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Institution Building and Organizational Diversity: Evidence
from Australian Woolbrokers' Associations, 1890-1939

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Abstract

Between 1890 and 1914 Australia became the world's largest market for wool. Wresting this title from London required local brokers to create an ordered market with a central auction room, a uniform sale contract and standard arbitration procedure across a number of separate selling centres. This paper explores the various governance structures created by the Associations in Melbourne, Brisbane and Sydney, to bind co-operative behaviours. We argue that the dual objects of the Associations, adherence to a uniform price and the operation of a central auction, provided different levels of incentives to firms to co-operate. Firms took calculated rational decision whether to co-operate with respect to 'price', and different behaviours between centres depended heavily on structural and environmental situations. However, co-operative behaviours towards supporting the auction system were driven by a combination of pecuniary and altruistic factors. The latter arose from a deep rooted sense of service to promote the wool trade and a belief in its over-riding national importance.

Introduction

Firms compete. They also frequently co-operate in the search for monopoly rents, to share complementary assets and to reduce transactions costs in environments with weak institutions. Our focus is on the formation of an institution as defined by Douglass North¹, a way of organizing exchange, the formation of a commodity market for wool. The early steps in the process of co-operating have received less attention in the literature than the benefits resulting from the act. How do firms know ex ante whether to co-operate or not? The rewards from doing so depend on the actions of the other parties. As the well known example of cartels attests, every member has an incentive to cheat. Ongoing co-operation usually rests on the establishment of a governance structure that specifies the boundaries of the activities encompassed by co-operation, sets out rules to which members agree to comply, monitors the actions of members and enforces penalties including expulsion for breaches. The ability of firms to formalize co-operative behaviour through the construction of a viable governance structure will depend on existing levels of trust and shared social capital between individuals representing their interests.

Identifying opportunities for co-operation and having the ability to create an appropriate governance structure to support it will be contingent on time and place. The process is initiated by individuals who perceive future benefits from changed patterns of behaviour between firms which were rivals. This idea must be sold to the other firms through a process of communication and negotiation. An original agreement is of necessity, in Williamson's terms, an incomplete contract.² Shocks of all sorts, such as fluctuations in demand and supply, new entrants, and substitute products, will alter the state of the world. Changes in the state of the world shift the pay offs from

¹ Douglass C. North, 1990, *Institutions, Institutional Change and Economic Performance*, Cambridge, CUP.

² Oliver E. Williamson, 1985, *The Economic Institutions of Capitalism*, New York, Free Press.

co-operation, potentially threatening the existence of the association if some or all firms were to abandon it. Governance structures require flexibility if they are to continue to generate sufficient benefits and credible sanctions to ensure ongoing co-operation. This is no easy task. Individuals within the co-operative associations need the capacity to recognise that changes are needed. These same individuals require high level communication and negotiation skills to get an agreement from their peers. High levels of trust and social capital obviously play a critical role in facilitating the evolution of organizational form of co-operative associations.

Co-operation may come about as the result of rational self-interest and/or the impulse of altruism, a biological tendency to reciprocity³. Most of the literature presumes that firms are rational economic actors whose participation in co-operative agreements rest overwhelmingly on material calculus⁴. Clearly, reciprocity amongst members can support co-operation in circumstances where non-psychic pay offs are low. The actors who participated in the brokers' associations co-operated in anticipation of rewards. We identify two re-enforcing stimuli: material benefits arising from co-operation; and, while not reciprocity as defined above, a socially constructed impulse to act together for the common good.

We will explore these issues through a study of wool broking seller associations operating in Australia in the late nineteenth and early twentieth century. At this time the sale of Australian wool shifted from London to Australian port cities. The transfer rested upon two interconnected developments. First, the emergence of Australia as the world's largest producer of wool provided the necessary scale for a deep and competitive market in each of the selling centres. Second, the firms which had serviced the expanding pastoral industry as financiers, selling brokers for livestock and produce, and distribution agents for station equipment and provisions, combined to form associations which ran the auction system.

The establishment of a well organized system of central wool auctions in each principal city was essential to Australia becoming the world's premier seller of wool. Buyers wanted to be able to bid for the largest volume of wool in the shortest time. Selling brokers had to agree to a series of sale dates across the selling season and a roster by which each firm would offer its wool at each sale. Moreover, they had to use a standard contract of sale and have an arbitration to settle disputes between growers and buyers. To this end, the brokers formed associations that required their

³ For a discussion of these issues see Herbert Gintis, Samuel Bowles, Robert Boyd and Ernst Fehr, eds, 2005, *Moral Sentiments and Material interests: The Foundations of Cooperation in Economic Life*, Cambridge, MA, MIT Press.

⁴ A. Allan Schmid, 2004, *Conflict and Cooperation: Institutional and Behavioral Economics*, Oxford, Blackwell Publishing.

compliance with a formal governance mechanism enshrined in a constitution and an extensive set of rules and regulations. Each member contributed to the capital and the working expenses of the association. The associations were, in effective, equity joint ventures as each was a registered business separate from its members' parent organizations.

Firms which were and continued to be competitors in other branches of pastoral services became collaborators as wool selling brokers. Our interest is how collaboration came about and how it was sustained. The bunching of the formation of the associations and the beginning of centralized auctions between 1892 and 1898 provides a natural experiment where we can observe the formation and behaviour of three of the key associations, Melbourne, Sydney and Brisbane. Each association was formed to provide a similar set of services to growers and buyers, and to set fees and charges, which together with a range of penalties for breaches, provided members with an incentive to remain within the association. Moreover, a number of firms operated in more than one centre. The repeated interactions between firms might be expected to lead similar behaviours between selling centres.

The environment in which the wool brokers operated underwent a number of sharp shocks whose cumulative effect was to require renegotiations of governance structures. For instance, the volume of wool offered for sale fluctuated from year to year particularly as a result of drought. Moreover, the price of wool fluctuated considerably from low in the 1890s and 1930s to highs in the mid-1920s. The number of firms operating in the wool broking industry rose overall, with marked differences in the rate of entry between selling centres. The First World War brought new challenges as the auction system was replaced by a government run system of appraisal and sale at a set price from 1916 until 1920. Thereafter the brokers needed to liaise with a grower owned body, BAWRA, in realizing the stocks of wool accumulated during the war. Furthermore, the growing power of organized labour and inflation during the war escalated the operating costs of the selling brokers.

The process of institution building took place in a context of organizational diversity. In short, the associations in Melbourne and Brisbane differed sharply from that in Sydney. The former two operated with a high degree of harmony reflecting inclusiveness and participation while Sydney was wrecked by dissent. The former choose their office bearers from within and committees voted on the enforcement of rules. Sydney, in contrast, relied on outsiders to preside over its deliberations and to enforce its rules. Melbourne and Brisbane adapted more easily to changing environmental issues while Sydney struggled to find agreement and the Association lapsed between 1900 and 1909. Sydney was the outlier, a low trust organization, while the other two Associations escaped serious internal conflict.

Our explanation of organizational diversity rests on a mix of factors which were internal and external to the associations. The internal story revolves around the pay offs for co-operation and non-co-operation. External factors, many of which were specific to particular associations, also changed the pay offs. Co-operative adaptation proved more difficult in some centres than others. We will argue that the process of institution building relied on a wider set of behaviours and actors than within the formal associations. For instance, Sydney's dysfunctional Association was compatible with the functioning of an effective institution because of informal agreements amongst all selling brokers to participate in the auction process and to communicate with both the buyers and inter-state associations. Behaviours mattered more than rules.

The Objectives of Co-operation

The associations served two purposes for their members: to establish an ordered market for the sale of wool which increased the supply of wool passing through their stores; and to raise fees above those which would occur in a competitive market. Our analysis suggests that the extent to which firms co-operated was a function of the perceived importance of each of the purposes. The creation of an ordered market had a public good aspect for the brokers or 'commons'⁵. It was a necessary condition for the relocation of the wool market to Australia. The setting of uniform fees and restricting aspects non-price competition affected the amount of 'rents' to be shared amongst members⁶.

The shift towards local sales in the 1890s placed great strains on the ability of the brokers to conduct sales that were satisfactory to the buyers. The volume of wool coming forward threatened to overwhelm the fledgling institution. A conference between Sydney and Melbourne associations in 1895 concluded that the future expansion of local sales was at risk 'unless some plan be devised for their proper regulation'. The realization of the central points of the plan, alternating of sales between Melbourne and Sydney, and a lengthening of the selling season, required 'a consensus of opinion and action between ...the Associations of Melbourne and Sydney'⁷. Collective action within and between centres was vital to the continuance of a viable wool broking industry.

There were considerable pay offs to all parties from the establishment of a central auction system in each centre and co-ordination between centres. Buyers would come to deal in an ordered market

⁵ As defined in Ø. D. Fjeldstad, Charles C. Snow, Raymond E. Miles and Christopher Lettl, *The Architecture of Collaboration: Organizing Resources among Large sets of Co-Equal Actors*, forthcoming *Strategic Management Journal*.

⁶ D. T. Merrett and Simon Ville, *Industry Associations and Non-Competitive Behaviour in Australian Wool Marketing: Evidence from the Melbourne Woolbrokers' Association 1890-1939*, forthcoming *Business History*.

⁷ Melbourne Woolbrokers' Association [hereafter MWA], Minutes, report of sub-committee, 3 July 1895. The MWA's records are held in University of Melbourne Archives, accession number 79/178 & 106/121.

and if the centres arranged their sales rosters in a way that enabled buyers to move between them in a timely fashion. Failure to do so, the 1895 conference felt might mean that sales would slide back to London. There was a strong incentive for firms to join associations that conducted auctions and to abide by the rules regarding the sale of wool. Membership of the association lowered transaction costs facing each firm in negotiating with buyers.

All firms had an incentive to build the size of the market. Wool broking was a scale driven business with volume needed to offset the high costs of operating. For instance, AMLF believed that it was uneconomic to sell in any centre unless it could turnover 25,000 bales⁸. In 1897 Dalgety's chairman, E. T. Doxat, wrote that 'to handle wool properly requires proper warehouses, show floors, experts and thoroughly reliable staff, and these cost a lot of money...'⁹. The amount of wool sold in Australia rose from around 800,000 bales in the late 1890s to nearly three million in the late 1930s¹⁰. Firms that stayed the course enjoyed the spoils. As shown in Table 1, the average number of bales sold in both Melbourne and Sydney was well in excess of what might be thought of a minimum operating scale between 1905 and 1929. Brisbane is the outlier here with much lower average sales volumes and a number of firms which continued to struggle between the wars.

Table 1 about here

Co-operative behaviour had the potential for a second type of benefit: the creation of 'rents' through collusive pricing arrangements and a mechanism for their distribution between members. A recent study of the fees and charges levied by the Melbourne Woolbrokers' Association shows that co-operation amongst members led to an increase in the charges, particularly to growers for handling wool. Setting uniform prices did permit the association to raise prices above those which would have been prevailing in a competitive environment. However, price increases were linked to additional services being offered and in response to higher input prices, especially labour costs. The association's exercise of market power was constrained by many factors.¹¹

Organizational Diversity

Each of the associations adopted a constitution which set out a series of objectives and a machinery of governance designed to encourage co-operation. These constitutions and the rules and

⁸ J. D. Bailey, 1966, *A Hundred Years of Pastoral Banking: A History of the Australian Mercantile Land and Finance Company, 1863-1963*, Oxford, Clarendon Press, 196.

⁹ R. M. Hartwell, no date, *Dalgety & Company Limited: A History*, chapter 9, 11. Dalgety Collection, Z153, Box 96, Noel Butlin Archive Centre, ANU.

¹⁰ *Statistical Handbook of the Sheep and Wool Industry*, 1949, Canberra, Table 35, 36.

¹¹ Merrett and Ville, op. cit.

regulations were amended repeatedly over time.¹² What follows does not trace out these revisions in detail, nor does it explore every clause of long documents. We will focus on those issues such as the conditions of entry of new members, the election of office bearers, the decision making process, the nature of penalties for breaches of the rules and tenure of the Association that indicate varying degrees of trust amongst members.

Who could join and what were the conditions of entry? We would argue that an association would benefit from having the widest possible membership of selling brokers. Melbourne had the most permissive attitude to new members. That association would permit anyone to join who paid the entry fee and abided by the rules. New members were admitted on the 'order of the committee', whose decision was reached by a majority vote. Brisbane changed its mind. Initially it required a 'unanimous vote of all parties.' However, this stance was softened in 1909 to require a majority vote of at least three-quarters of the members and added a rider that the association could discriminate amongst new entrants 'on such terms and conditions as [the committee] think fit.' In contrast, Sydney took a tougher line still. A broker seeking entry needed a unanimous vote of all members. The possible deterrent to new brokers entering associations ranged from a low in Melbourne to highest in Sydney.

Why would firms inside the association want to exclude others? These firms were known to one another so patterns of behaviour prior to the formation of the association identified those firms most likely to become recidivist free-riders. The reality was that the coverage of all the associations amongst the broking firms was virtually complete. Even the farmers' co-operatives were eventually brought into the fold. We would argue that the harder line on new members in Sydney, and to a lesser extent in Brisbane, was a signalling device to current members as much as to prospective entrants. Sydney had an informal association until 1882 but firms operated independently over the next decade. After the formation of the association it was the firms, rather than individuals as had done previously, pledging their commitment to the agreement¹³. The rule about unanimous agreement about who could join is consistent with all members offering a prior commitment to act in the best interests of the association.

¹² We have consulted the Constitution and Rules and Regulations of the Melbourne Woolbrokers' Association for 1893, 1896, 1901, 1906, 1909, 1916, 1921, 1931 and 1937; Sydney Wool-Selling Brokers' Association for 1889, 1890, 1891, 1909, 1921 and 1929; and Brisbane Wool Selling Brokers' Association for 1898, 1909, 1921, 1929 and 1940. The MWA's records are held by the University of Melbourne Archive and the BWSBA's records are held in the Oxley Collection, State Library of Queensland. The SWSBA's material was found in the MWA and BWSBA's collections, and the NZLMA and GM archives held in the NBAC at the ANU.

¹³ Alan Barnard, 1958, *The Australian Wool Market 1840-1900*, Carlton, MUP, 110, note 3.

Once a firm joined an association what rights did it possess? On admission the firms paid an entrance fee and a 'deposit' which became the property of the association. If a firm left the association in good standing it had any remaining funds returned, and in the event of the association being wound up a share of the net assets. The associations were democratic in their structures. Voting rights ranged from one vote per member in Melbourne to firms selling the most wool receiving greater voting power in Sydney from 1909 and in Brisbane from 1921. Each association held an annual general meeting at which audited accounts were presented to meetings and, in Melbourne and Brisbane, where office-bearers were elected. Each firm had the opportunity to be represented at the apex of the association. In addition, specific tasks were devolved to special committees whose members were co-opted.

Decisions were made by ballot with a majority deciding most issues. However, there were significant differences when it came to the most contentious issue: changing the rules and by-laws. In Melbourne the committee, which included all members, decided on a vote with a simple majority. Brisbane followed this procedure from 1898 until 1920 when it reverted to the position held in Sydney from the beginning that any decision must be unanimous. Any member had a right of veto.

Sydney stood apart in that its agreement to form the Sydney Wool and Produce Salesmen's Association in 1889 and the Sydney Wool-Selling Brokers' Association in 1892 did not provide any mechanism for selecting a chair. However, it did provide for the position of an arbitrator, an individual not connected with any of the member firms, to have great power in investigating claims for breaches of the agreement. There was no internal mechanism of appeal and members signed away any right to contest his decision through the courts. When the association was re-formed in 1909, the Arbitrator became a permanent chair person who presided over all meetings, although he could delegate but only to another impartial individual. We suggest that these arrangements reflected a continuing lack of trust between the founding firms in the 1890s and again after a long period of lapse between 1900 and 1909. There may have been doubts about the impartiality of any elected chair and fears about firms forming coalitions to lock in key positions in the association to the detriment of others. Brisbane used an independent 'umpire' for many years but confined his role to that of hearing appeals from members found guilty of breaches.

Sydney imposed far greater financial penalties for breaches of its rules than the other associations. Members of the Sydney association were required to bring any breach to the notice of the Secretary whereas the other associations merely provided a mechanism which permitted them to do so. Firms faced an escalating series of penalties ranging from fines to expulsion from the association and loss of right to use the sale room. The final step of expulsion required a majority of members to vote in

favour. Those found guilty of breaches in Sydney faced fines of up to £500 between 1889 and 1900 and £1000 pounds after 1909, which was more than twice the maximum fine in the other associations. There was some backsliding over time as the Sydney association permitted any firm leaving the association in good standing after 1929 to have access to the sale room, and as Brisbane would permit re-admission of expelled firms if the members were in unanimous agreement.

How long was the association to last? Melbourne made no mention of its life span. As long as the association served the interests of its members it would continue. Sydney, once again, was different. Copies of the various agreements found in the archives show that each had a prescribed time frame of between three to five years. Members signed up knowing that the agreement to cooperate was short-lived. Brisbane followed Sydney down this route for many years before allowing it to lapse in 1921. Limiting the tenure of the Association showed a lack of trust in the willingness of members to adhere to the rules. The possibility of the termination of the Association and the resumption of competition was a signal that gains from 'cheating' would be short-lived.

Explaining Organizational Diversity

The question remains: why did Sydney have a more prescriptive governance structure than the other two centres? Its authors laid greater stress on penalties rather than incentives. To what extent did this form of governance arise from an environment in which fierce competition was the norm? We will argue that the underlying circumstances in the Sydney wool market were different from those in either Melbourne or Brisbane.

The evolution of the market in each centre prior to the formation of the associations affected the degree of co-operation and trust between the members. Wool selling began in both Melbourne and Sydney in the 1840s with Goldsbrough and Mort as pioneers. The number of firms operating in these and other centres expanded over time¹⁴. The continued expansion of the industry attracted new service providers in each of the colonies on the eastern seaboard. Melbourne had become the leading market by 1880 and its leading brokers were large and, with the exception of Goldsbrough Mort, British firms that were prominent pastoral financiers. As shown in Table 2 this small group of firms were the nucleus of the Melbourne association. The Brisbane market, by contrast, was split between small local firms which began trading from the late 1870s such as Fenwick, Moreheads and Thomas Noyes, and three recently arrived 'majors', Dalgety, NZLMA and UMA, all of whom were already trading in either or both Melbourne and Sydney. The absence of fierce competition amongst

¹⁴ Barnard, op. cit. 149-55; J. F. Guthrie, no date, *A World History of Sheep and Wool*, privately published, 75-86.

members prior to the establishment of the association and a smaller number of participants in the market may have increased the degree of trust and co-operation between members.

Table 2 about here

Sydney's market, which had taken Melbourne's mantle as the leading wool market in the 1880s, was far more competitive. Following the success of Mort, a group of important brokers became established in Sydney from the late 1860s and early 1870s, such as Harrison Jones & Devlin, Maiden Hill & Clarke and John Bridge. These strong local firms were challenged in the 1880s by the British concerns such as AMA, UMA, Dalgety., and NZLMA, and by new local firms such as Winchcombe, Carson and Schute Bell. There was a deeper division within Sydney than elsewhere between the large multi-centred pastoral financiers turned brokers and 'pure play' brokers. A larger number of powerful firms which had failed to act co-operatively previously made the task of gaining acceptance of co-operation more problematic here.

Table 3 about here

The success or otherwise of co-operation within each centre was shaped by the pattern of entry after the formation of the associations. As shown in Table 3 there were markedly differences. There was little disturbance to the structure of the association in Melbourne. Australian Estates took over UMA's business and AMLF absorbed AMA, and three small firms, Victorian Farmers Loan, National Wool Trading Co. and Cooperative Wool and Produce dropped out after a few years. R. Goldsbrough Row was the only long term new entrant. Melbourne's association differed from those in Sydney and Brisbane by refusing to admit farmers' co-operatives to membership, CW&P was admitted after it altered its Articles of Association to comply with the Associations rules, although they were permitted to use the sale room.

The situation differed sharply in both Sydney and Brisbane where the number of new firms joining the associations outnumbered those present at their establishment. Only two of the new entrants, one in each centre, had been operating as a wool broker prior to the establishment of the associations. The rest were firms taking over going concerns, Australian Estates, AMLF and Queensland Primary Producers, and 'new' firms entering the market, a combination of private firms and co-operatives. It is plausible that such high rates of entry would pose threats to cohesion within the group. While all the new entrants into the Sydney association, with the exception of AML&F, would operate only in that market five of the firms entering the Brisbane association were members in Sydney and, in the case of Goldsbrough Mort, both Sydney and Melbourne. Both of the northern

associations faced far greater challenges from farmers' cooperatives than did the association in Melbourne.

The behaviours of firms operating in Sydney prior to the formation of the association were not ameliorated by the governance structure. Despite formal agreement to abide by the rules and the threat of substantial fines or expulsion for breaches, members continually operated outside the letter and spirit of the constitution in an attempt to boost their share of the wool coming onto the Sydney market. The Sydney manager for Goldsbrough Mort complained bitterly that 'rules of the Association were disregarded by some of the members, and as this company strictly adhered to such rules it was to our detriment to remain bound by them...'¹⁵. Sydney brokers could not agree on a common price or a pricing model from the outset. The key issue was that many firms operating in Sydney believed that they would do better operating outside the boundary of the association. There was constant price discounting to attract wool from growers and custom from buyers despite earnest pleas from the Association to end these practices. Price instability led to firms defecting from the Association to save their market share. Most of those who left would later rejoin. Discussions between the Melbourne and Sydney associations to affiliate led to a proposal in December of 1896 that Sydney increase its selling fees to match those of the southern centre. The possibility of increasing fees led to yet more defections from amongst Sydney brokers. The Melbourne Association wrote its Sydney counterpart urging it to hold firm by arguing that if the 'members or even a majority of them remain loyal' the growers would acquiesce.¹⁶ This was not to be. The ensuing price war brought the Association to a state of collapse and its dissolution in 1900.

Furthermore, the Sydney brokers would not adhere to their Association's rules designed to curb non-price competition. Prior to the formation of the Association, firms had used travellers to tout for business with growers and offered rebates to agents who directed clips to their warehouses. They also promoted their brand through offering prizes at local shows and making donations to hospitals. Some brokers, notably Winchcome, Carson & Co., had established wide networks of branches throughout New South Wales and Queensland. News about the prices received at the sales for clients of individual firms was reported in the press. The Association attempt to cap the use of travellers and the rate of rebates which could be offered, and to limit advertising. From 1891 news about sales was to be delivered through its official paper, the *Sydney Wool and Produce Journal*. However, many firms refused to adhere to the rules, driving up costs for themselves and other firms as they scrambled to protect their market share. Trying to stamp out these behaviours, especially

¹⁵ Maiden to board, 21 November 1893, Goldsbrough Mort correspondence, Alan Barnard Papers, Box 2, item 13, NBAC.

¹⁶ MWA, Minutes, 11 December 1896.

the over use of travellers, was 'really one of the principal reasons pressed for forming the association [in 1909]'.¹⁷ Contemplating entering the Sydney market in 1904, AMLF noted that 'no profit was expected for a newcomer and it was believed that several of the existing firms were operating at a loss'.¹⁸

Differences in the market conditions operating in the three selling centres affected broker behaviour which flowed through into the construction and effectiveness of the associations' governance structures. Each centre vied for a share of the growing volume of wool being sold in Australia. Sydney faced three external shocks from the time of the formation of its association up to around 1901 which provided an impulse to brokers to act alone there than in the other centres. The three challenges were the impact of the long drought, the rise of Brisbane as a competing centre and the emergence of a new type of competitor, the farmer co-operative which offered rebates to its members. Each will be considered below.

Wool broking was an emergent industry in the 1890s and 1900s. Participants had to commit to large outlays on infrastructure in the face of volatile supply and demand conditions. The key to the prosperity of the broking industry was the number of sheep shorn within the catchment area of the selling centre and the rate at which local sales were substituted for consignment. Most of the sheep in Australia grazed in New South Wales. However, some of their wool went south to be sold or consigned through Geelong and Melbourne. What Sydney lost of the swings it gained a little on the roundabouts as wool from Queensland was shipped south to be handled through Sydney and, to a lesser extent, Melbourne. Table 4 shows that the number of sheep in NSW and Queensland doubled between 1880 and 1892. However, all of that gain was lost in the long drought between 1896 and 1902. New South Wales's sheep numbers fell by more than half between 1891 and 1902 while the amount of wool sold in Sydney rose by nearly 50 per cent.¹⁹ The Sydney brokers were remarkably successful in persuading growers to switch from consignment to local sales, the prospect of quicker payment in times of falling prices and drought was a strong incentive. However, the struggle for market share helps explain the brokers' willingness to 'cheat' agreements regarding price and non-price forms of competition.

Table 4 around here

The growing impact of the long drought on the supply of wool to Sydney was reinforced by the establishment of sales in Brisbane later in the decade. Sydney had clawed back some of the wool it

¹⁷ NZLMA, correspondence, 18 March 1910, 110/4/340, NBAC.

¹⁸ Bailey, *op. cit.*, 182.

¹⁹ Dalgety's Annual Wool Review.

had lost to Melbourne as the government of New South Wales pushed railways further south and west, and offered subsidised freights to Sydney. Now it faced the prospect of losing its share of the growing Queensland clip to a substitute provider. Both the Sydney and Melbourne brokers tried to persuade Queensland growers to continue to ship their wool south. Each advertised in Queensland papers lauding the size of their respective markets and Melbourne advised of a reduction in its selling rates.²⁰ Some Sydney brokers offered to pay the freight on wool shipped from Queensland ports.²¹ But to no avail, Queensland growers flocked to the Brisbane sales, enticed by a consolidated selling charge of 3 per cent irrespective of the size of lot sold, which was further reduced to 2½ per cent in 1900, and by a Government subsidy of a pound a ton to growers whose wool was sold locally to customers beyond Australia until 30 June 1899.²² Furthermore, the Association had negotiated a reduction in shipping freights from the northern ports to Brisbane.²³ For Sydney brokers the continuing success of the Brisbane sales meant that the flow of wool into Sydney depended increasingly on the population of sheep within New South Wales.

Sydney brokers suffered a further blow when a new form of competitor, a farmer's co-operative, entered the market in 1898 in response to the proposal to raise rates to match those in Melbourne. While the co-operative, the Co-operative Wool & Produce, was a minor player in the market it was in league with the buyers' association. They met in conference and 'recommend[ed] a large reduction in charges for adoption by the Association'.²⁴ The ploy worked. As the Sydney manager for Goldsbrough Mort remarked 'we can see very well that many of the Sydney houses are in such a weak condition that they are terrified with the prospect of the Cooperative doing business at rates lower than those of the Association and thereafter ready to blindly make any modification which falls short of actually adopting the Co-operate tariff'.²⁵

By contrast, the association in Melbourne faced a more settled environment. Sheep numbers fell by a smaller amount as a result of the drought, two million compared to 29m in New South Wales and 14 million in Queensland. Melbourne and Geelong were favoured as a destination by growers outside of Victoria because of cheaper transport costs. Inter-association negotiations effectively ended Melbourne brokers offering rebates on sea carriage from northern states, with the exception of some 'grandfathered' connections with Queensland growers.²⁶ However, subsidised rail freights continued to pull wool to Victoria. Moreover, farmer co-operatives posed a smaller threat in Victoria

²⁰ *The Queenslander*, 18 November 1897.

²¹ BWSBA, Minutes, 26 October 1900, OMA 1767/2.

²² BWSBA, Minutes, 9 June 1899, and 2 March 1900, OMA 1767/2.

²³ BWSBA, Minutes, 20 July 1897, OMA 1767/1.

²⁴ Goldsbrough Mort, correspondence, 14 September 1898, 2/28A (3), NBAC.

²⁵ Goldsbrough Mort, correspondence, 14 September 1898, 2/28A (3), NBAC.

²⁶ SWSBA, Rules and Regulations, May 1929, Schedule A, clause 7.

than elsewhere. As shown in Table 1 a few emerged in the 1890s but quickly disappeared. A more serious rival appeared in 1910 with the establishment of the Victorian Producer's Co-operative Company Ltd whose members sought to escape the 'tyrannical conditions imposed on them by middlemen in the sale of their produce and in the purchase of their requirements'.²⁷ The more powerful New South Wales' based Co-operative Wool & Produce Company, now renamed the Commonwealth Wool & Produce, did not come into Victoria until 1934. The Association reached an arrangement with both of these firms, neither of whom ever became members, to use the central sale room. An understanding was reached whereby the co-operatives behaved as if they were members of the Association in all respects other than paying their members a rebate on the selling commission. The members did not receive the rebate at the time of sale but had to wait until the end of the financial year.

The Association in Brisbane was formed in special circumstances that favoured co-operation. Queensland wool had left the colony on consignment for sale overseas or found its way into sales rooms in Sydney and Melbourne. Four companies providing services to pastoralists, Moreheads, MacTaggart Bros, Union Mortgage Agency and Fenwick, formed the Brisbane Stock and Station Agents Association in December 1894 whose main concern was reaching agreements covering livestock sales.²⁸ Earlier in the year 'a desultory conversation took place with reference to the establishment of wool sales, but no resolution was come to'.²⁹ However, within a few years these same firms make a concerted effort to begin a local wool market. They needed to work co-operatively to build the necessary infrastructure. Under the energetic leadership of John Leahy, a member of parliament and the local director UMA,³⁰ they lobbied the colonial government on a range of matters: subsidies, relief from export taxes, and reductions in railway freights. The members of the renamed association, the Brisbane Wool Selling Brokers' Association, shared premises in which their wool was stored and viewed by the buyers before auction. An annexe of the government's Exhibition Building was used for the purpose for many years. The Association negotiated hard with its landlord winning numerous improvements to the site including, better lighting, wider doors to facilitate the movement of bales in and out, and the construction of a rail siding. The small number of members meant that there was greater involvement in the planning and operation of the market than happened in Sydney or Melbourne where participants built their own wool stores.

²⁷ http://www.australia.coop/cs_cooperative_pastoral_agent.htm. Retrieved 25/5/2011.

²⁸ BWSBA, Minutes, 10 December 1894, OMA 1767/1.

²⁹ BWSBA, Minutes, 9 March 1894, OMA 1767/1.

³⁰ D. B. Waterson, 1972, *A Biographical Register of the Queensland Parliament 1860-1929*, Canberra, ANUP, 105-06.

Conclusion

In mid-1909 the SWBA was reformed. While its new constitution retained many of its distinctive features the Association had finally accepted the same pricing model as applied in the other centres. Despite some fractious members, including two leading brokers who did a large trade in private sales,³¹ the group operated in far greater harmony than before. In the absence of any minutes or correspondence of the Association we can only speculate about the process leading to peace in Sydney. Sydney brokers initiated meetings with the Melbourne and Brisbane Associations in early 1909 to find agreement amongst them, a search for a harmonization of rules and for greater co-ordination in setting sales rosters and negotiating with buyers. A national body was mooted as a way of dealing with inter-Association competition for access to wool. The sorts of issues first raised in 1896 were back on the agenda. Moreover, all participants recognised the importance of having a functioning Association in Sydney, not the least the large firms such as Dalgety, AMLF and NZLMA which now operated in multiple markets. There also may have been a realization amongst the Sydney brokers that the years of price wars and excessive use of travellers had been ruinous, and that their lack of an Association weakened their bargaining power in disputes with the shipping companies in 1907 and wool buyers in 1908.³²

Trust amongst Sydney brokers must have been undermined by the constant bickering and defections during the 1890s and after the breakup of the Association. However, low trust does not necessarily mean a lack of co-operation. Sydney's brokers could not agree about a uniform price or restrictions on non-price competition, and eventually they abandoned having a formal association. However, they continued to work together in organizing the wool sales. Brokers continued to pay their share of the expenses of running the organization, including the rent for the sale room, the secretary's salary, and advertising. They negotiated amongst themselves to determine sale rosters, and limits of lots and bales to be offered in each sale. Sydney's brokers negotiated with buyers, and where in frequent communication with other Associations, particularly offering advice to the fledging Brisbane Association on all sorts of technical issues and co-ordinating sales dates. Deep pools of social capital were built up amongst people involved in Sydney's wool trade which facilitated the rebirth of the Association in 1909.

Despite the organizational instability in Sydney, Australia's largest wool market, the institution of an ordered wool market persisted nation-wide from the early 1890s. Selling brokers cooperated amongst themselves and with the buyers, who were similarly organized, to schedule sales rosters

³¹ Harrison, Jones & Devlin, and Winchcombe, Carson. *Sydney Morning Herald*, 1 April 1905.

³² *Australasian Insurance and Banking Record*, 20 October, 1908, 845.

within and between selling centres. Intra-association competition between members was confined to the margins, 'cheating' on fees and levels of servicing, particularly in Sydney. The paradox is that while Sydney had such severe penalties for breaches they were not enforced, to the best of our knowledge no-one was fined or expelled. Even as the Association struggled in the 1890s all of the firms which withdrew continued to sell their wool through the central auction room. The Association choose not to enforce its rule that non-members forfeited their rights to use the wool sale room.³³ Moreover, while some of the leading firms talked about leaving the Association and operating independently in the late 1890s, no long lasting competing association came into being.³⁴ The Sydney Wool Brokers' Institute which replaced the Sydney Wool Brokers' Association in early 1900 had disbanded by November of that year.³⁵ All the firms continued to work through the shadow association until it was reconstituted in 1909.

To what extent was the degree of co-operation given by individual firms driven by a rational calculus of the material benefits accruing to them? Were behaviours moderated by the influence of the deep pool of social capital built up through the operation of the associations? Conflicts about 'rents' were driven by material calculus. Brokers in Sydney broke ranks when they believed that the costs from lower per unit revenues from lower fees and the higher expenses associated with employing more travellers, advertising and rebates and any possible fines were outweighed by the benefits of lower average costs resulting from higher throughput. Competition between brokers drove down margins. There was less incentive to cheat with respect to the auction system. This was binary choice for a broker working alone: you were in or out. Operating outside the system offered no benefits. Brokers would sell less wool operating independent sales as buyers and growers would stay with the larger sale process. A coalition of brokers forming a breakaway auction system could pose a real threat if they could offer a lot of wool. That did not happen. In Victoria, wool brokers operated separate markets in Geelong and Melbourne. However, they functioned co-operatively respecting each other's markets and co-ordinated sale dates. When the Geelong Association was formed in 1902 it took over Melbourne's constitution and rules in *toto*. Decisions about co-operation with respect to the central auction system may have been influenced by some form of altruism.. The battle between Australia and London as the principal wool market was of national importance which was taking place in the context of rising Australian nationalism. Wool was a barometer of prosperity and was the country's largest export. Its cultural influence was marked representations in language, paintings and even currency. It was said of Duncan Carson, a director of Winchcombe, Carson, that over his

³³ SWBA, Agreement dated 26 September 1892, NZLMA collection, 110/4/317, NBAC; Rules and Regulations of the Sydney Wool-Selling Brokers' Association May 1909, clause 9, NZLMA collection, 110/4/340, NBAC.

³⁴ GM correspondence, 14, 26 and 29 September 1898, 2/28A (3), NBAC.

³⁵ *The Western Australian*, Perth, 2 November, 1900.

lifetime he had been 'associated with almost every movement to benefit the pastoral industry'.³⁶ To men who moved in similar business and social networks behaving in ways that might break the thread of co-ordinated sales across Australia would be unthinkable.

³⁶ G. P. Walsh, Carson, Duncan (1860-1931), *Australian Dictionary of Biography-Online Edition*, Retrieved 14/10/2010.

Table 1: Average bales sold per broker and number of brokers selling less than 25,000 bales, 1905-1928/29

	1905	1918/19	1928/29
Melbourne average	49,000	79,000	66,000
Melbourne <25,000	None	None	None
Sydney average	55,000	57,000	101,000
Sydney <25,000	None	One	One
Brisbane average	8,000	31,000	31,000
Brisbane <25,000	All	Four	Five

Source: Alfred Hawkesworth, *Australasian Sheep and Wool*, various editions

Table 2: Original members of associations in Sydney, Melbourne and Brisbane

Sydney 1889	Melbourne 1893	Brisbane 1898
Australasian Mortgage & Agency [E] [1863]	Australasian Mortgage & Agency	Dalgety
Dalgety [E] [1884]	Dalgety	Fenwick [1864]
Goldsbrough Mort [1881, absorb Mort 1888]	Goldsbrough Mort	Moreheads [1899]
Harrison, Jones & Devlin [1882]	NZLMA	NZLMA
Hill, Clarke [1909]	Union Mortgage & Agency [1884] [E 1886]	Thomas Noyes
J H Geddes – absorbed PSA 1891	Younghusband & Co [1889]	Union Mortgage & Agency
John Bridge [1897]		
NZLMA [E] [1865]		
Pastoral Finance Assocn. [1891]		
Winchcombe, Carson [1889]		
Wyly, Trenchard		

Notes: English registered firms are denoted by the symbol [E]; the date of establish as a company is denoted by [1863].

Table 3: New entrants to associations before 1939

Sydney	Melbourne	Brisbane
Pitt, Son & Badgery [1888] (1898)	Australian Estates acquire UMA in 1899	McTaggart Bros [1886] (1899)
AML&F [E] [1863][absorbs AM&A (1904)]	Victorian Farmers Loan (1894-97)	Australian Estates acquire UMA in 1899
Schute Bell [1901] (1909)	National Wool Trading Co. (1894-97)	Sturmfels [1907] (c1907)
Co-operative Wool & Produce [1897] (between 1909 and 1921)	Co-operative Wool & Produce (1898-1901)	John Bridge (1910-17)
Country Producers Selling [1910] (between 1909 and 1921)	R. Goldsbrough Row (1900)	AMLF (1910)
Farmers & Graziers Co-op [1927]acquire John Bridge in 1919	AML&F absorbs AM&A (1904)	Goldsbrough Mort (1911)
Wilcox Mofflin [1917]		Winchcombe, Carson (1911)
		Qld Primary Producers [1927] 1921 acquire John Bridge's business

Notes: Date of establishment as a company is denoted by [1888] and date of joining an association is shown by (1898). A range of dates is given when year of first membership is unknown.

Table 4: Sheep population NSW, Queensland and Victoria, 1880-1927 (millions)

	NSW	Queensland	Victoria
1880	32.3	6.4	8.7
1887	42.8	12.3	10.7
1892	55.5	20.9	12.9
1902	26.6	7.2	10.5
1910	51.6	20.3	12.9
1915	36.9	16.0	12.1
1920	33.2	17.4	14.4
1924	41.4	19.0	11.1
1927	55.9	16.6	14.9

Source: N. G. Butlin, 'Distribution of the sheep population: Preliminary statistical picture, 1860-1957', in Alan Barnard, ed., *The Simple Fleece: Studies in the Australian Wool Industry*, Melbourne University Press in association with the Australian National University, 1962, Table 1, p. 285.