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# Rent seeking or market strengthening? industry associations in New Zealand wool broking

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# Rent seeking or market strengthening? industry associations in New Zealand wool broking

## **Abstract**

This paper builds on recent conceptual work about associations that is drawn from the new institutional economics. It uses evidence from New Zealand wool broking to indicate the circumstances in which industry associations can operate effectively and in the broader public interest. Through their strong associative capacity and effective specialization of function, wool-broking industry associations developed flexible routines for managing wool auctions, mediated disputes, mitigated opportunism, addressed major market disruptions, and served as a communication channel with government. External pressures and monitoring from other business interests, governments, and a competitive wool market constrained rent-seeking behavior, preventing members from benefiting at the expense of others.

## **Keywords**

wool, market, seeking, rent, industry, broking, zealand, strengthening, associations

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Rent-seeking or market strengthening?

Industry associations in New Zealand wool broking

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## Rent-seeking or market strengthening?

### Industry associations in New Zealand wool broking<sup>1</sup>

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#### Abstract

This paper builds on recent conceptual work on associations drawn from the new institutional economics, and uses evidence from New Zealand wool broking to indicate the circumstances in which industry associations can operate effectively and in the broader public interest. The paper also draws comparisons with Australian practices. Through their strong associative capacity and effective specialisation of function, wool broking industry associations developed flexible routines for managing wool auctions, mediated disputes, mitigated opportunism, addressed major market disruptions, and served as a communicating node with government. External pressures and monitoring from transactors, governments, and a competitive wool market constrained rent-seeking behaviour.

#### 1. INTRODUCTION

Associations are an alternative form of social ordering to that structured by the community, market and state, and can provide the best public interest outcomes in

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<sup>1</sup> I am grateful to John Singleton for comments on this paper, and David Merrett for his input to related joint work on the Australian wool broking associations. Three anonymous referees are thanked for their constructive comments.

some situations.<sup>2</sup> However, they have received negative press under the shadow of Mancur Olson's work on the rent-seeking 'distributional coalition' during the 1960s to 1980s.<sup>3</sup> Recent work, particularly by Richard Doner and Ben Schneider, has alternatively emphasized the productive contributions of business associations, particularly through their ability to resolve exchange, hierarchy, and collective action sources of market failure in developing economies.<sup>4</sup> In practice, many associations undertake a wide range of strategies that include both redistributive and pareto-optimal objectives. The successful pursuit of these goals depends on the strength of the association's structure and the environmental constraints that it encounters.

This paper focuses upon industry associations in the New Zealand wool broking industry, notably the New Zealand Wool Brokers Association (hereafter, NZWBA) and its regional constituent bodies. Wool has been the nation's dominant industry for much of its history and the brokers have played a vital role in facilitating sales to buyers worldwide. Section 2 of the paper surveys the nature and history of business associations, and assesses the influences on their efficient operation and strategic choices. Section 3 examines the evolution, structure, and activities of the

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<sup>2</sup> Wolfgang Streeck and Philippe C. Schmitter, "Community, Market, State – and Associations? The Prospective Contribution of Interest Governance to Social Order", in *Private Interest Government* eds, Wolfgang Streeck and Philippe C. Schmitter, *Beyond Market and State* (Sage, 1985), 1-29

<sup>3</sup> Most notably *The Rise and Decline of Nations* (New Haven, 1982); *Logic of Collective Action* (Cambridge, MA, 1965).

<sup>4</sup> Richard F. Doner and Ben Schneider, "Business Associations and Economic Development: Why some Associations Contribute more than Others", *Business & Politics* 2, 3 (2000): 261-88; Richard F. Doner and Ben Schneider, "The New Institutional Economics, Business Associations and Development", *ILO Discussion Papers* 110 (2000): 1-25.

wool broking associations in New Zealand, focussing on their formative period and central role in the first half of the twentieth century, and provides comparisons with the Australian experience. Section 4 concludes the paper with a brief discussion of some of the broader implications.

## 2. INDUSTRY ASSOCIATIONS

### *Definition*

Industry associations constitute third-party or bridging organisations.<sup>5</sup> Members collectively delegate certain rights to a central body, which exercises ‘associational governance’ through a process of structured bargaining. Associations often represent the interests of members in an industry, but may also represent firms by size, geographic location (local and national chambers of commerce), function (importers or exporters, primary producers or manufacturers) or professional group. Typically, they are funded by member subscriptions, and their governance is contained in a written constitution.<sup>6</sup> While associations come in many forms, in general they may be distinguished from a wide range of inter-firm structures by dint of their existence as a separate bridging organisation, independent of individual members, and in providing reasonably broad representation.

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<sup>5</sup> Also variously known as business, trade, professional, or employer associations.

<sup>6</sup> On trade associations see: Marc Schneiberg and J. Rogers Hollingsworth, “Can Transaction Cost Economics Explain Trade Associations”, in *Political Choice. Institutions, Rules and the Limits of Rationality*, eds Roland M. Czada and Adrienne Windhoff-Héritier (Frankfurt am Main, 1991), 202-4. Hiroaki Yamazaki, “Introduction” in *Trade Associations in Business History. The International Conference on Business History 14*, eds Hiroaki Yamazaki and Matao Miyamoto (Tokyo, 1988) ix-xviii, provides a typology of Japanese trade associations.

Associations undertake a wide range of activities in pursuit of their strategic aims. The literature divides their aims broadly into two categories: those that yield benefits to members at the expense of others ('rent-seeking'), for example by successful lobbying for favourable tax or trade treatment; and those that focus upon improved efficiency in their sector, which may also provide consequential spill over benefits beyond their membership ('pareto-optimal'). In practice, rent-seeking and efficiency motives are difficult to disentangle, for example, price and output agreements may be viewed as an exercise in market power or an attempt to provide order and certainty to the benefit of all parties. Different activities draw upon the same resources of the association, especially in terms of staff, information, and infrastructure. It may also be instructive to distinguish between motives (*ex ante*) and actual outcomes (*ex post*): a rent-seeking motive may provide unintended growth benefits as a form of externality, or vice versa in the case of setting accreditation standards that create entry barriers.<sup>7</sup> Motivations are also sensitive to the lifecycle stage of an association. Initial formation may draw on strategic (market power) and distributional (offloading risk) objectives; subsequently, members may perceive efficiency benefits from association.<sup>8</sup>

Doner and Schneider observe that business associations operate at a meso-organisational level between markets and hierarchies, which has largely been overlooked by the new institutional economics. They argue that associations help to resolve many of the market imperfections that are at the crux of new institutional

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<sup>7</sup> Alfred E. Kahn, "Cartels and Trade Associations," *International Encyclopedia of the Social Sciences* (New York, 1968), 323-4 identified the entanglement of different motives and outcomes.

<sup>8</sup> Schneiberg & Hollingsworth, 223-4.

analysis. They distinguish between the ‘market-supporting’ and ‘market-complementing’ activities of associations as means of resolving market failure. Market-supporting activities involve exerting pressure on governments to increase the supply of public goods (such as improved infrastructure, stronger property rights, and the mitigation of official corruption); whereas market-complementing activities address the supply of club and private goods (such as horizontal and vertical coordination between firms, accreditation, information flows, and human capital skills). They facilitate *exchange* through reducing transaction costs (mediation and improved information flows), attenuate the need for *hierarchy* through mitigating agency problems (reduced information asymmetries), and promote *cooperation* through resolving collective action dilemmas (provision of incentives).

### *History*

Historically, a wide range of industry associations has existed. In Britain, the Limitation of the Vend was an organisation of coal producers that operated intermittently over the three centuries up to 1850, primarily to regulate output. During the economic downturn in the final quarter of the nineteenth century, the number of trade associations expanded rapidly in the face of heightened intra-industry competition, particularly in traditional staple industries (such as cotton, coal, shipping, and iron and steel), which were suffering strong competitive pressures in the face of high fixed costs. Evidence of this trend has been noted for example in Britain, Germany, Japan, France, Australia, and the US.<sup>9</sup> A further burst of activity occurred

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<sup>9</sup> For example see Toni Pierenkemper, “Trade Associations in Germany in the Late Nineteenth and Early Twentieth Centuries”, and Jean-Pierre Daviet, “Trade Associations or Agreements and Controlled Competition in France, 1830-1939”, both in Yamazaki & Miyamoto; Grant



during the interwar slump, frequently with the encouragement of governments, especially in Japan and the US, who believed they had a positive role in rationalising industries suffering from excess capacity. In Japan the number of associations rose sharply at the depth of the downturn, 1929-31, causing them to be labelled ‘children of the Depression’<sup>10</sup>.

Contemporary analysis emphasised the rent-seeking motives of associations, particularly in the form of output and price controls, although achieving market stability and sharing technical information were also noted.<sup>11</sup> An initially negative view among business historians has undergone revision. Paul Sweezy’s assertion of the monopoly profits generated by the Vend was challenged, along with Alfred Chandler’s framework for the supremacy of large-scale enterprise over intermediate forms of governance.<sup>12</sup> The multiplicity of objectives of Japanese industry associations has been brought to light, particularly their ability to complement the managerial resources of individual firms, their mediation role, and their willingness to

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Fleming, and Dorothy Terwiel, “How Successful was Early Australian Antitrust Legislation? Lessons from the Associated Northern Collieries, 1906-11,” *Australian Business Law Review* (1999), 27, 1.

<sup>10</sup> Takeo Kikkawa, “Functions of Japanese Trade Associations before World War II: the Case of Cartel Organizations”, in Yamazaki & Miyamoto, 60.

<sup>11</sup> George R. Carter, *The Tendency Towards Industrial Combination* (Constable, 1913); Hermann Levy, *Monopoly and Competition. A Study in English Industrial Organisation* (London, 1911).

<sup>12</sup> Paul M. Sweezy, *Monopoly and Competition in the English Coal Trade, 1550-1850*. (Cambridge, MA, 1938). William J. Hausman, “Market Power in the London Coal Trade: the Limitation of the Vend, 1770-1845,” *Explorations in Economic History* 21 (1984), 383-405. Alternative perspectives are summarised in Gordon Boyce and Simon Ville, *The Development of Modern Business* (Basingstoke, 2002), 21-7.

serve as a conduit between firms and governments.<sup>13</sup> Louis Galambos has reassessed his own work on trade associations to emphasise their contribution to technical change, and Arthur McIvor's study of British employers' associations explains their role in dispute resolution.<sup>14</sup>

Two recent studies of industry associations are particularly noteworthy for their revision of the rent-seeking perspective. Gordon Boyce's account of the Pharmaceutical Society of Australia (formed in 1857) describes its role in the diffusion of information and knowledge among its members, monitoring professional standards, fostering cooperative behaviour, and communicating with other groups. Insofar as the Pharmaceutical Society of Australia pursued rent-seeking objectives, this was sought through elevating the status of their members rather than by direct manipulation of prices and output.<sup>15</sup> Francesca Carnevali shows how the Birmingham Jewellers Association (formed in 1887) provided stability and mitigated dishonest and destructive behaviour during an economic downturn. By establishing a code of conduct, it replaced or reinforced costly and slow court ordering with crafted private ordering.<sup>16</sup>

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<sup>13</sup> Matao Miyamoto, "The Development of Business Associations in Prewar Japan" in Yamazaki & Miyamoto.

<sup>14</sup> Louis Galambos, "The American Trade Association Revisited" in Yamazaki & Miyamoto; Arthur J. McIvor, *Organised Capital: Employers Associations and Industrial Relations in Northern England, 1880-1939* (Cambridge, 1996).

<sup>15</sup> Gordon Boyce, "A Professional Association as Network and Communicating Node: the Pharmaceutical Society of Australia, 1857-1918," *Australian Economic History Review* 39, 3 (1999), 277-81.

<sup>16</sup> Francesca Carnevali, "Crooks, Thieves, and Receivers: Transaction Costs in Nineteenth-Century Industrial Birmingham," *Economic History Review* 2<sup>nd</sup> ser., 57, 3 (2004): 533-50.

### *Associative capacity and strategic choices*

The ability of industry associations to pursue particular strategies depends on their internal organisational strength and external pressures and conditions.<sup>17</sup> Their strength, or associative capacity, depends on the nature and benefits of membership. High member density, or encompassment, is central to associative capacity. Where a company never joins, or when it exits, this weakens the association's influence over the industry, its claim to speak representatively, and it risks free riding by non-members, and the emergence of a rival association or group. Where high density is achieved through a small number of members in a concentrated industry, this reduces the costs of administering the association, particularly in securing cooperation, participation, and honest behaviour.

The most effective way to ensure high density is to make membership of the association highly attractive. It may provide club goods, where tangible benefits accrue solely to members, such as bulk purchase discounts. The shared cost of, and access to, a common infrastructure is another possible benefit. Some services provided by associations possess public good properties, such as lobbying on behalf of the industry, although they risk collective action (free riding) behaviour by non-member firms in the industry. Intangible selective benefits provide additional inducements, particularly the reputation signals that membership emits. Membership is an explicit signal of trustworthiness and creditworthiness, where defaulters and bankrupts are expelled. Many associations are active in setting and amending forms of industry accreditation. Marc Law and Sukko Kim viewed occupational licensing regulation in the US as a response to increased knowledge specialisation that made it

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<sup>17</sup> See Doner & Schneider, "Business Associations", 270-5.

difficult for consumers to judge the quality of services. Thus, licensing was motivated by the public interest question of mitigating information asymmetries.<sup>18</sup> The ability of associations to mediate disputes among members can provide a more swift, transparent and low cost resolution than with court ordering. In turn, such explicit and implicit signals strengthen the enforcement powers of associations, because expulsion is more damaging to reputation than non-membership. An association can also provide a forum for sharing tacit knowledge, which is transferred through close interaction and learning by doing.

Tensions and divisions can still plague an association as members jostle for leadership, seek to defend their territory, and form alliances based upon particular interests. Commonalities in the social and professional background and aspirations of the members may foster an innate sense of cooperation.<sup>19</sup> This may reflect social linkages and a shared history (heritage) and position in the industry. Active participation and close interaction is preferable to passivity and distance in building associational cooperation. The expression of members' 'voice' encourages a wider range of interaction, heightening trust, consensus, loyalty, and other forms of social capital, while providing a greater range of expertise in decision making and closer monitoring of the association's officers.

Drawing on the evolutionary economics literature, one might expect associations, like firms, to be able to reproduce standard routines from practice as part

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<sup>18</sup> Marc T. Law and Sukkoo Kim, "Specialization and Regulation: the Rise of Professionals and the Emergence of Occupational Licensing Regulation," *Journal of Economic History* 65, 3 (2005): 723-56.

<sup>19</sup> Mark Granovetter, "Economic Action and Social Structure: a Theory of Embeddedness," *American Journal of Sociology*, 91, 1985: 481-510.

of an organisational memory.<sup>20</sup> Routines constitute a recognised and accepted procedure, thereby economising on transaction costs. Routines themselves may evolve. The most enduring influences on associative capacity are the ability to learn (from previous similar circumstances) and to adapt (to new circumstances). Learning provides an improved response to a particular situation and requires cognitive skills but also memory. Therefore, human capital levels and record-keeping practices are important. An association must adapt to changes in its industry's position, to the shifting dynamics among its members, and indeed its changing membership composition. Its ability to respond effectively to these dynamics in a manner that sustains trust and cooperative participation is vital to its effectiveness. Associations can behave as adaptive institutions in several ways, most notably through possessing a governance structure that is responsive to change.<sup>21</sup>

While associative capacity explains how effectively an association can pursue its aims, the nature of those aims is strongly conditioned by pressures in the external environment. Doner and Schneider argue that 'third party enforcement', particularly by competitive international markets or governments, will pressure associations towards efficiency motives.<sup>22</sup> As firms experience 'market vulnerability' during

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<sup>20</sup> Richard R. Nelson and Sidney G. Winter, *An Evolutionary Theory of Economic Change* (Cambridge, MA, 1982); Jan Fagerberg, "Schumpeter and the Revival of Evolutionary Economics: an Appraisal of the Literature," *Journal of Evolutionary Economics* 13, 2 (2003): 125-59.

<sup>21</sup> Douglass C. North, "Understanding the Process of Economic Change" (Institute of Economic Affairs Occasional Paper 106, London, 1999), 18 refers to the importance of adaptive institutions to the economic development of nations.

<sup>22</sup> Doner & Schneider, "Business Associations", 275-8.

economic downturns, their focus is on trying to cut costs for their members.

Increasing market power is also much more difficult in such conditions.

Many associations have been formed during downturns and proved to be subsequently most active at such times. Governments and associations often work closely, which is a means of seeking opinions and diffusing policy for the former, and an opportunity of lobbying for the latter. Examples of such reciprocity have been recorded, for example, between Japanese governments and developmental associations from the late nineteenth century.<sup>23</sup> Governments have conferred on associations various selective benefits, extending in some cases to compulsory membership. This relationship has provided governments with opportunities to pressure associations to seek improved economic performance by the sector in return for these privileges of association. It also enables governments to monitor more closely any rent-seeking activities.

Finally, ‘enforcement’ can come from other third parties associated with the industry, especially associations in upstream and downstream activities eager to avoid incurring the consequences of anticompetitive behaviour while encouraging efficiency gains along the value chain.

### 3. WOOL BROKERS’ ASSOCIATIONS IN NEW ZEALAND

#### *Wool production and marketing in New Zealand*

Debate on the role of industry associations is informed by rich historical evidence from the New Zealand wool broking industry. After British colonization in 1840, settlers established sheep stations on the rich grasslands, and sheep numbers

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<sup>23</sup> Charles Sabel, “Learning by Monitoring” in *The Handbook of Economic Sociology* eds, Neil J. Smelser and Richard Swedberg (Princeton, 1994).

rose from 2 to 20 million between 1861 and 1901.<sup>24</sup> With only a small domestic population to feed, sheep were increasingly farmed for high quality wool rather than a combination of wool and meat.<sup>25</sup> Since wool has a low rate of perishability and is easy to transport, it could be exported, initially to Britain but increasingly to Continental Europe, North America and Japan by the early twentieth century. New Zealand developed rapidly into a leading international wool producer, together with Australia; between them they supplied two-thirds of British wool imports by 1870. Wool was New Zealand's principal export, accounting for around 30 to 50 per cent of exports between the 1860s and World War One. Thereafter, its share averaged 20-30 per cent, due to the expansion of dairy and frozen meat exports.<sup>26</sup> Wool, gold, grain and the ancillary services they generated made New Zealand one of the wealthiest economies in the world in the second half of the nineteenth century.<sup>27</sup>

A series of technical and economic changes affected the production and marketing of wool from the later decades of the nineteenth century. Technical advances, notably improved stock breeding, sheep dips, machine shearing, fencing, and pasture improvement, contributed to increased wool yields. Allied to technical progress was closer settlement, as large estates were subdivided into smaller but

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<sup>24</sup> Gary R. Hawke, *The Making of New Zealand. An Economic History* (Cambridge, 1985), 32.

<sup>25</sup> Although the onset of refrigeration in the 1880s encouraged farming of dual purpose sheep.

<sup>26</sup> Geoffrey W. Rice ed. *The Oxford History of New Zealand* (Auckland, 1992, 2<sup>nd</sup> edn), table 4, 597.

<sup>27</sup> Hawke, 76; Angus Maddison, *The World Economy. Historical Statistics* (Paris, 2003), 60, 61, 67, 87, 100, 142, 146, 149, 180, 181, 188.

economic farms, under pressure of government policy and a mix of high interest rates, falling land prices and refrigeration.<sup>28</sup>

These changes created a class of small-scale sheep farmers who drew on a stock and station agent in their local town for a range of business services including finance, farming inputs, and technical and market information. The volatility of wool prices, similar to most commodities, and the long lead times from shearing to final sale in London, meant farmers often relied on their agents for seasonal finance. However, the key role of the stock and station agent was to manage the marketing of the farmer's wool, normally for sale by auction in London. A long and complex supply chain carried the wool from the farm gate to its purchaser in London, which included overland shipment within New Zealand, storage and transshipment at the nearest export port, sea carriage, receipt in London where storage, then display, preceded the auction itself. The supply chain required careful management, to minimize delays and damage, arrange appropriate insurance, negotiate shipping and storage rates, and receive payment after the sale. These responsibilities were shared between the New Zealand stock and station agent and the English importing agent or broker.

In the final two decades of the nineteenth century a major market shift commenced towards the local sale of wool in New Zealand prior to its export. The geographic diversification of demand, improved international shipping services, and the growth of the small farmer accounted for the relocation of the international wool market from Britain to New Zealand and Australia in the late nineteenth and early

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<sup>28</sup> The economic development of the wool industry is detailed in Simon Ville, *The Rural Entrepreneurs. A History of the Stock and Station Agent Industry in Australia and New Zealand* (Melbourne, 2000), 7-13.



twentieth centuries.<sup>29</sup> Non-British buyers saw opportunities to buy directly in the producing country rather than through London as an entrepot market, a process facilitated by the growth of regular shipping services from New Zealand to European destinations. Small farmers received prompt payment and stronger market signals from local sales.

Local auctions had begun in Dunedin in the 1860s and Wellington in the following decade, although sales were small and irregular until at least the 1880s. Local selling spread among the major ports through which wool exports passed, which also included Auckland, Christchurch, Napier, and Invercargill. Local sales were fostered by New Zealand stock and station agents who saw an opportunity to wrest control of the wool trade from larger and better-resourced British brokerage firms. The New Zealand agents thus took on the role of wool-selling brokers located in the exporting ports to auction wool prior to its overseas shipment.

#### *Formation of wool broking associations*

As more local brokers appeared, it became clear that the absence of a central auction room that could sell a substantial volume of wool imposed costs on all parties. Individual brokers conducting their own auctions, without any coordination of their sale times with other brokers, duplicated physical resources and could not take advantage of economies of scale. Buyers would spend more time travelling between sales, and bid for a narrower range of wool.<sup>30</sup> Growers would have fewer buyers at each sale than if there was a central auction room, pushing prices lower. The brokers

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<sup>29</sup> On the Australian experience see: Simon Ville, "The Relocation of the International Market for Australian Wool," *Australian Economic History Review* 45, 1 (2005), 73-95.

<sup>30</sup> In Australia buyers exerted strong pressure for central salesrooms. Alan Barnard, *The Australian Wool Market, 1840-1900* (Melbourne, 1958), 154-5.

wanted to reap economies of scale and scope, through selling related products such as skins and hides. The buyers and growers both wanted the largest offerings at any session and the most bidders.

Regional wool brokers associations, therefore, came into existence at the end of the nineteenth century, with the primary function of managing the emerging central wool auction at the major port of their region.<sup>31</sup> The New Zealand Wool Brokers Association (NZWBA) was formed in 1907 as the national industry body. The volume of wool sold locally in New Zealand had doubled in the first six years of the twentieth century, which reflected the continued expansion of production and the increasing share being auctioned locally. In 1906, 47 per cent of wool exports were auctioned locally, a share that rose to three-quarters by the 1920s.<sup>32</sup>

In order to continue the expansion of local selling, address the needs of major overseas buyers bidding in New Zealand, and compete effectively with the London market, brokers needed to put auction procedures on a secure footing. This meant standardising practices into routines and inculcating norms to govern behaviour. Therefore, while each regional association managed its wool auction, NZWBA developed nationwide practices, coordinating between the associations in matters such as the national sales roster, and communicating with other industry and external bodies. Regional wool broking associations had emerged in Australia at the same time and for similar reasons. However, a national body, the National Council of Wool Selling Brokers, was formed at the end of World War One, to help dispose of the

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<sup>31</sup> For example, the Otago Woolbrokers Association was established about 1890-1. John H. Angus, *Donald Reid Otago Farmers Ltd: A History of Service to the Farming Community of Otago*, (Dunedin, 1978), 28, 41.

<sup>32</sup> *Dalgety Annual Wool Review*, Noel Butlin Archives Centre, Australian National University.

wool surplus. As a result, the regional bodies in Australia had become more powerful and independent, and took on a wider range of tasks, often consulting with each other.<sup>33</sup> The existence of a dominant capital city port within each Australian colony, the larger volumes of wool handled, and the problems of long distance communication contributed to these different practices.

The richness of extant evidence on the wool brokers associations in New Zealand enables a close examination of the debate about the role and nature of industry associations. This paper details material relating both to the NZWBA and the Wellington Wool Brokers Association (hereafter, WWBA), which includes minutes of meetings, correspondence, associational rules and regulations, and conditions of sale for wool auctions.<sup>34</sup> The WWBA archive includes some copies of NZWBA documents and reports on the latter's meetings, which confirm the veracity of the evidence. These sources have been underutilised, being used only briefly in the standard history of the stock and station agent and wool broking industry.<sup>35</sup>

A national association of brokers was seen as 'very necessary at the present time...there are constantly points in dispute arising between buyers and sellers, which can be more satisfactorily settled by the central association than if the buyers are able to work off one [regional] association against another'.<sup>36</sup> The wool buyers had

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<sup>33</sup> Simon Ville and David Merrett, "Investing in Interorganisational Communication: The Melbourne Wool Brokers Association", in *How Organizations Connect: Investing in Communication* eds, Gordon Boyce, Stuart Macintyre, and Simon Ville (Melbourne, 2006).

<sup>34</sup> These records were deposited with the Alexander Turnbull Library, Wellington when the New Zealand Stock and Station Agent Association relocated to Christchurch in 1991. Reference: MS-Group-0489. Subsequent references will provide the item number and description.

<sup>35</sup> Ville, *Rural Entrepreneurs*, 196-200.

<sup>36</sup> 96-223-01. NZWBA, correspondence, 8.11.1911.

already organised themselves into a national association by 1907, and had a list of issues to discuss with a body that could represent wool brokers. Far from seeing a national representative of brokers as a threat, the buyers encouraged the formation of the NZWBA as a sovereign governance structure, which could serve as an effective communicating node to help improve the operation of the wool market. In 1908 the New Zealand Wool Buyers Association (NZWBuyA) welcomed the formation of the NZWBA, and almost immediately the two associations were locked in long joint conferences that addressed a wide range of issues, including arrangements for insurance, warehousing, presentation and weighing of wool, payment terms, and delivery on board ship.<sup>37</sup>

While much of the NZWBA's initial business involved negotiating the auction environment with buyers, its role evolved and changed over the course of the twentieth century. During both world wars the associations dealt regularly with the New Zealand and British governments. In each case, the British government purchased all New Zealand wool at an arranged price. This replaced the auction system, and instead the wool brokers focused on the appraisal of each wool lot against a table of limits to value it in relation to the unit price.

After each war, the associations worked with farmers, brokers and governments to arrange an orderly disposal of surplus wool stocks as part of the British and Australian Wool Realisation Association and then the Joint Disposals Organisation respectively. During the interwar period, when the wool industry endured a long downturn as a result of low prices, the associations' focussed on

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<sup>37</sup> In 1910 the WWBA wrote to NZWBA with a list of 14 items to discuss regarding the organization of wool sales. MSX 4323, WWBA letterbook, 25.5.1910.

reducing costs, discouraging excessive competition among brokers, handling unsold wool, and responding to the competition from new artificial fibres.

In the second half of the twentieth century, the role of the wool brokers associations diminished. In part this reflected the progressive reduction in the number of selling centres in New Zealand, which dropped finally in 1984 to a single centre in each of the North and South Island. The introduction of Woolnet in 1999 (an internet-based trading system) and attempts by the New Zealand Futures and Options Exchange to establish a wool futures market on the Sydney Futures Exchange (1988, 1991 and 2004) are further evidence of the decline of the regional public physical wool market in New Zealand.<sup>38</sup> In addition, the NZWBA was increasingly subsumed within the New Stock and Station Agents Association (hereafter NZSAA, formed in 1933), which had become the peak industry association by the 1960s, directly representing the dominant firms. Finally, governments became more involved in the wool market through the New Zealand Wool Commission (1951) and its reserve price experiments. This paper, therefore, concentrates on the wool brokers associations during the first half of the twentieth century.

### *Membership*

NZWBA's membership consisted of the regional associations. Most associations joined on its formation in 1907 but two of the larger ones, Christchurch and Auckland, refused to do so until 1911. Christchurch noted that a previous attempt to form a national association had failed as a result of 'conflicting interests'. By 1911, four years of successful cooperation among the associations and important progress in

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<sup>38</sup> Wool Research Organisation of New Zealand, "Wools of New Zealand. Buying New Zealand Wool" ([www.woolsnz.com](http://www.woolsnz.com)), 1-6.

resolving issues with NZWBuyA persuaded Auckland and Christchurch to join. Membership density remained high throughout NZWBA's history, bolstering its right to represent local brokers and gain access to government, while mitigating the risk of free riding on its public good role. The regional associations that were members of NZWBA in 1911 accounted for 98 per cent of the wool auctioned in New Zealand.<sup>39</sup> Applications for membership went to an election, with three black balls to reject. In practice, there was no general attempt to limit entry, and fees were set at relatively modest levels.<sup>40</sup>

The number of members remained comparatively small and stable, thereby reducing the costs of administration and of securing cooperation on decisions. In 1911 seven of the eight auction centres had regional associations that were NZWBA members. The only selling centre not a member was the small southernmost town of Invercargill, which joined around 1914. The inclusion of Oamaru (1917) and Wanganui (1921) reflected the greater spread of auction centres in World War One, although several smaller temporary centres did not join. Oamaru excepted, the remaining nine associations constituted the membership until after World War Two. A contraction in membership in the latter half of the twentieth century was due to the reduction in selling centres following amalgamation and rationalisation in the industry.<sup>41</sup>

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<sup>39</sup> The following wool brokers' associations were members by 1911: Auckland, Christchurch, Dunedin, Gisborne, Napier, Timaru, and Wellington.

<sup>40</sup> MSY 4135, NZWBA. Rules and Regulations in NZWBA minute book.

<sup>41</sup> Details of membership were recorded regularly in NWBA's minute books, which cover 1907-84. MSX 4330, MSY 4133-4141. Periodic redrafting of its 'rules and regulations' also contains membership details.

Membership of the regional associations was similarly small, stable, and dense. It comprised the local wool broking firms selling in the major centres (town members), and a country membership, with reduced powers and status, for local stock and station agents who regularly sold or forwarded wool at smaller inland centres. Thus, in 1911 seven associations representing 33 local brokers and selling agents were members of NZWBA. The division between types of membership is indicated by the fact that 24 of these 33 members were selling brokers at the major ports.

Figure 1. Industry associations in New Zealand wool broking

A group of wool brokers expanded nationally in the first few decades of the twentieth century to dominate the industry; the top five brokering one half of the wool auctioned in New Zealand, as indicated in table 1. They were: Dalgety, New Zealand Loan and Mercantile Agency, Wright Stephenson, National Mortgage and Agency, and Murray Roberts.<sup>42</sup> Thus, the number of firms with membership of more than one regional association became an important factor in the cooperative dynamics of NZWBA. By 1911, 47 per cent (24 out of 51) of memberships of regional associations were held by firms with more than one such membership nationally.<sup>43</sup> No firm, though, individually dominated the wool broking industry or its associations: 18 per cent was the maximum national market share held by any firm prior to major rationalisation of the industry in the 1960s. Nor did any of the regional associations control the NZWBA, the maximum market share over the same period being 39 per

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<sup>42</sup> In some years Pyne Gould Guinness had a larger share than Murray Roberts.

<sup>43</sup> MSY 4133, NZWBA minutes 1911.

cent.<sup>44</sup> Leadership and direction, instead, was provided through cooperation and mutuality of interest.

Table 1: Five Firm Market Share in New Zealand Wool Broking

Social networks and shared experiences reinforced these structural ties.<sup>45</sup> Senior managers, representing broking firms, had similar occupational backgrounds and shared experiences as long-term servants of individual firms with the same heritage: Wright Stephenson and National Mortgage and Agency, for example, both evolved as Dunedin-based agencies in the second half of the nineteenth century. Regionally, many employees went to the same schools, social clubs, had worked as landowners and sheep farmers and frequently moved between firms.<sup>46</sup> This propinquity was sustained by common challenges during the twentieth-century lifecycle of NZWBA, which included two world wars and an interwar slump. Such commonalities cemented the desire for active participation, which is revealed in the records of high attendance at meetings, the almost complete absence of threats of resignation, and an unwillingness to push divisive issues and minority viewpoints.<sup>47</sup> While disputes arose among the associations, notably over commission rebates to banks, freight rate rebates to shipping companies, and the length of the ‘prompt’

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<sup>44</sup> Ville, *Rural Entrepreneurs*, 33, 129.

<sup>45</sup> See Ville & Merrett, for evidence of social ties among members of the Australian associations.

<sup>46</sup> Ville, *Rural Entrepreneurs*, 60-1; Russell C. J. Stone, *The Father and his Gift*, (Auckland, 1987), 123-4. Allan L. Christensen, “Structural and Functional Evolution in the New Zealand Stock and Station Agent Industry”, MA thesis, University of Auckland, 1986, 45.

<sup>47</sup> In 1914, for example, WWBA backed down over the issue of bank rebates in the interests of associational unity. MSY 4120, WWBA minute book .



period between sale and removal of the wool, these were relatively isolated compared with long periods of cooperation over a wide range of issues, and were resolved through open debate and majority vote. Thus, ‘voice’ and ‘loyalty’, rather than ‘exit’ or ‘passivity’, was the order of the day, which in turn heightened the association’s social capital. Boyce has similarly shown how interaction through office-holding, associational language, ceremonies and rituals helped bind group identity for the Pharmaceutical Society of Australia.<sup>48</sup>

High density and cooperation were also the products of the benefits of membership. Membership of regional associations enabled firms to participate in joint local selling, which yielded scale economies in physical infrastructure and marketing. NZWBA membership conveyed participation in the national roster of sales, thereby avoiding clashes with other regional auctions. Many of the objectives and outcomes of NZWBA discussed below were best or solely captured through membership. Active participation gave members a voice in these matters and in how the industry addressed major shifts in the external environment. Many years later, when the closely related NZSSA discussed increasing its entrance fee, it believed the new charge should reflect the substantial assets, especially goodwill, a new member gained from an association built up over 60 years.<sup>49</sup>

Membership provided reputation guarantees for firms and associations. The expulsion of members who repeatedly breached association rules or sale conditions or were deemed guilty of ‘disgraceful or dishonourable conduct’, along with the blacklisting of deviant transactional parties, helped to protect members from opportunism. Graduated fines up to £50 and temporary suspensions distinguished the

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<sup>48</sup> Boyce, 259.

<sup>49</sup> MSY 4144, New Zealand Stock and Station Agent Association, minute book, 1.8.1991.

minor or occasional offender from the recidivist, and helped to balance the potentially conflicting aims of high membership density and effective enforcement. Through such rules, therefore, membership signalled trustworthiness and creditworthiness to other members and to other transactional parties, particularly growers and buyers.

Associational mediation of bilateral disputes between members or representation in disputes with members of other associations reduced the cost and time involved in resolution. NZWBA's constitution contained instructions for dispute resolution through hearing cases at a general meeting and resolving by a majority vote of members.<sup>50</sup> The process was standardized, and members were well placed to judge matters that were technical and specific to the trade. While NZWBA and its regional associations could not claim to be professional associations in the manner of the Pharmaceutical Society of Australia, they would have gained some additional reputation benefits from setting standards and arranging classes for wool sorting in local technical institutes.<sup>51</sup>

### *Objectives and outcomes*

A mixture of broad and specific objectives are stated in the constitution of NZWBA. On the one hand, it includes 'the supervision and control of all matters affecting the interests of wool brokers...selling wool in New Zealand' and a catch-all, 'to do and perform any other services'. Thus, the wide range of activities undertaken by NZWBA in practice did not exceed its original remit, and its focus was on supporting brokers selling wool in New Zealand rather than firms consigning to London. On the other hand, it also included a very specific task, 'to formulate...and

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<sup>50</sup> NZWBA Rules and Regulations in NZWBA minute book, MSY 4135.

<sup>51</sup> For example, MSX 4323 WWBA letterbook, 2.6.1910.

vary...a standard minimum scale of charges and commissions for receiving, warehousing and marketing wool’, which suggests this may have been at the core of the brokers’ concerns in 1907. In practice, selling commissions and charges were agreed with relative ease, and remained unaltered over long periods, the main exception being during the interwar Depression, when there was intense pressure to reduce costs and charges. A third objective, ‘to vary from time to time conditions and regulations for the sale of wool’, became one of the main foci of the association’s work.<sup>52</sup> Overall, however, the constitution reveals comparatively little about what NZWBA actually did as an organisation, which changed over time in response to altered circumstances and through a growing appreciation of its own role and potential contribution. The minutes and correspondence of NZWBA and its regional associations provide a clearer account. These activities divide broadly into: enhancing the auction system, market regulation, and industry representation.

#### Enhancing the auction system

Sale by auction provided sellers and buyers with many benefits, particularly the breadth of wool choice for buyers and the prospect of many competing bidders from the sellers’ perspective. In addition, it reduced the transaction and logistical costs of individual sales through centralisation and the speed of clearance through the auction bidding process. However, pushing large quantities of wool rapidly through a series of discrete processes was vital to avoid upstream hold-ups. These processes included receiving wool from individual farms into warehouses, its sorting, weighing,

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<sup>52</sup> MSY 4135, NZWBA. Rules and Regulations in NZWBA minute book. NZWBA also set charges, commissions, and regulations for sale of skins, hides, tallow and sundries although this appears to have been a minor aspect of their work in practice.

and display for inspection in showrooms, the conduct of the auction, the completion of sale documents, outweighing, payment, and removal to an export warehouse or shipping store for 'dumping' (compression), then delivery on board ship. Each process was more complex than might first appear, with many grounds for disagreement and dispute between buyers and sellers. Thus, there were many methods of displaying wool, incurring brokers in varying levels of work and the buyer in differing degrees of product information. Once sold, effective coordination of weighing, document signing, payment and removal of the wool were all vital, and had to be tied to changes in ownership and responsibility for insurance to avoid disputes. External causes of outward delays such as transport movements were further complicating factors.

A national association unencumbered by the day-to-day responsibility of managing an individual auction, but which incorporated the experiences of associations and firms that did, provided an appropriate forum for developing standardised and detailed procedures. The strong associative capacity of NZWBA, and the support of NZWBuyA, created an institutional environment in which progress could be achieved towards the development of routines by codifying standard practices into the conditions of sale document, which was regularly updated. These included providing definitions of key terms, personnel and procedures. Thus, for example, an accurate definition of 'delivery' clarified the point at which a broker's legal and financial responsibility for the wool was discharged. Previously, duplication or even triplication of insurance had occurred among broker, buyer, and even shipowner.<sup>53</sup> Each procedure was now clearly explained. Flexibility was built in by explaining alternative scenarios at particular stages and by providing ways of

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<sup>53</sup> MSX 4323, WWBA letterbook, 19.7.1909.

resolving residual sources of uncertainty. Thus, it explains the procedure when either broker or buyer removes the sold wool, and lists alternative payment procedures.<sup>54</sup>

Dispute resolution procedures are outlined in the event of internal failure, such as a buyer not completing the transaction or ‘false packing’ by the broker; or for external failure, such as industrial strikes or transport delays. Since resolving disputes took up association time, measures were implemented to reduce the risk of disputes occurring or becoming protracted. Of particular importance was the keeping of accurate and independent documentary records by the associations and mutual monitoring between transacting parties. For example, each broker had to supply two booking clerks to another broker, ‘the catalogues taken by them to be signed and handed to the Chairman, and to become the property of the [local] association’.<sup>55</sup> For important clauses, a mutual deed of covenant was signed by members and a bond submitted, which was forfeited in the case of a breach. If all else failed, NZWBA reverted to the dispute resolution procedures in its constitution.

### Market regulation

There is no evidence in its records of NZWBA or its regional associations persistently manipulating the market by restricting the supply of wool for sale, although finding such material is always problematic.<sup>56</sup> Nor is there evidence of fixing the price of wool, of which their commissions were a percentage.<sup>57</sup> This is perhaps

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<sup>54</sup> 96-223-09, NZWBA Miscellaneous papers contains copies of the conditions of sale document.

<sup>55</sup> MSX 4323, WWBA letter book, 27.10.1909.

<sup>56</sup> Barnard, 110 suggests similarly for Australia, that the only significant attempts to restrict output were during the depths of the interwar depression in the late 1920s and early 1930s.

<sup>57</sup> Although in the 1970s it was proposed that private buying be allowed so long as the price matched that current in the auction system.

unsurprising in light of the discipline imposed by the external environment. New Zealand's share of a large competitive international wool market was less than 10 per cent, while a further 25 to 30 per cent was sold by Australia.<sup>58</sup> Wool also faced increasing competition from synthetic fibres by the 1920s. Instead, brokers and their associations supported an unfettered free market, and were vocal in their opposition to post-World War Two government proposals for price or output controls.<sup>59</sup> While fear of government regulation may have stirred NZWBA to make public statements, the NZWBuyA was the strongest external source of enforcement. Not only did the two associations work closely together, monitoring each other's positions and actions, but NZWBA members realised that collective selling might engender collective buying.<sup>60</sup>

Some regulation of the market might have been justified on efficiency grounds. Supply was highly unstable due to its reliance on the climate, while demand-side volatility could be traced to two world wars and an interwar depression. Moreover, the auction system involved substantial infrastructure costs that were fixed and asset specific in nature, thereby requiring throughput above a specified minimum level and of low variance. In this light, losses to the auction system through wool consignments to London and private sales locally threatened its viability particularly in the early years of small volumes. NZWBA acted as a powerful advocate of local auction selling in the face of opposition from London importing houses and brokers, and, locally, from some of the British and Australasian banks with substantial interests in the London market. NZWBA instructed its members not to sell privately

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<sup>58</sup> Malcolm J. Abbott, "Promoting Wool Internationally: The Formation of the International Wool Secretariat," *Australian Economic History Review* 38, 3 (1998), 260

<sup>59</sup> Although they gradually came to support the idea of a futures market to mitigate price risks.

<sup>60</sup> Noel Butlin Archives Centre, Australian National University, Elders N102/9. Board minutes, 1925.

or consign and strongly discouraged other parties from so doing. NZWBuyA was also aware of the disadvantages of market fragmentation, and supported NZWBA in 1916 by instructing their members to boycott brokers who sold privately.<sup>61</sup> Extensions to the roster season were partly designed to discourage private sales between auctions.

While achieving sufficient scale, neither should individual auctions become too large, which could lead to logjams in the system and encourage growers to use alternative marketing channels. Brokers were also concerned that large individual auctions adversely affected prices and clearance rates towards the end of the sale, when few buyers remained. Such a tailing off was noticed in the interwar years of weak demand, and this led to negotiations with the NZWBuyA to reduce the size of auctions.<sup>62</sup> The NZWBA similarly held back wool from sales in the immediate post-war periods, when a large volume of unused British government wool flooded the market.<sup>63</sup> At the depth of the economic downturn in 1932, NZWBA instructed associations to withhold from the media information about the volume of wool unsold at auction and carried over to the next sale, believing such information would have a depressive impact on prices.<sup>64</sup>

NZWBA and the regional associations in fact spent more time addressing upstream market flows. Brokers relied on their rural branches, smaller stock and station agents, and local merchants and traders to obtain wool clips and forward them to one of the auction centres. In return, part of the broker's commission, up to one half, was rebated to the forwarder. Country membership of their regional wool

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<sup>61</sup> MSX 4324, WWBA letterbook, 21.1.1916.

<sup>62</sup> MSY 4128, WWBA minutes 1929.

<sup>63</sup> MSY 4126, WWBA minutes 28.5.1921.

<sup>64</sup> MSY 4129, WWBA minutes, 24.11.32.

broking association helped to generate an environment of full information and cooperation with local stock and station agents. However, information asymmetries, that the city broker had a limited ability to observe rural behaviour among non-members, invoked the risk of moral hazard. Thus, opportunistic groups and individuals sought to present themselves as forwarding agents to claim a rebate.<sup>65</sup> NZWBA's constitution detailed the types of firm that could claim a rebated commission, particularly that they held regular country auctions and generated their main income from wool commissions. By 1918, aware that this failed to mitigate the problem, it began to publish a register of bona fide forwarders.<sup>66</sup> The issue of rebate commissions was most difficult in relation to the banks, who, in return for providing financial support to a grower and recommending him to a particular broker, expected a rebate. The banks' size, influence, and ability to forward clips alternatively to London gave them significant leverage with NZWBA, which negotiated with the Association of Bankers to establish a common set of rules: bank finance for the farmer had to be long term in nature and the bank had to demonstrate that it had previously shipped or forwarded the wool for several years.<sup>67</sup>

### Industry representation

While NZWBA supervision of the wool market brought efficiency benefits that spilled over into related industries (such as woollen manufacturing and transportation), its advocacy role might fall more obviously into rent-seeking activity.

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<sup>65</sup> WWBA rejected a claim by the Marlborough Coast Settlers Association, 'it being an association of farmers handling their own wool'. MSY 4123, WWBA minutes 9.12.1918.

<sup>66</sup> MSY 4135, NZWBA minutes, 28.8.1918.

<sup>67</sup> The records of NZWBA and WWBA are replete with discussions of bank rebates. MSX 4327, WWBA letterbook, 4.6.1931 and 18.7.1931.



However, much of this work can also be viewed as the NZWBA acting as a communicating node. Enhanced contact with other organisations improved relations and enabled mutually beneficial information exchanges. The value of its strong communication lines with NZWBuyA was seen earlier, a policy which was replicated to a lesser degree with other transactors in the wool trade. In 1928-9, for example, the President of NZWBA visited the UK for discussions with wool buying houses in Bradford and met members of the industry body the British Wool Federation. A wide range of issues were discussed, which resulted in a clear understanding of one another's position and problems.<sup>68</sup> Regional associations made contact with traffic managers of New Zealand Railways when delays occurred in the movement of wool cargoes resulting in improved working arrangements to the benefit of all parties.<sup>69</sup> Additionally, NZWBA provided information to actual and potential buyers in an attempt to build up the wool market.<sup>70</sup>

The associations communicated regularly with several government departments. One might suspect rent-seeking motives, in fact much of the evidence indicates broader benefits from the exchange of information and expertise. In 1927 the Department of Agriculture contacted WWBA asking for assistance in relation to research it was conducting; it was seeking wool samples and broker and grower opinions.<sup>71</sup> Contact and communication lines with government were most active

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<sup>68</sup> MSY 4136, NZWBA minute book, 18.4.1929.

<sup>69</sup> MSX 4325, WWBA letterbook, 6.1.1919.

<sup>70</sup> For example, information about Australian wool for the Japanese market to Mitsui Bussan in 1911 and defending wool against criticisms made by promoters of alternative artificial fibres in the 1930s. 96-223-04, NZWBA correspondence (M-N), 9.6.1911; 96-223-09, NZWBA Miscellaneous papers, 6.11.1935.

<sup>71</sup> MSY 4128, WWBA minutes, 19.11.1927.

during and after the two world wars. NZWBA played an important coordinating role in the transition to the wartime wool monopsony of the British government during both world wars, and subsequently in the management of an orderly return to peacetime marketing. As Kosmas Tsokhas has noted for Australia's wool broking associations, NZWBA played an important role in wartime negotiations between the New Zealand and British governments over the terms of the wool purchase.<sup>72</sup> After World War One, congestion and delays resulted from the large quantity of UK government wool waiting to be shipped from New Zealand ports at a time of shipping shortages. In these circumstances, the 14-day 'prompt' period, between the auction sale and removal of the wool by the buyer, was no longer tenable. In 1921 NZWBA represented brokers at a conference on the question, which was chaired by the Prime Minister and attended by the Minister of Agriculture. It resolved on a one-year extension of the prompt to 28 days.<sup>73</sup>

NZWBA contributed to the strategic war aims of the New Zealand government in 1914 by acting as a gatekeeper to guard against the sale of wool to enemy nations. However, government policy became too heavy-handed with the imposition of an embargo on wool exports to the US in light of evidence of re-exports from there to Germany. WWBA contacted the Department of Internal Affairs in 1915 and recommended that export to the US be permitted where the shipper was well known and signed a statutory declaration that no re-exporting would occur. After some negotiation, terms were agreed for the issue of export alliances.<sup>74</sup> At the same

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<sup>72</sup> Kosmas A. Tsokhas, *Markets, Money and Empire. The Political Economy of the Australian Wool Industry* (Melbourne, 1990), regarding the National Council of Wool Selling Brokers.

<sup>73</sup> MSY 4126, WWBA minutes, 30.11.1921.

<sup>74</sup> MSX 4323-4324, WWBA letterbooks, 1914, 1915.

time, one can discern the defence of more narrow interests in NZWBA's concern about the market impact of wartime policies. They discouraged government's use of non-association brokers and ports and its depression of the post-war wool market by offloading imperial government wool.<sup>75</sup> In the absence of effective competition policy for much of the twentieth century, the close relations between NZWBA and government served as an alternative mechanism of restraint.<sup>76</sup>

### *Learning and adaptability*

NZWBA proved to be an adaptable organisation that learned from experience and modified its behaviour for new situations. Its constitution, proportional representation voting system, record-keeping practices, and discursive culture were all conducive to such adaptability. As discussed earlier, NZWBA's constitution referred to varying the conditions of sale and other objectives and indeed this happened, with regular revisions to that document and the constitution. Early in the association's history in 1912, tiered voting was introduced between large (two votes) and small (one vote) wool broking associations according to sales turnover.<sup>77</sup> A similar tiering was used by the regional associations between large and small brokers, while country

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<sup>75</sup> MSY 4134 NZWBA minutes 1916; MSY 4124, WWBA minutes 9.2.1920 regarding a letter to Prime Minister Massey.

<sup>76</sup> Policy was largely permissive and limited in coverage until the 1975 Commerce Act, with a focus on tariff policy and the development of a manufacturing sector. Hunter M. Donaldson, "The Development of New Zealand Competition Law", in *Competition Law and Policy in New Zealand* ed. Rex J. Ahdar, (Sydney, 1991); Stephen R. H. Jones, "Government Policy and Industry Structure in New Zealand, 1900-70", *Australian Economic History Review* 39, 3 (1999): 191-212; Deborah Mabbett, *Trade, Employment and Welfare: a Comparative Study of Trade and Labour Market Policies in Sweden and New Zealand, 1880-1980* (Oxford, 1995).

<sup>77</sup> MSY 4133, NZWBA minutes, 1912.

members could only vote on matters relating to country sales. The detail of board minutes and high participation rates testify to a discursive environment. In addition, the detailed taking and survival of minutes, together with the large volume of correspondence and accounts, testify to the strength of its corporate memory through its effective record-keeping practices.

Many examples exist of NZWBA's learning and adaptation. The impact of war and post-war congestion on the length of the prompt was dealt with much more expeditiously during and after World War Two through learning from the drawn-out discussions in World War One. Another vexed question was the payment of rebate commissions. NZWBA began by specifying the conditions governing permissible rebates, then built on this by keeping a list of registered agents, and in turn it learned how to be more discriminating about the list and the importance of updating it.<sup>78</sup> Similarly, the national roster required significant amendments over time, which included extending the selling season and organising separate North and South Island rosters to mitigate private sales and congestion. The scale of charges gradually became more detailed, in effect legislating and normalising a wider range of possible scenarios. Procedures for monitoring sensitive activities such as weighing and completion of sale accounts were enhanced and more clearly specified over time.<sup>79</sup> NZWBA's ability to modify its behaviour in line with shifts in the external environment is best indicated by its changed role between wartime, Depression, and post-war expansion as described in earlier sections. Most obviously, the centre of its attention shifted from dealing principally with the wool buyers in peacetime to working closely with the New Zealand and British governments in wartime.

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<sup>78</sup> This evolution can be seen in NZWBA minutes, 1907-26, MSX 4330, MSY 4133-4136.

<sup>79</sup> MSX 4323, WWBA letterbook, 17.12.1914.

#### 4. CONCLUSION

The wool broking associations were established to facilitate the expansion of local auctions rather than for defensive motives in times of crisis. They exhibited strong associative capacity through structural (small, stable, dense and overlapping membership) and cultural (social and behavioural linkages) properties, and from the value attached to membership (operational economies and reputational benefits). Further, their multi-tiered nature facilitated functional specialisation and learning loops, the regional associations conducting day to day auction management and providing feedback into NZWBA's strategic decision-making and coordinating role. The Australian regional wool broking associations came into existence in similar circumstances. The national body, NCWSB, emerged later and never possessed the same degree of authority, coordinating role, or specialisation of function. More important were the endeavours of regional associations, such as the Melbourne Wool Brokers Association, where social and geographic propinquity of members was a paramount consideration in achieving progress.

NZWBA used its capacity, in the main, to pursue strategies of benefit to wool brokers and their transactional parties, with positive spill overs more broadly as the result of a more efficient wool market. These benefits were related to exchange by reducing transaction costs in a complex auction system, particularly through codifying information to standardise procedures into routines. Hierarchical costs were reduced by monitoring to mitigate opportunism and the development of effective dispute resolution procedures. Collective action problems of free riding on public good consumption were mitigated by high membership density as the basis for industry representation and the inculcation of cooperative modes of behaviour. This enabled NZWBA to act as a representative communicating node with government and other

organisations. Intervention in the wool market occurred only in extreme cases of market disruption to provide smoothing effects, and through ongoing attempts to counter upstream sources of opportunism. These strategic directions can be attributed to its original motivations and the strength of enforcement pressures in the external environment, particularly from the wool buyers, banks, government, and the highly competitive international wool market.

What does the study of New Zealand wool broking reveal more generally about industry associations? This largely positive account runs contrary to Olson's view that strong and enduring associations will pursue redistributive rent-seeking ends. It lends support to Doner and Schneider's alternative notion that strong associations are preferable to weak ones because of their ability to mitigate the types of market imperfections identified in the new institutional economics. However, this does not dismiss entirely suggestions of anticompetitive behaviour in addition; by its nature such behaviour is difficult to trace. Nonetheless, this study develops upon an emerging revision in the historical literature that associations can help to strengthen markets. It does so by explicitly applying the recent insights of the new institutional economics on associations to the contingent circumstances of history. Thus, a strong associative capacity generated a cooperative environment within the associations, while external enforcement pressures, both within and outside the industry, guarded against opportunism. Where these internal and external conditions are not met, different outcomes are probable.

The perspective of history additionally provides a dynamic view of associations absent in the theoretical literature and largely neglected by previous historical research that focussed upon the short term crisis management role of associations. While Olson perceives associational longevity as reinforcing their

redistributive role, our study suggests that associations can evolve as flexible learning organisations, regularly amending their rules and structures, routinising procedures, and responding flexibly to environmental change. A further possible insight, therefore, is whether associational governance provides greater flexibility to learn and adapt than is common within hierarchical enterprises. The learning process was aided by an organisational complexity, not revealed in previous historical studies of associations, which separated strategic from operational management tasks.

There may still be a sense in which these ‘benevolent’ associations have a sclerotic impact on a nation’s economic development, as described by Olson, through their ability to prolong an industry’s lifecycle. Association-generated efficiency gains may retard resource reallocation to new high-growth industries that lack such organisations. Since associations often emerge beyond the initial growth stages of an industry, and manifest learning abilities over time, they may be most potent in the sunset period of an industry. Associations, by definition, promote the interests of a particular industry or sector rather than seeking diversifying opportunities. Indeed, their associative strength may weaken their absorptive capacity, that is, openness to external ideas and solutions.<sup>80</sup> Organisations that develop effective internal systems are often less receptive to outside ideas because their culture and focus is essentially inward-looking.<sup>81</sup> Alternatively, industry associations can help to orchestrate effective rationalisations and an orderly retreat from a contracting industry, a view that resonates with their interwar role in many nations.

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<sup>80</sup> Wesley M. Cohen and Daniel A. Levinthal, “Absorptive Capacity: a New Perspective on Learning and Innovation” *Administrative Science Quarterly* 35, 1 (1990): 128-52.

<sup>81</sup> Michael L. Tushman and Philip Anderson, “Technological Discontinuities and Organizational Environments” *Administrative Science Quarterly* 31, 3 (1986): 439-65.

Table 1: Five Firm Market Share in New Zealand Woolbroking

Year	5 firm
1901-10	0.51
1911-20	0.48
1921-30	0.50
1931-40	0.52
1941-50	0.49
1951-60	0.53
1961-70	0.64
1971-80	0.70

*Sources:* Noel Butlin Archives Centre, Australian National University, *Dalgety's Annual Wool Review, Australasian Insurance and Banking Record.*

*Note:* Market fraction held by leading firms. Ten-year averages



Figure 1. Industry associations in New Zealand wool broking

