



## The City And The State

### **Publish Date:**

July 2014

---

*This article from the [July 2014 edition](#) of the [IPA Review](#) is by Ray Evans. Ray Evans was a pioneering free market activist who passed away in June 2014. This article follows reflections on his role in the Australian liberty movement.*

Economists since Adam Smith have focused on national economic statistics and on policy prescriptions to increase national prosperity. Smith's great contribution was to show that the mercantilist doctrines of his day (building up gold reserves by exporting more and importing less) led to impoverishment, and his great book *The Wealth of Nations* became the textbook for the political leaders of nineteenth century Britain.

But the focus on national policies and aggregates ignored the central fact of economic life, that it is in the cities where economies grow and innovations are born, and that the nation is, in economic terms, an artificial aggregate of a number of cities in differing states of growth or decline.

The writer who has opened our eyes to this fact is Jane Jacobs, described by William Buckley Jr



as one of the truly original thinkers of the twentieth century.

Jane Jacobs was born in Scranton, Pennsylvania. She moved to Greenwich Village in New York in 1935, and then to Toronto in 1968. She wrote three important books, *The Death and Life of Great American Cities*, *Cities and the Wealth of Nations*, and *The Economy of Cities*.

It was when Jacobs lived in Greenwich Village that she became aware of the pernicious doctrines of city planning and urban renewal (urban socialism) which threatened the vitality of that great city, and she became famous for her attack on Robert Moses, the doyen of American town planning at that time.

She has shown us that it is the city, not the nation or the State, which provides the foundations and the structures essential for economic life. She has taught us that we should look at the world as a matrix of cities, rather than as a polity of nation-states, formed by the Treaty of Westphalia in 1645. If we follow in her path we become both wiser and much better informed.

Jane Jacobs makes the important point that agriculture and pastoral life depend upon the cities, not the other way round, as so many of us (particularly country folk) have believed. Agriculture (including plant breeding) developed first in and then around the city, and spread outward from the cities as water borne transport enabled vegetables and other perishables to be brought to the city for immediate consumption. Meat was usually butchered in the city on a daily basis but fish were salted and stored for months. The meat market at Smithfield in the centre of London has been operating for centuries.

The city is where economies grow or shrink, where trade increases or declines, where innovation is vigorous or sluggish, where populations increase or decline, where science, invention and knowledge flourish or shrivel, where men 'able to use their opportunity' can become rich or impoverished.

Cities of the first kind are places where people, particularly people with talent, energy and ambition, go to seek their fortunes, and these cities increase in wealth and influence and confidence in the future.

In Australia we have two big cities, Melbourne and Sydney. Australia is a destination of choice for immigrants both legal and illegal from all over the world. So despite the ruinous cost of housing in both these cities, population growth continues, although Melbourne is overtaking Sydney in immigrant numbers.

Jane Jacobs criticized Adam Smith for entitling his influential treatise 'The Wealth of Nations', and for his continuing emphasis on economic comparisons between nations such as Britain and France. She pointed out that Smith accepted without question the mercantilist belief that the nation-state was 'the salient entity for understanding the structure of economic life.'

Smith performed one great service in that he showed with matchless prose that trade between nations (England and France particularly) was a positive sum game; not a zero or even negative

sum game as the mercantilists fervently believed, and that all trade led to gains for both parties. It would, however, have been more accurate if Smith had discussed trade between cities.

Merchants in London traded with merchants in Paris, Bordeaux, Marseille, and other French coastal towns. Transport by sea or by rivers or canals enabled cities to grow dramatically during the late eighteenth century and early nineteenth century. The cost of waterborne transport compared to road transport was cheaper at a rate of 20:1. The canal boom of the late eighteenth century enabled London to grow fourfold as the new canals enabled large quantities of fresh food to be transported daily to feed the growing city.

The Port of London has been central to the economy of London since the founding of the city by the Romans in the first century. In the eighteenth and nineteenth centuries it was the busiest port in the world, with wharves extending continuously along the Thames for eleven miles, and over 1,500 cranes handling 60,000 ships per year. London was then the centre of the British Empire and was the most important financial city in the world.

If the city is the place where economic, cultural, scientific endeavour and intellectual life takes place, where does the nation-state find a place? In Periclean Athens, the city and the state were coincident, and although Athens was the centre of an empire, that empire was based on the Athenian navy, and on the security which that navy provided for the trading world of the Eastern Mediterranean. It was a forerunner of the nineteenth century *Pax Britannica* during which the Royal Navy ruled the seas, to the very great benefit of all those who relied on ships to carry their exports and imports around the world.



The Athenian empire was made up of independent Greek cities, many of which willingly accepted the protection of the Athenian navy and contributed ships or taxes to pay for it. Some cities however wanted to free-ride and were then forced to pay under threat of invasion by Athens. They were thus unwilling members of what was known as the Delian League (named after Delos where the treasure used to pay for the Athenian navy was originally stored), but most cities were willing members of what was a naval based empire. The key battle of those days was the Battle of Salamis in 480 BC, in which the Athenian navy, with allied support, destroyed the Persian navy under the eyes of the Persian King, Xerxes, who watched the battle from the top of a nearby

mountain. Next year the Greeks won decisive victories over the Persian army at Mycale and Plataea.

This fifth century history sheds light on the differences between the city and the state. The Athenian empire was a precursor to the nation-state. Its primary purpose was maintaining the armed forces required to defend the membership against foreign invasion. Invariably there were disputes about money and who was to control its expenditure. Pericles took the war-chest at Delos, brought it to Athens, and used the money not for naval purposes but to build the Parthenon and other public buildings, thus setting the stage for the Peloponnesian Wars which ended in Sparta's victory and Athens' ruin.

The primary function of the nation-state, then, is the maintenance of military forces capable of defending the cities which are the source of its revenues, and of using these forces for preemptive strikes when necessary, or the extension of imperial power when thought desirable. The most difficult issue with this arrangement is how the nation-state is to fund its military expenditures. In Periclean Athens, the financial arrangements with the other Greek cities of the Eastern Mediterranean were always difficult, as free-riding was a constant temptation. Athens was ruthless with cities that reneged on their financial commitments.

The primacy of the city has cultural as well as economic significance. City dwellers have often been depicted as morally inferior to country folk, and some leading politicians have sought to create a rural persona to encourage faith in their trustworthiness. Cities have always been suspected as centres of vice—Sodom and Gomorrah are the archetypes.

The superiority in both mind and body of country people became an article of faith for many farmers and pastoralists. In Australia, this belief helped the founders of the Country Party, notably Dr Earle Page, who came back from the Great War and, amidst the political divisions which Billy Hughes fostered, was able to build a coherent political party. The Country Party was based on rural virtues and beliefs, and on the support of small wool-growers and soldier settlers who tried to make a living on uneconomic farms. Page served as Deputy Prime Minister first under Stanley Bruce and then under Joe Lyons.

Bert Kelly used his farm as a source of parables in his life-long campaign against protectionism, and because they were both authentic and compelling in the economic wisdom they conveyed, he found disciples on both sides of politics. And it was the Hawke-Keating-Button government which began the process of rolling back the protectionist fortress which had been set in place by Alfred Deakin eighty years earlier. They were supported by the Howard-led opposition.

Australia does not quite fit the Jacobian model explanation because the industries which provide the wealth necessary for our defense expenditures come not so much from the cities, but from the mines and the paddocks which provide us with the export income which keeps us solvent. However, the administration of the mines, and the decisions to invest or not to invest in new projects, take place in the cities.

A constant complaint about politics in Australia today is that power is centralized in Canberra and



what was constitutionally a federation has now become a unitary state with the states acting as 'service providers', not sovereign members of a federation. There are many egregious examples of this situation. Education provides one. The constitution nowhere prescribes any commonwealth role in education. But the Commonwealth Department of Education has 4,000 bureaucrats, none of whom ever see a student, and using its financial muscle, interferes in great detail in the administration of schools, both government and non-government. Prime Minister John Howard decided to introduce a 'national curriculum' and confidently believed he could purge it of black-arm band history and other leftist nonsense. In this, as in other matters, he was deluded.

Four of the six states, New South Wales, Victoria, South Australia and Western Australia, are extensions of their capital cities, Sydney, Melbourne, Adelaide and Perth. Queensland is unique in that a majority of its population does not live in Brisbane, and there has been continuing agitation for the creation of a new State of North Queensland. Tasmania, the smallest and poorest state has two rival cities, Hobart the capital, (pop 217,000) and Launceston (106,000).

In terms of real-politik, then, the Australian nation comprises four major cities which are growing—Sydney, Melbourne, Brisbane and Perth—and two cities—Adelaide and Hobart—which are in decline.

But these cities are ruled in ever-increasing detail from Canberra, and despite the abject failure of every referendum seeking constitutional change which would increase the power of Canberra—the High Court, ever since the Engineers' Case of 1921, combined with the taxation arrangements which came into effect in World War II, turning the Commonwealth into a taxing Leviathan—have combined to give us the centralist, unitary, state which the constitutional fathers did their best to put beyond the reach of ambitious politicians. Tragically, they failed.

In political life most citizens of Melbourne think of themselves as Victorians rather than as Melbournians, and similar ways of thinking are found in the other states with the exception of Queensland where secession is still a live issue. But this is not true in business life. Cities are where economic life is concentrated and business men and women are focused on the economic opportunities which the city provides, either within itself, or internationally through trade with other cities.

If we look at the Australian federation in terms of its cities we see that Brisbane's sphere of influence extends into north-western NSW. Melbourne's northern boundary is the Murrumbidgee rather than the Murray.

Adelaide was unlucky that Broken Hill was just across the state border and so the royalties went to Sydney. But South Australia is very prospective, and when BHP gets its act together and develops the huge open cut mine it plans for Olympic Dam, the royalties from that mine should transform Adelaide and SA. Copper mining began in South Australia in 1843 and the triangle based on Kadina, Moonta and Wallaroo was known as the copper triangle, and also as Little Cornwall. If copper prices increase then exploration will get underway again. The big problem for new entrants into the exploration and mining industry in South Australia, and indeed internationally, is that the Olympic Dam ore-body is so large, and once the initial investment in



over-burden removal has been made, production can be expanded at very little cost. So it would have to be a very rich ore-body indeed for anyone to put up the capital to develop it.

Perth is the most isolated city in the world. But the wealth generated by the iron ore developments in the north have made it a prosperous city. Gold-mining has also been a major industry since the 1890s, and Geoffrey Blainey tells us that when Victoria went bust in 1892-93, many breadwinners from Richmond, Collingwood and the other inner suburbs which are now very fashionable, sailed from Station Pier to Esperance and walked from there to the goldfields, 200 miles north.

There is a dispute over whether or not these expat Victorians enabled WA to get the numbers to accept the federation proposal during the referendum of 1900. WA voted for secession in 1933 but Joe Lyons bought them off with the Grants Commission.

My Western Australian friends tell me that sentiment towards the eastern states ('t'other side') and Canberra changed as a result of the Japanese bombing of Darwin and Broome.

I was taught at school in the 1940s that it was not until the Gallipoli disaster that national sentiment began to establish a firm place in the minds of Australians. And then of course, came the massacres on the Western front, when so many Australian lives were lost in unbelievably stupid and tragic military adventures. There was hardly a family which was not affected by these losses; in a strange way, this war-time tragedy entrenched Australian patriotism.

It has often been noted that war is the instrument by which nation-states impose their authority over the cities which sustain them. This has certainly been true of Australia. The Pacific War, in which Australia was saved from Japanese invasion by the arrival of the Americans, particularly the US Navy, shows how that is so. I have a friend who grew up in Hobart in a house overlooking the Derwent. One morning in 1942 he got up and looked out the window and saw the Derwent River covered in American warships. The US Navy had arrived during the night.

At the beginning of the war the federal government used its wartime powers to assume control of income tax, which had previously been a state preserve. After the war it took little persuasion from the anti-federalists to ensure that income tax stayed with the Commonwealth. Regrettably the State premiers of the time made no attempt to regain their taxation powers.

So we have an unhappy situation in which Canberra is taking more and more interest in the minutiae of our daily lives, and the state governments, with the notable and important exception of Queensland, are seemingly content to go along with it.

This is not something which Australians support. Justice Ian Callinan, in his dissenting judgment in Work Choices made the point that every referendum, designed to increase the role and reach of the Commonwealth, bar one, has failed; and not just failed; but failed seriously. It is the High Court, with its interpretation of the corporations power, which has opened the flood gates to the centralist tide coming out of Canberra.

We can only hope that at some point the people will get sick of it, to the point where politicians can

see their career prospects enhanced by returning to the federalist cause. Canberra is not popular with the majority of Australians, but it is popular with rent-seekers because if successful they can reap, in one stroke, a rich reward. The latest example of such rent-seeking is the attempt by wind-turbine manufacturers and wind-farm proprietors to over-ride state regulation (on behalf of those people unfortunate enough to live near these things) which will prevent any further investment in this scam.

One factor in the disdain which is ubiquitous in Canberra towards the states is the condescension with which federal politicians look upon their state counterparts. If you are not good enough to get pre-selection for a safe federal seat then a state seat is a second or third prize.

One of the proposals during the constitutional debates of the 1890s, concerning the election of the Senate, was that the state governments should decide who should represent their states in what was designed as a states' house. Regrettably, this proposal did not get up, and the arguments about how senators should be chosen have never reached a permanent conclusion.

Now that the composition of the new senate has again become a matter of controversy, with the sixth senator from each state selected by chance rather than the desires of the electorate, we have an opportunity to remind the Australian electorate that the senate was supposed to protect them and their states from overweening centralism. At the time of federation this was seen as Melbourne and Sydney versus the rest of Australia, and without some guarantee of protection of state sovereignty the referenda endorsing federation would have failed.

Now it seems that party discipline, unknown until the infant ALP adopted it just before federation, has turned the senate into a party's house.

The time has come to recognise formally the centrality of cities in our political life, and to return to the state governments the power to nominate the senators who will represent their states in the senate.

