he fell into the pro-federal camp; the 1894-96 results suggest that this relationship was quite strong. The other result is puzzling, though, from the perspective of the identity-based arguments for federation. My findings here suggest that a member who, all else equal, advocated more progressive positions on reform issues would have been slightly less supportive of federation.\textsuperscript{17} Note also that preferences over military spending, which may be related to perceptions of the need for stronger defense, are also a second-dimension issue and are therefore unrelated to federation. This casts further doubt on the already dubious security motive.

These results are, of course, only a slice of the process in only one of the colonies during only one moment of the protracted choice for federation. As such, they should obviously be read as suggestive rather than definitive. The method I use here, though, is one that I intend to replicate in at least one other colony (Victoria in 1891, by a much-debated act of parliament, chose to instruct its convention delegates to push for procedural hurdles to make it less likely that New Zealand would join the federation).

4. The Future of World Politics.

\textsuperscript{17} Naturally, my results here only imperfectly predict support and opposition for federation, and there are numerous “errors” (that is, my errors rather than the members’) throughout. Most of my findings are quite consistent with earlier qualitative work that addresses the federation process in New South Wales (such as La Nauze, 1972; Martin, 1964, 1969, 1980; and Norris, 1969). Some findings, though, are puzzling when set next to other works. For example, Crisp (1990) identifies O’Sullivan, in the middle right of my graph as a free-trader and a reformer, which is consistent with my initial placement of him. Crisp, however, further categorizes O’Sullivan as a proponent of federation, although he is somewhat far to the “wrong” side of my cutting line. By the way I measure support for federation, though, there is no “error” at all, at least in the statistical sense; O’Sullivan voted to increase the threshold of yes votes necessary to pass the referendum to higher than 80,000, beyond what was eventually chosen for New South Wales and far beyond that in any other colony (all the others only required a simple majority). This discrepancy suggests that I need to further investigate other potential primary sources that might shed light on O’Sullivan, and perhaps others in his ideological neighborhood.
My question in this paper deals with the consequences of changes in the nature of potential international market integration for large-scale political institutions. This broad relationship gets to one of the central questions concerning “globalization.”

The argument suggests, however, that institutional effects of rising demands for market integration are not necessarily uniform. In particular, states that seek a common market do not necessarily federate; after all, the Australians only sought federation after it was clear that a customs union was unattainable.

What about customs unions today? In these last two paragraphs I indulge some wild speculations. The member states of the European Union have already achieved a customs union without an authoritative federal government. That they have done so is not profoundly surprising; these states have embedded liberal coalitions that are unlikely to revert to economic closure in the foreseeable future. In terms of the possibilities laid out in Figure 1, the E.U. members, unlike their early Australian counterparts, are “reliable” – that is, similar to the states in the model that are likely to avoid cheating on the fundamental goal of the common market with at least an 80% chance. To that extent, an economic motive for a federal government in Europe is likely to be weak. This may change, of course, if the E.U. expands eastward to include states with less secure liberal coalitions that prefer openness; absent this sort of change in its configuration, the E.U. is unlikely to develop into a federal state.

Ironically, then, my interpretation suggests that the prospects for greater authority by regional “federal” governments is greater in areas outside Europe where political integration has so far lagged behind. As countries in regions where preferences over openness are more diverse, there will be more pressure for states that are integrating economically to cede authority to supranational institutions. Thus, as economic interdependence in East Asia and Africa rises over the next half-century, the potential for regional federations there may surpass the potential in Europe.