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The Relocation of the Market for Australian Wool, 1880 – 1939

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Abstract

Between the 1880s and 1930s the international wool auction market shifted decisively from Britain to Australia. A series of historical developments altered the efficiency criteria for the existing institutional arrangements, notably the growing international dominance of Australian wool production, the evolution of the small grazier, the geographical diversification of demand, and improved international transport and communications. Central to this market shift was the role of large pastoral agent firms based in Australia who employed their local knowledge, producer contacts, and trade specialisation to reduce costs. Australian graziers benefited from local market signals and quicker sale realisation. Overseas buyers increasingly came from outside Britain, and their contacts with Australia were aided by much improved long distance shipping and telegram communications.

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> 'Very early in the history of Australasia, small quantities of wool were sold by the growers before shipment…but this business remained an insignificant one until about twenty-five years ago. Its rapid growth of late, a growth that is registered by the increasing importance of the auctions at Melbourne, Geelong, Sydney, Adelaide…now seriously threatens the business in London.' (John H. Clapham, *The Woollen and Worsted Industries*, 1907, p. 94.)

At a time when commodity markets, including wool, are going through important changes in their structure, such as the introduction of remote electronic selling, it is instructive to examine an important earlier change in selling practices.[1] London was the main international wool market in the nineteenth century. It was the natural overseas outlet for the growing Australian wool clip in the middle of the century. However, by the 1880s Australian wool increasingly found a local market, initially in Melbourne and Sydney. Prompted by large woolbroking companies, within forty years local auction selling had spread around the port capitals of Australia and almost all wool was sold here before being shipped overseas. This represented a major institutional shift underpinning the development of the Australian economy and enhancing the leadership role of its regional capitals. In spite of its significance, it remains a neglected topic receiving only passing mention by Clapham and Butlin and an initial discussion of the pre-1900 period by Barnard.[2]

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1 *Diversity and Innovation for Australian Wool*, p. 18.

2 Clapham, *Woollen and Worsted Industries*, p. 94; Butlin, *Colonial Economy*; Barnard, *Australian Wool Market*.

In the current study we trace the relocation of the market for Australian wool, and examine its initiators and the demand and supply shifts underlying this movement. It will be argued that the economic benefits included lower transaction costs, shorter realisation times, and more effective market signalling. It should be noted that New Zealand was also experiencing a similar trend towards domestic auctions, although this took longer and was less complete. New Zealand and the other smaller producers such as South Africa, Argentina, and Uruguay continued to rely more heavily upon a mixture of the London market and local sale by private treaty.[3]

The growth of Australian wool output

Pastoralism was one of the earliest industries to develop in Australia. The demand for meat and the climatic and geological suitability meant that at least 6 000 sheep were farmed by 1800 growing to around 100 000 by 1821.[4] Sheep farming was pioneered by several members of the New South Wales army corps such as John Macarthur, and pardoned convicts including Samuel Terry. In subsequent decades, as many free migrants arrived and settlement radiated across southeast Australia, sheep numbers continued to grow rapidly to reach 13 million by mid century.[5] Their numbers had far outstripped the local demand for meat and thus attention turned to wool production. Australian wool production began its inexorable growth reaching 19 million kilograms by 1850, 210 million by 1890, 350 million by World War One and 446 million by 1939.[6] Given the small size of the Australian population, almost all of this output was exported. Improved sheep breeding with merinos enabled exports of high quality Australian wool to grow rapidly and compete with the output of other nations. The first wool exports from Australia to Britain occurred around 1807-8 and by the 1830s were increasing

3 Bureau, *Statistical Handbook of the Sheep and Wool Industry*, pp. 152-5.
4 Abbott, *Pastoral age*, pp. 23-4; Abbott, 'Pastoral industry', p. 239.
5 Vamplew (ed.) *Australians. Historical Statistics*, p. 107.

by an annual average of 32 per cent.[7] Wool production and export dominated the embryonic economy. A recent estimate suggests that pastoral exports, predominantly wool, accounted for more than 90 per cent of exports in the 1840s.[8] From table one we can see that wool has dominated Australian exports through much of its history; from the 1860s up to World War Two it accounted for a third to a half of the total. In turn, Australia became the largest wool producer and exporter in the world.[9] Unsurprisingly, staple theory has found a home in the study of Australian economic development.[10]

TABLE ONE: **Australian Wool Exports, 1861-1939**

The period 1820-50 has been coined the pastoral age in Australia to reflect the rapid growth and dominance of wool production. On closer inspection, however, the means used to bring about this pastoral expansion were not so impressive. Progress provided few solid foundations for the long-term expansion of the industry. The minimal use of capital and technology reflected the rational view of many that their stay would be temporary and helps explain the frequency of low or negative returns.[11] Simple nomadic herding, inadequate flock control, and inexperienced ex-convict overseers contributed to heavy stock losses and poor quality animals. Although the merino sheep was introduced to Australia in 1797, many farmers were ignorant of breeding methods. These problems were compounded by high turnover rates resulting from a lack of experience and resources to deal with droughts, bushfires, bushranging, sheep rustling, pestilence, and periodically falling prices. Ignorance of the best farming practices used in Britain, such as preferred shearing times, was common and

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6 Ibid, pp. 82-3.
7 Abbott, *Pastoral age*, p. 35; Jackson, *Australian Economic Development*, p. 53.
8 Butlin, *Colonial economy*, p. 192.
9 For example, see Abbott, 'International Wool Secretariat', p. 260, tables 1 and 2.
10 McCarty, 'Australia as a region of recent settlement'.
11 Butlin, *Colonial Economy*, pp. 185, 195. Abbott, *Pastoral Age*, pp. 118-24.

there was little incentive to develop techniques appropriate for local conditions such as fodder crops and artificial grasses. The Australian Agricultural Company herded sheep in damp conditions and took at least sixteen years to achieve a reasonable level of fine wool production.[12] In the second half of the nineteenth century, as a more permanent class of settler emerged helped by the expanding economic opportunities, the pastoral industry began to modernise through more extensive use of technology, appropriate farming methods, better livestock breeds, greater access to finance, and well organised marketing practices.

Early marketing practices

In light of the primitive state of wool production in Australia before 1850 it is not surprising that little thought was given to marketing methods. The earliest sale of Australian wool occurred through a variety of methods, most of them unsystematic and speculative. These included sales by private contract in country towns or on the road into Sydney or Melbourne. Merchants and shopkeepers bought speculatively, shipping the wool to England for resale. Alternatively, the larger runholders arranged for direct shipment of their wool for sale in London.[13] Finally, general colonial merchants, dealing in a range of products, could arrange consignment to England on the grower's behalf. In the 1840s about 50 per cent of the clip was sold locally, 10 to 20 per cent was shipped directly by larger growers, and the remaining 30 to 40 per cent was consigned to England by colonial merchants.[14] While Australian wool was initially sold in London as a minor addition to European sales, by 1835 there were specific auctions for the growing volume of wool arriving from Australia.

From mid century more and more growers sought to consign their wool to London, which was the premier international wool market. Australian wool was given greater

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12 Butlin, *Colonial Economy*, p. 181. Morgan, *Early Tasmania*, pp. 57-64; May, *Aboriginal Labour*, pp. 29-38.

13 Some shipments were sold in Liverpool.

prominence through the staging of separate auctions and was developing an improving reputation for quality merino, all of which promised good realisation values. Thus, by the 1860s around 80 per cent of Australian wool was consigned for initial sale in England.[15] Movement to the London market was facilitated by the provision of seasonal finance and international marketing functions by wool consignors and importers, in return for a commission of several percent of the sale price.

There were two main types of consignor, pastoral agents and the trading arms of major banks.[16] The pastoral agents were firms who specialised in providing financial, marketing, and technical services to support remote and inexperienced Australian farmers. Dalgety, New Zealand Loan & Mercantile Agency (NZLMA), Australian Mercantile Land, & Finance (AMLF), and Union Mortgage & Agency (UMA) were all British owned companies who set up branches in Australia and consigned wool back to England using their well established trading networks. Goldsborough, Mort, and Elder were Australian agents with a much smaller share of the consignment market. Between them the market share of the pastoral agents varied between about 30 and 40 per cent of consignments. By the 1870s the leading banks had diversified their interests to become significant wool consignors including the Colonial Bank of Australasia by 1868 and the Bank of New South Wales by 1869. Their source of competitive advantage was access to sources of short term trade finance, which helped them secure consignment business. The share of consignments handled by the banks was about ten per cent until the end of the century when it rose close to 30 per cent.[17] A range of British importers and colonial merchants handled the remaining consignments.

Thus, by the final quarter of the nineteenth century, the marketing of Australian wool had undergone a series of improvements, notably that it was sold by auction rather than

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14 Barnard, *Wool Market*, p. 47.

15 Ibid.

16 The term stock and station agent is synonymous with pastoral agent.

privately, that this was handled increasingly by specialist and well-resourced intermediaries who did not trade themselves, and that it was sold in the dominant London market.

The development of a wool market in Australia

While most wool continued to sell to foreign buyers, the point of sale was to shift back to Australia from the late nineteenth century, although this time in the form of a national system of auctions organised by specialist wool brokers rather than through ad hoc private sales to merchants.[18] Less than 30 per cent of total wool exports had been sold in Australia at the beginning of the 1880s, but this grew to an average of 53 per cent in the following decade, and continued to rise sharply to 76 per cent in the first decade of the twentieth century and 93 per cent in the second.[19] The relocation occurred earliest amongst merino wool types for which Australia had already acquired a strong reputation on the London market. By 1907 94 per cent of the Victorian, 86 per cent of the South Australian, and 83 per cent of the New South Wales merino clip was being sold locally.[20]

FIGURE ONE: **Australian and London wool sales, 1881-1939**

As figure one indicates, this change in market share occurred along a reasonably straight trend line between the 1880s and World War One but with some significant year-to-

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17 Barnard, *Wool Market*, pp. 47, 63.

18 5 to 10 per cent of wool continued to be sold privately in Australia.

19 Figures for local and overseas sales are taken from a variety of sources including *Australasian Insurance and Banking Record* (hereafter *AIBR*); *Dalgety's Annual Wool Review* (hereafter *DAWR)*; *Australasian Pastoralists Review* (hereafter *APR*); Goldsbrough, Mort and Co., Ltd *Statistical summary of wool exported from the Australian colonies and New Zealand to Great Britain and foreign ports 1807-1882, inclusive, also, annual sheep returns from 1788 and other tables referring to the wool trade (*Melbourne, 1885); Barnard, *Wool Market*, table 17, p. 223. These figures include domestic buyers for Australian industry and speculators planning to resell in London. The local woollen industry only accounted for 3-4 per cent of the wool clip by the 1920s. *Commonwealth Yearbook* 14, 1901-20, p. 227.

20 Noel Butlin Archives Centre (hereafter NBAC) Elders 102/97, correspondence.

year fluctuations. In the early years of the twentieth century the relative merits of the alternative markets were still being worked out and growers chose between London and Australia according to the prevailing state of prices. Arbitraging activity occurred as speculators bought in Australia and resold in London.[21] In addition, price fluctuations and differentials were a source of choice for genuine buyers. As the *AIBR* explained in 1908: 'when high prices rule preference is given to local selling in order to obtain a quick realisation, but when they are low, and the demand is sluggish, shipment for realisation in London is often preferred'.[22] Thus, volumes sold locally or in London fluctuated quite violently in response to changing prices: 59 per cent of wool was sold locally in 1901 but 75 per cent in 1902.[23] Since the wool auctions were located at the major port cities, decisions of whether to ship or sell could be taken at a late stage; indeed wool could even be offered locally and, if a sufficient price was not reached, be shipped to London. For Western Australian growers a triple choice existed between the small local auctions, shipment to Melbourne auctions, and sale in London.[24]

There was a temporary decline in the local market share in the early 1920s as a consequence of the distortion arising from the organised disposal of the wartime surplus under the aegis of the British Australia Wool Realisation Appraisement scheme. Thereafter, the local market share rose gently through the interwar years to complete its control of the wool market. In the first two or three decades of the twentieth century the Australian auction system matured as volumes sold continued to grow (figure one, tables two and three) and the

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21 Contemporaries noted the large proportion of wool which was sold in both countries on reaching London. *AIBR*, 19 July 1902, p. 547.

22 *AIBR*, 21 July 1908, p. 557

23 University of Melbourne Archives (hereafter UMArchives), Dennys Lascelles 62/12, Conran correspondence, 1908.

24 Fyfe, *Bale Fillers* p. 256. Growers and their selling agents could also chose between sail and steam vessels to transport their wool to London sales depending on whether there was a rising or falling price trend.

types of wool handled expanded, attracting more buyers and leading to a convergence of prices with the London market.[25]

Overseas consignment has never been entirely halted by the agents, although this has constituted only about two per cent of Australian wool output in the postwar period.[26] Agents have remained alive to the importance of offering the dual option and in years of particularly low prices, sale in London was still considered an option by some growers. In 1961 Dalgety identified three types of grower who still shipped to London: those who have always sold there; those located in a distant outpost far away from the major Australian auctions; and those who believed they could get a quicker sale in London at certain times of the year given the seasonal differences.[27] Brokers were also alert to the continued existence of small British buyers unable to purchase wool in Australasia and await its delivery four to five months later and of those who wanted a supply of a specific type of wool at short notice.[28] Firms also believed it would be impolitic to abandon London entirely since many buyers were from Britain.[29] Even-handedness buttressed attempts by the banks and London houses to relocate the market and helped the agents to retain valuable shipping agencies because of their control of freights of unsold wool.[30]

TABLE TWO: **Australian wool selling centres, 1901-40**

TABLE THREE: **Regional distribution of Australian wool sales, 1893-1980**

25 Barnard, ‘A Century’, p. 485 draws attention to converging prices. In 1932 the NZWBA noted the absence of speculative reselling by this time. Turnbull Library, National Library of New Zealand (hereafter TLNLNZ), minutes.

26 Bureau, *Statistical Handbook*, p. 152.

27 NBAC Dalgety 100/1/55/15, correspondence.

28 NBAC Elders 89/11/2, London reports, 1950.

29 TLNLZ, NZLMA 76-291 Head Office confidential files, 1947.

30 NBAC Dalgety 100/1/66/4, Managers’ conference, 1953. Fyfe, *Bale Fillers*, p. 257.

The local Australian auction system concentrated colonial selling at the major port cities from which the traded wool was then exported. The Australian railway and river systems provided radial connections between the pastoral areas and these ports. 'Tapered' rail freight rates reduced the unit costs of shipping wool from the more inland farming areas to the city auction.[31] The early dominance of wool production by the south-eastern states of Victoria, New South Wales, and South Australia meant that the earliest regular auctions were held at the state port capitals of Melbourne, Sydney, and Adelaide from whence most exports were also shipped. Melbourne dominated the early years of Australian wool handling by dint of its gold rush led expansion in the 1850s and 1860s. By the early 1890s the extension of New South Wales' railways to the Riverina, particularly Wagga Wagga from 1878, together with the expansion of the colony's navigable waterways system to the Murrumbidgee helped divert some of the Riverina wool to Sydney. In addition, the sheep population of New South Wales was now growing more rapidly than that of Victoria.[32] Thus, by the 1890s Sydney had become the leading wool auction centre. Sydney's growing dominance was also reflected in the fact that by 1902 87 per cent of wool passing through the port had been sold locally compared with a national figure of 75 per cent.[33]

During the course of the twentieth century, however, the dominance of Sydney and Melbourne over wool sales gradually receded, initially with the recovery of wool auctions in Adelaide from the severity of the 1890s drought in South Australia.[34] Regular wool auctions then opened at Brisbane in 1898-9, Hobart in 1902-3, and Fremantle in 1904 in reflection of the expansion of pastoralism in Queensland, Tasmania, and Western Australia. In all there were eight auction centres in Australia by the start of the twentieth century and this provided a

31 That is, the per mile freight charge reduced as the distance lengthened. Linge, *Geography*, pp. 178, 308, 505-7.
32 Barnard, *Wool Market*, p. 217.
33 NBAC, AMLF 97/36/16/9, correspondence, 1905.
34 *APR*, 15 March 1897, p. 43.

national wool selling system. In the following years some smaller regional auctions were established, for example at Albury and Launceston, but most of the subsequent increase in wool sales was absorbed through the existing centres as the average volume of wool handled at each auction expanded by over 40 per cent by the 1930s. The geographical dispersion of wool auctions around Australia is indicated by the fact that by the 1960s at least ten per cent of national sales were completed in each of the mainland states but none held more than a 30 per cent share.

Initiators of change

The market shifted from the location of consumption to the location of production. We would expect to find the point of sale where there exists the greatest concentration of one of the transacting groups, with the scale economies this produces. In the mid nineteenth century, growers had been geographically dispersed among many nations, and buyers concentrated in Britain. By the late nineteenth century, growers were more geographically concentrated in Australia, due to the boom in its wool production, while buyers were more geographically dispersed as other nations developed woollen industries in competition with Britain.[35]

The market relocation to Australia drew upon the growing support for such a move among the three most powerful interested parties - wool growers, buyers, and brokers, whose composition and interests were shifting in the late nineteenth century. Australian brokers saw an opportunity to exploit a competitive advantage over British agencies and the banks. Growers would benefit from quicker sale realisation, stronger market signals, and lower

[35] Thus, Australian output represented around ten per cent of English wool imports in the 1830s rising to two-thirds in the final decades of the century. Barnard, *Australian Wool Market*, table 6, p. 218. *Commonwealth Yearbook* 14, 1901-20, p. 231.

marketing costs. Buyers stood to gain from more direct buying and a more accurately defined product.

Brokers

The pioneers of local auction selling were private Australian pastoral agents. Thomas Mort commenced small weekly auctions in Sydney from 1843 and Richard Goldsbrough was one of its leading pioneers in Melbourne from 1848. Charles Dennys commenced wool sales at Geelong in 1857 while Thomas Elder had begun regular sales in Adelaide by 1878. Each of these agents owned firms of local origin but lacked the extensive overseas connections, knowledge, and London offices of British agencies. Nor did they possess the latter's strong asset base needed to win market share in the consignment trade to London by providing financial support to farmers. Instead, therefore the Australian agents competed by offering earlier realisation through local selling and by exploiting their local knowledge and farmer contacts within Australia to support this market. Reinvestment of the sales profits, industry mergers, and a trend to incorporation in the 1880s provided them with the funds to make market infrastructure investments such as wool stores and showrooms.

As the move to local selling gained popularity among farmers in the late nineteenth century the British agencies were obliged, sometimes reluctantly, to follow suit. Many of the larger British companies commenced regular local sales in the 1880s including Dalgety, UMA, and NZLMA.[36] Although local selling was designed as a competitive move by Goldsbrough Mort, in 1886 their general manager welcomed the entrance of Dalgety, which he believed would help make Melbourne and Sydney the leading wool markets in the world within about

[36] Appleyard and Schedvin, (eds) *Australian Financiers,* p. 102. The dates vary according to source. Barnard *Wool Market*, p. 68 suggest that entry to the major market of Melbourne was in 1880 for NZLMA, 1887 for Dalgety and 1888 for UMA. Several primary sources, however, suggest Dalgety was selling locally by 1886 but NZLMA not until 1887. NBAC, Barnard papers Q50 box 4, correspondence of General Manager; NBAC Dalgety N8/24, Doxat's letters, 1887. Since early sales, if not very successful, could be intermittent, commencement dates are not always clear.

ten years.[37] The presence of the leading agents would attract more buyers and sellers and yield scale economies in the provision of shared market infrastructure such as auction rooms and advertising. Dalgety were initially less convinced, noting in 1887, ‘it should...be our aim to do all we can to stop any further extension of the selling business...plays the devil with the public sales here’ [London].[38] The firm were concerned at the additional costs they faced by participating in separate wool markets; the vast distance between markets prevented the sharing of company facilities and expertise.

Ironically, the reluctant Dalgety soon changed their mind and stole market share from Goldsbrough Mort to restore its leadership of the wool market. Dalgety’s effective management team led by influential Managing Director E. T. Doxat realised that the tide was turning in favour of Australian selling and a quick response would place them favourably against their British rivals. UMA was slower to react; they still strongly supported the London market in 1891, noting, ‘London will always be the ultimate market for wool, and only here will the grower benefit by a large competition for his staple’. It is a measure of how quickly events were developing that in the following year UMA looked more seriously at expanding local sales although they ultimately chose to diversify their interests much more broadly than the other firms and never became one of the leading woolbrokers.[39] AMLF became one of the leading brokers but did not sell locally until 1903, held back by the conservative opposition of their London Board who were conscious of the extent of their influence and investment in the consignment system.[40]

The advantages of early entry into local selling can be shown by the fact that in 1889 Goldsbrough Mort sold 142 000 bales in Australia, double its nearest rival, NZLMA.

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37 NBAC, Goldsborough Mort 2/28/A(1), correspondence. Goldsbrough and Mort formally merged in 1888 after working cooperatively for several years.

38 NBAC, Dalgety N8/24.

39 NBAC, UMA 165/103, 135, Board minutes and letterbook, 1888-1900.

40 Bailey, *Pastoral Banking*, pp. 174-5.

Goldsbrough Mort consigned just 25 000 bales to be auctioned in London, making local sales 85 per cent of its total at a time when the national figure for Australia was less than 40 per cent. However, the prime mover advantage was soon whittled away; their leading 31 per cent share of the local market fell rapidly to only 13 per cent by 1900 when the firm was surpassed by Dalgety. Nonetheless, local selling had successfully established Australian firms, Elders and Goldsbrough Mort, in the top group of wool brokers.

Relocation was also viewed as a means of contesting the growing share of the consignment market that the banks had managed to obtain. Such a consideration was soon appreciated by the British agents initially reluctant to sell in Australia.[41] The demand for short-term lending services was reduced as fewer farmers opted to sell in London. Colonial banks had good local knowledge and contacts. However, local selling required the additional tasks associated with acting as selling brokers, which meant not only conducting auctions but also wool classing, sorting, and display; functions which were considered beyond their operating boundaries by the banks. Banks continued to play a role in the industry as providers of long term finance to farmers, often through the mediation of agents who were better placed to judge individual risks. London importing houses were also excluded by the extension of their marketing functions. Dennys Lascelles of Geelong replied to their indignant London receiving house, 'observe that you are somewhat surprised at [our] efforts...to get growers to dispose of their clips locally...I quite thought you were aware that this firm has always striven to this end, being essentially colonial brokers'.[42] The agents additionally diversified their range of farming services to include business, technical, and financial support, enhancing their connections with individual farmers and yielding scope economies in the process.

By the early twentieth century wool sales in Australia were dominated by the leading five Australian and British pastoral agents in an oligopolistic market structure. Between them

41 *AIBR* 17.3.1890, p. 166 and 18.3.1893, p. 161.

Dalgety, NZLMA, AMLF, Elder Smith, and Goldsbrough Mort brokered half of the wool sold. These 'wool brokers' ranked among the largest business enterprises in Australia, all five coming in the top ten businesses, measured by assets, in 1910.[43] This enabled them to marshal their resources to organise nationwide wool sales, and to internalise a full range of marketing services for the farmer and buyer, effectively a one-stop service. The small number of enterprises facilitated cooperation and cost sharing among brokers, inspite of initial Anglo-Australian rivalries.

TABLE FOUR: **Market Share of Leading Woolbrokers in Australia**

A key aspect of the work of these dominant agents was their growing reputations as effective woolclassers, a skilled function that became of increasing importance when they took over local wool selling. A good classer had to be highly knowledgeable of the different properties of wool, which included length of staple, its strength, appearance, condition, spinning quality, and yield. In addition, it was necessary to be well informed about the locality from which the wool came, the season, and the health of the sheep. Such requirements were particularly well suited to a member of a firm possessing extensive sectoral expertise and local knowledge. The demands of woolclassing increased during the twentieth century with the expanding numbers of sheep breeds. This heightened the value of the woolclasser since divisions into more precise distinctions of quality made the job of the buyer easier by reducing the risks and transaction costs of securing appropriate wool types for different forms of textile manufacture. By World War Two there were in excess of 1500 wool types and sub-types being sold locally.[44] Agents also used this expertise to provide advice to farmers on the

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42 UMArchives, Dennys Lascelles 62, 12, outward correspondence of Marcel Conran,

43 Ville and Merrett, 'Large scale enterprise', p. 34..

44 Munz, *Wool Industry*, pp. 103, 133.

grades of wool currently in demand and on the shed preparation of wool. This was all a far cry from the mid nineteenth century when Dalgety's bemoaned the shortage of local woolclassers able to improve the presentation of Australian wool and who 'really understand the relative values of wool'.[45] The development of these core technical competencies was a strong source of competitive advantage that was difficult to match in Europe.[46]

<u>Growers</u>

Local selling promised a range of benefits to the wool grower. The earlier local sale meant prompt payment and mitigated the need for short-term finance to cover seasonal outgoings. In the 1880s Western Australian growers had waited five to eight months after shipment to receive payment.[47] Earlier realisation mitigated grower risks since they disposed of their ownership interest in each wool clip much more rapidly. Being more closely connected to the market gave the grower a greater a sense of involvement and bred competition with other growers, which encouraged them to concentrate upon improving quality and developing a reputation. As Elder's observed in 1907: 'The woolgrower...has a chance of seeing his wool on the show floor, and this is often very instructive, and gives him a chance also of comparing his clip with other clips'.[48] It also enabled market signals to be more effectively transmitted back to growers allowing them to optimally adjust their product mix to maximise their returns.

Local sales lowered transaction costs by reducing the number of intermediaries. A common chain for London sales was grower-consignor-shipowner-importer-broker-buyer.

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45 TLNLNZ, Dalgety, 032-0785, correspondence. Companies also compared their practices favourably with those firms outside the national organisation who were included in the wartime system of wool selling. TLNLNZ, Wellington Woolbrokers Assoication (WWBA) MSY 4123, minutes, World War One.

46 Farmers cooperatives, originally established in the late nineteenth century to purchase farming supplies in bulk discount prices, also became strong supporters of selling wool in Australia. With one or two exceptions, most notably Westralian Farmers, and Farmers & Graziers, they were smaller enterprises dependent upon the loyalty of local farmers and less able to develop specialist technical expertise.

47 Fyfe, *Bale Fillers*, p. 127.

Local sales normally meant grower-broker-buyer.[49] The emergent well-resourced wool brokers, mentioned above, absorbed many of these dissipated tasks and left the grower fewer intermediaries with whom to transact. The *Australasian Pastoralists Review* observed in 1891, 'functions which, in the Australian markets, are performed by one merchant house are in London discharged by three distinct firms'.[50]

What made these advantages opportune were the changes taking place to the structure of the Australian wool growing industry in the late nineteenth century. In particular, the period witnessed the expansion of the small wool grower and the popularity of mixed farming, combining arable with livestock production.[51] This created a class of sellers who were particularly anxious to achieve quicker realisation and minimise transaction costs because of their limited resources. Improved signalling was important for mixed farming units to maximise the benefits of product flexibility.

High land values together with high interest rates in the 1870s encouraged many large runholders to sell off part of their estate. When the boom collapsed in the 1890s, others were forced to sell off land to reduce their debts. Many individual examples exist of subdivision including one very large property of 832 000 acres that diminished to 64 000 during the 1890s. On the supply side, a growing hunger for small holdings emerged from intending settlers and unemployed artisans particularly when capital intensive methods, such as artesian bores, and mixed farming methods reduced minimum scales of efficiency.[52] Closer settlement was also consistent with the impact of dairying and refrigeration that required more intensive farming. The growing popularity of mixed farming reflected production synergies such as manure for soils and fodder crops for animals. Mixed farming additionally mitigated

48 NBAC, Elders N102/97.
49 Barnard, 'A Century and a Half of Wool Marketing', pp. 486-7
50 16 June 1891, p. 106.
51 For a vivid family recollection of closer settlement see Mary Durack, *Kings in Grass Castles* (London, 1959).
52 Butlin, *Investment*, pp. 100-1, 108.

operational risks by providing a hedge against the fluctuating price of individual products. Official policy was heading in a similar direction in response to the land hunger, evidence that large portions of major estates were not being utilised, and, in Queensland at least, the invigoration of democratic values following the visit of Henry George to Australia in 1883. Land legislation in New South Wales, Victoria, and Queensland in the following year initiated two decades of land resumption policies from large estates, supported by voluntary or compulsory purchase and progressive land taxation.[53]

Being close to the farmer and the pastoral industry, the local agents were quick to notice this change in structure.[54] Years later Dalgety acknowledged with pride that support for small farmers ran through their history.[55] The financial crisis of the 1890s had shifted policy decisively in favour of smaller farmers as agents sought to spread their debt more widely. In 1892/3, for example, Elder's Board discussed 'our gigantic losses...our large foolish advances' and confessed that they had to learn to avoid large accounts.[56] AMLF decided in 1898 to avoid large squatting accounts.[57] In turn this support helped to sustain the growth of the small grazier since specialist pastoral agents, closely connected to rural communities, were well placed to make accurate and low cost finance decisions and thus avoid a credit gap problem. Nor did pressure from smaller growers for marketing changes go unnoticed by agents.[58] AMLF's General Manager, Falconer, noted resignedly in 1898, 'I cannot shut my eyes to the fact that the inclinations of an increasing number of our clients are in the direction of selling

53 These issues are handled in detail in Roberts, *History of Australian Land Settlement*, part V. Similar changes were occurring in New Zealand, for example see: Gould, 'Twilight of the Estates'; Eldred-Grigg, *Southern Gentry*.

54 They continued to monitor these developments; in 1909 Dalgety confirmed the continuing subdivision of properties and the preference of smaller farmers for local selling. *Annual report.*

55 NBAC, Dalgety 11/1/55/8 Correspondence, 1958.

56 NBAC, Elder's 8/57/1, correspondence. They lost around £40 000 on one account, N102/3 Board minutes, 1893.

57 NBAC, AMLF 97/36/27/2, correspondence.

58 NBAC, AMLF 97/36/26/17, correspondence 1903; NBAC, Barnard Q50, box 10. NZLMA observed in 1878 that many small sheep farmers preferred local sales but that the company did not offer this option. TLNLNZ, New Zealand Woolbrokers Assocation (NZWBA) MSY 1384 Board Minutes.

locally', and arranged for local sales through Goldsbrough Mort for those clients reluctant to consign to London.[59]

One of the key concerns of the smaller producers was the delays caused by infrequent but large London sales at which buyers did not have the time to inspect many of the smaller lots.[60] A national sales roster was developed among the dominant woolbrokers in Australia. This enabled more effective organisation of regular wool sales, with an auction in a different centre every four or five days and about one sale per month in each of the larger centres throughout most of the year. By the first decade of the century the winter 'off-season' had been eliminated with all-year round sales, putting the Australian auction system at an advantage over London where no sales occurred between October and the arrival of the first Australian wool in January.[61] Brokers could plan more accurately in advance when wool should be transported to the various selling centres at different times of the year to minimise storage congestion.[62] Local sellers gave greater attention to the needs of the large number of small growers seeking disposal at Australian auctions. As a result procedures such as binning, and interlotting were developed to help small sale lots. This involved combining into single sale lots the clips of small growers where the wool was of the same grade, which created a larger sale lot and reduced inspection costs.[63] Inspection by sampling, wherein buyers assessed only a limited proportion of the clip, also reduced costs. These improvements to presentation were backed up by large, well presented and brightly lit showrooms, enabling most of the lots to be displayed prior to auction, the gradual development of quality symbols

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Goldsborough Mort observed in 1884, 'growers are becoming more alive to the advantages of offering their produce in the local market'. NBAC, 2/40/1, Board Minutes.

59 NBAC, AMLF 97/36/26/6, correspondence.

60 Fyfe, *Bale Fillers*, pp. 120-1.

61 NBAC, AMLF correspondence 1903, 97/36/26/17; NBAC, *DAWR*, 1909-10.

62 TLNLNZ, WWBA MSX 4324, correspondence 1918.

63 Barnard, 'A Century', p. 482. It appears to have been introduced in Sydney in 1924 but spread rapidly.

as an early form of product branding, and advice to farmers on shed preparation of their wool.[64]

Buyers

While the benefits of Australian sales to local growers and agents is easy comprehended, the appeal to foreign buyers is less obvious. Australian agents fostered these new markets emphasising cheapness and quality. Dennys Lascelles sent out wool samples to British Columbia in 1891 and noted, ‘If Canadians want wool of good quality...they should be able to purchase...from here cheaper and better than London’.[65] Colonial governments also sought to emphasise the appeal of the Australian market. Clapham believed that the international exhibitions held in Sydney and Melbourne in 1879-80, ‘by revealing the resources of the country, greatly stimulated direct trade’.[66] Significantly, Dalgety’s were later to note:

> The turning point from which the colonial sales may be said to have obtained the world’s acknowledgement...dated from the season 1880-81 when more than the usual number of English, and especially Continental, buyers put in an appearance, and every subsequent year has witnessed an increasing attendance of European and American consumers.[67]

While this meant buyers would have to pay freights from Australia rather than within Europe and the Atlantic, lower prices were an initial attraction and later a wider choice of carefully

64 TLNLNZ, NZWBA MSY 4137, 1932, MSY 4141, minutes, 1966. In 1936/7 69 per cent of wool being sold through Goldsbrough Mort was displayed. NBAC, Goldsbrough Mort correspondence, 2A/30/38.

65 UMArchives, Dennys Lascelles, 62/12, Conran outletters. They also advised a client in 1892 that it is better for American firms to buy in Australia since direct shipment was cheaper. A similar point was made in relation to Japan, US and Continental Europe by the New Zealand Woolbrokers Association in 1932. TLNLNZ, NZWBA minutes.

66 Clapham, *Woollen and Worsted Industries*, p. 96.

67 NBAC, S56, *DAWR*, 1891-2.

selected and presented wools at regular, well-organised auctions reduced buyers' risks and transaction costs.

One way of looking at this question is to understand that the cost and communication disabilities of buying in Australia rather than London were declining in the later nineteenth century. A second important factor was the geographically dispersed pattern of demand that made London a less appealing point of sale to many new buyers.

Improvements in transport services and falling oceanic freight rates narrowed the cost gap between short and long haul freight rates and increased the regularity of sailings for buyers intending to purchase in Australia rather than London. More efficient sailing vessels and the adoption of steam were part of this process. The opening of the Suez Canal in 1869, the development of railway systems across Asia, and the introduction of regular shipping lines from many European nations to Asia and Australasia from the 1880s made it much quicker and easier for buyers to get to Australia and back. For example, Messageries Maritime of Marseilles deployed its vessels to Australia from 1883, as did Norddeutscher Lloyd of Bremen four years later. As demand increased, the dominant British lines were obliged to follow suit and run direct services from Australia to Continental Europe. Thus, while half of European wool purchases in Australia were shipped via London in 1888, this had fallen to 5 per cent by the early 1890s.[68] In addition to improved shipping, the development of the transoceanic cable, which had connected to Australia by the 1870s, enabled the growing number of foreign buyers based in Australia to keep in close and regular contact with their principals. This enabled them to exchange information on current Australian wool production and sale, and on the state of the London market.

The pattern of demand for Australian wool was changing significantly. The English woollen industry, the traditional source of demand for Australian wool, was undergoing

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[68] *APR* , 15.7.1892, p. 746.

significant changes in size and structure in the second half of the nineteenth century. The rapid expansion of worsted production in the mid nineteenth century, due to changing fashions and new machine technology, drew heavily upon long merino wools from Australia.[69] The simultaneous growth in scale and concentration of worsted manufacturers enabled them to by-pass wool merchants and buy more directly and thus more cheaply. This was especially the case for the largest firms who also vertically integrated backwards into top making, merchanting, and sometimes wool buying. Some established offices in Australia or contracted with buyers to purchase there specifically on the firm's behalf.[70] In addition, the severe and extended depression of the British textile industry from about the mid 1870s prompted a search for cheaper sources of supply; at this time wool prices were lower in Australia than in London. As a result, wool buyers began to establish themselves in Australia. The second major change in the pattern of demand was the growing importance of non-British buyers. The textile industries of Continental Europe, particularly in France, Belgium, Germany, Italy, and the Netherlands soon followed a similar pattern to Britain of growth, concentration, and stagnation.[71] Almost all Australian wool went to British buyers in the 1850s. However, by the 1870s some of the Australian wool sold in London was being re-exported to Continental Europe. As the Australian market expanded in the 1880s and 1890s Europeans were quick to take advantage of this opportunity and soon accounted for the majority of demand. Although we lack accurate figures on demand before the late 1880s, table 5 indicates the rising share of Continental buyers at this time and their dominance at Australian sales in the subsequent period to World War One. [72] Britain's declining share of total raw

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69 Barnard, *Wool Market*, pp. 33-9; Jenkins & Ponting, *British Wool Textile Industry*, pp. 171, 184.

70 Jenkins & Ponting, *British Wool Textile Industry*, p. 187; Clapham, *Woollen and Worsted Industries* pp. 131, 139 notes that worsted firms were, on average, two and a half times the size of the woollen, and the largest, of 1-2000 employees, matched the leading cotton factories.

71 Including Ostermeyer, Dewez & Co, and Renard Brothers. Also see Barnard, 'Wool buying in the nineteenth century'.

72 This data is obtained from final buyers rather than importing nation and thus takes account of any re-exporting.The distribution between markets varied between Australian auctions; for example in 1897

wool consumption by the leading textile manufacturing nations and the diversification of Australian import trade flows away from Britain both point to a similar conclusion.[73] During and immediately after World War One the monopoly purchase of Australian wool by the British government distorted the demand trend but by the mid 1920s European purchasing power was again dominant.

TABLE FIVE: **Demand for wool sold at Australian auctions, 1888-1935**

Domestic and regional demand was also on the rise. Besides the expanding Australian textile industry, New Zealand textile firms like Ross and Glendinning increasingly sought high quality Australian merino believing that the age of New Zealand merinos was at an end by 1900 as more farmers turned to mutton production.[74] The establishment of a Sydney branch by textile company Kanematsu in 1890 introduced Japanese buyers to the Australian market. In the decades that followed Japanese buyers were to account for a growing share of purchases: by the mid 1920s it was the third largest consumer of Australian wool. The expanded demand from United States, equal fourth consumer by the 1920s, provided further evidence of the geographical diversification of demand.[75]

The geographic diversification of buyers complemented the changes in transport services. Non-British buyers saw the opportunity to buy closer to the source of production and ship directly to the country of consumption. This avoided the costs of trans-shipment that buyers or other parts of the trade would have had to bear. Even regional British buyers, especially the Yorkshire woollen industry, began to see the benefits of buying in Australia and

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40 per cent of Melbourne and Geelong sales were destined for the UK but only 14 per cent of Sydney's. *APR* 15 March 1897, p. 43. Europeans continued to buy in London as well but took a lower one-third to a half share of disposals, Barnard, *Wool Market*, p. 219, table 10; Barnard, 'A Century', p. 478

73 Barnard, *Australian Wool Market*, table 10, p. 219. *Commonwealth Yearbook* 14, 1901-20, p. 526.

74 I am grateful to Dr Steve Jones for this information.

shipping directly to ports like Hull or Grimsby, where shipping services had expanded, rather than transhipping through London. In addition, direct trade and contact with growers sharpened market signals for the buyers as it had for the growers.

Marketing strategies and costs

In table six, using five efficiency criteria based on our discussion above, we can judge the relative merits of Australian or British wool sales. Of these, three favoured Australian selling from the start; namely transaction costs, realisation time, and market signalling. Of the remaining two, colonial selling services improved over time as brokers honed their expertise in woolclassing and supporting small growers. A closer look at costs is needed.

TABLE SIX: **Alternative Marketing Strategies**

All parts of the wool trade were keenly interested in the relative costs of the London and Australian markets. Two brokers, Goldsbrough Mort and AMLF, debated this issue in 1894 but their results were coloured by a preference for one or other market. However, the *Australasian Pastoralists Review*, which published this exchange of views, undertook its own calculations and expressed an editorial view that total costs 'borne by the wool' were lower in Australia. It was keen to emphasise that all costs must be included, not just those of particular groups such as buyers or growers. It distinguished four main categories of cost: sale commissions; warehouse, insurance, and storage charges; sea carriage; and overland cartage. It concluded that wool destined for British buyers incurred additional charges through sale in London rather than Australia of 2s 8d (14p) per bale. The differential was greater for wool destined for France and Belgium at 4s 4d (22p), Germany at 6s 5d (32p), and the USA at 6s

[75] Wadham, Wilson, and Wood, *Land Utilisation in Australia*, p. 120.

5d (32p). The *Review* concluded that the existence of the Australian auctions had saved the trade £123 000 in the 1893-4 season.[76]

The brokers, keen to judge the future direction of the trade, had their own internal discussions of selling costs for growers. Correspondence of Dalgety in 1901 showed that West Australian growers had begun to favour sale in Melbourne rather than London because of its lower cost.[77] In 1930 direct selling costs per bale, excluding transport, were estimated by AMLF, now converted to local selling, to be 17s 6d (88p) per bale in London and 10s 4d (52p) in Sydney.[78] A further comparison in 1934 estimated direct selling costs in Brisbane at 10s 5d (52p) per bale compared with 15s 10d (79p) in London.[79]

The *Australasian Pastoralists Review*'s analysis showed savings in both transport and direct selling costs. Direct shipment to the buyer's home port economised on freight and trans-shipment costs, even within Britain. Higher land prices in London meant higher cost structures than in Australian ports, which would have raised selling costs. Delays, congestion, and interruption were probably more common in London at the centre of the maritime and international trading world, implying less productive use of fixed investments.[80]

Lower selling costs in Australia were also helped by the internalisation of multiple functions within a single brokerage firm. Besides lowering transaction costs this provided lower operational costs. Wool auctions required substantial fixed investments in warehouses, auction rooms, and skilled wool classers. These fixed assets confirmed the existence of the scale economies of the wool auction. Therefore, while the small volumes of output in the mid nineteenth century would have been expensive to sell locally, this comparative cost disability had been overcome by the end of the century in a much larger market with a concentrated

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[76] In *APR*, 15 September 1894, pp. 353-7.

[77] NBAC, Dalgety, correspondence.

[78] NBAC, Goldsbrough Mort 2A/208-3 memoranda regarding wool storage.

[79] All currency is in Australian pounds. NBAC, Dalgety 100/3/180/93.

[80] NBAC, Elders 8/4/2 and 8/106/1, correspondence 1912-15 for evidence of congestion and industrial unrest in the port of London.

pattern of dominant woolbrokers (table four). In addition, agents cooperated in the sharing of some overhead costs, for example through centralised sale rooms, and kept their capital fully employed by extending the selling season throughout the year.[81]

The existence and impact of scale economies can be illustrated by reference to a comparison of a broker's own selling costs between Australian auction centres conducted by Goldsbrough Mort in 1933. They found that Sydney with the highest turnover (136 106 bales) had the lowest cost of 7s 7d per bale while Perth with the lowest volume (19 265) had the highest cost of 15s 5d. Perth was the only centre making a loss but was retained by the company because of an expectation of growth and a desire to maintain the advantages of being an early entrant.[82] The larger national companies like Goldsbrough Mort possessed the resources to cross-subsidise between centres. The belated trend to local sales in New Zealand was believed to be due to 'the want of one great centre' from which scale economies could be derived.[83]

TABLE SEVEN: **Comparative Selling Costs at Australian Auctions, 1933**

Conclusion

In the half century from the 1880s to the 1930s the point of sale for Australian wool shifted decisively from Britain to Australia. Beginning in Melbourne and Sydney, wool auctions had spread to all of the Australian state capitals by the early twentieth century. This represented a major institutional shift affecting the key sector of the developing Australian

81 By 1892 in Melbourne, Geelong, and Sydney wool sales were organised in a central salesroom. Barnard, *Wool Market*, pp. 110, 154-5; UMArchives, Dennys Lascelles 62, 12, Conran, out-letters, 1892. Sydney had periodically had central wool sales from the 1860s. Dalgety 100/1/55/13, correspondence, 1960.

82 Goldsbrough Mort 2A/206, wool, miscellaneous figures on consumption. Melbourne costs were somewhat higher than Adelaide on similar volumes, the result, perhaps, of higher land costs and greater service competition at the former, normally leading the firms to provide additional services.

83 *AIBR* 19.10.1899, p. 699.

economy with broad implications for that economy's future development. Underlying this shift were a series of historical developments that altered the efficiency criteria for the existing institutional arrangements, notably the growing international dominance of Australian wool production, the evolution of the small grazier, the geographical diversification of demand, and improved international transport and communications. Together, they provided opportunities for Australian pastoral agents, who were close observers of at least the first two of these developments, to develop competitive advantages that wrested the wool trade from the control of the colonial banks and London trading houses. A dominant group of large agents emerged that developed important transaction cost properties by internalising many of the functions of the wool market and shifting its location to Australia. Through their local knowledge, producer contacts, and trade specialisation they developed core technical competencies particularly through expert woolclassing and a national auction system that were difficult to match in Britain. Australian graziers, especially the growing breed that practised small scale production and mixed farming, benefited from the lower transactions costs of the trade, quicker sale realisation, stronger market signals, and a broader range of broker services. Overseas buyers were not obvious beneficiaries from the shift at first, but also came to share in many of these gains. In particular, the growing proportion of non-British buyers saw the opportunity to buy more directly, aided by much improved long distance shipping and telegram communications to Australia.

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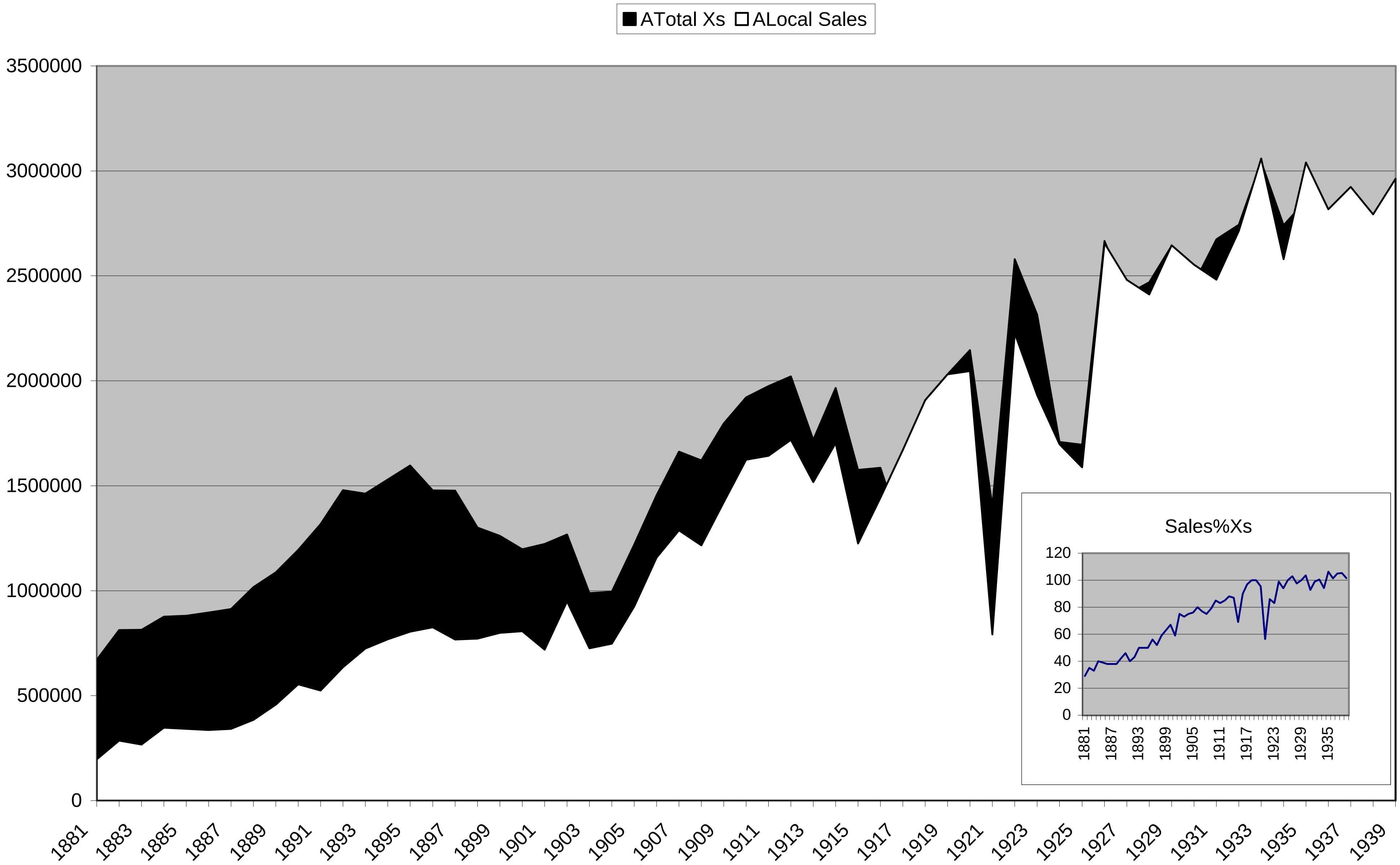
Figure one: Australian and British Wool Sales, 1881-1939 (bales)



Sources: see text

Table One: Australian Wool Exports, 1861-1939

	Wool exports (£)	Total exports (£)	Wool % total exports
1861-70	6	19	32
1871-80	12	24	50
1881-90	15	27	56
1891-1900	16	37	43
1901-10	21	59	36
1911-20	28	81	35
1921-30	55	136	40
1931-39	40	116	34

Source: Vamplew, pp. 188, 194-5.
Note: Decennial averages. Excludes transhipments before 1901

Table Two: Main Wool-Selling Centres in Australia, 1901-40

Year	Centres	Bales p centre
1901-10	8	184260
1911-20	9	191133
1921-30	10	207509
1931-40	11	261136

Sources: *Dalgety's Annual Wool Review*

Notes: Ten year averages

Table three: Regional Distribution of Australian Wool Sales, 1893-1980

Year	NSW	%	VIC	%	SA	%	QLD	%	WA	%	TAS	%	A total
1893-1900	408700	52	306716	39	63566	8	19030	2					783740
1901-10	566786	53	347742	32	88305	8	61108	6	1213	0	16495	2	1077379
1911-20	725906	43	480826	28	150935	9	262407	16	48266	3	26929	2	1690442
1921-30	895701	43	532785	25	197362	9	327599	16	111234	5	33627	2	2098307
1931-40	1223199	42	697066	24	265309	9	487299	17	182434	6	47681	2	2902988
1941-50	1239419	37	843752	25	333331	10	557647	17	279879	8	56735	2	3310762
1951-60	1455822	35	1174950	28	477559	11	635972	15	374659	9	74735	2	4193697
1961-70	1498955	30	1481435	30	582679	12	735173	15	574493	12	108155	2	4980890

Sources: *DalgetyAWR; AIBR; Franklyn* , p. 202
Notes: bales, decennial averages, figures from 1893

Table four: Market share of leading woolbrokers, 1891-1950

Year	5 firms
1891-00	0.55
1901-10	0.51
1911-20	0.49
1921-30	0.52
1931-40	0.51
1941-50	0.50

Sources: *Dalgety Annual Wool Review*; *Australian Insurance and Banking Record*; New Zealand Woolbrokers Association, Turnbull Library

Note: Ten year averages

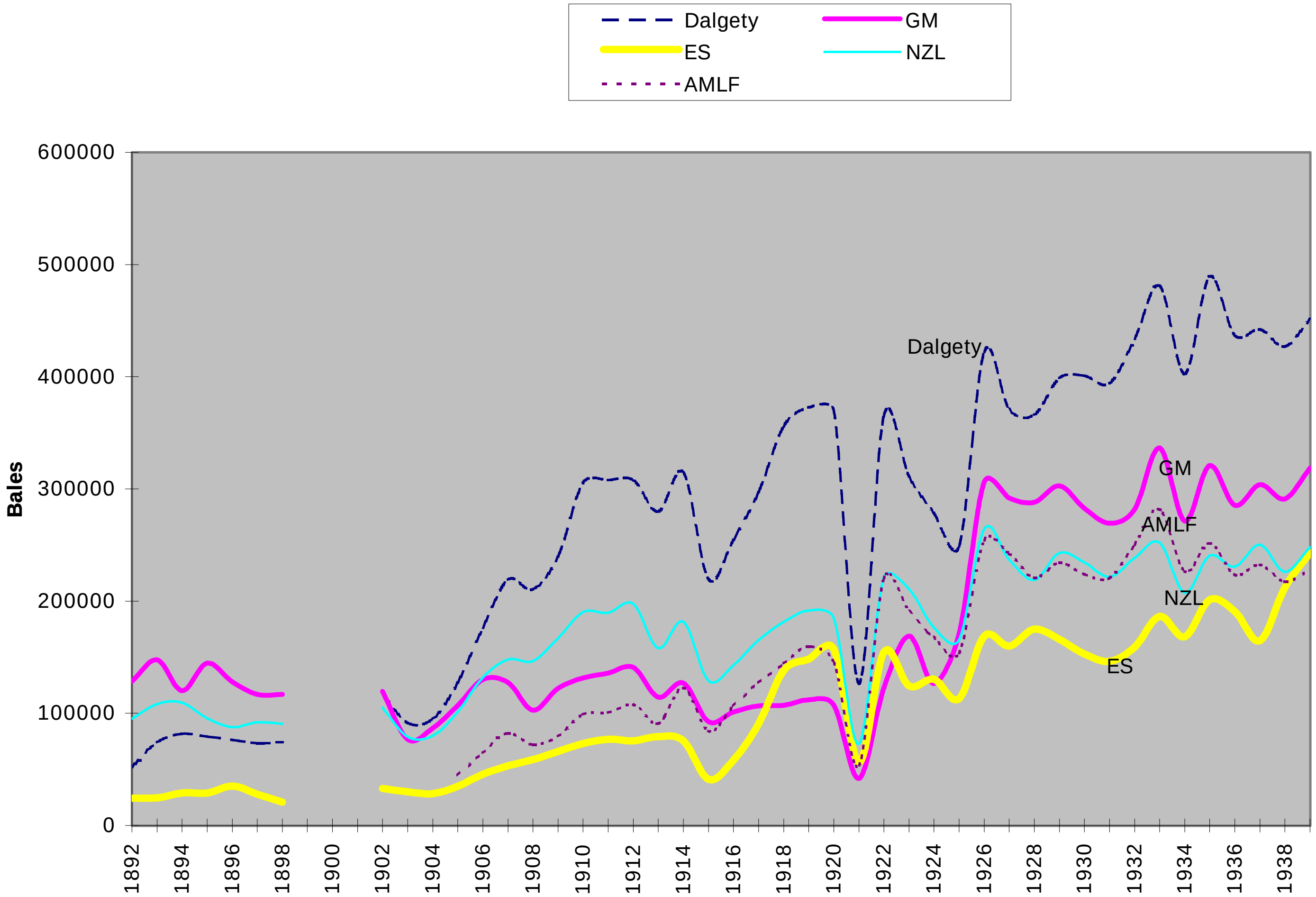


Table Five: Destination market of wool sold at Australian auctions (%)

	UK	Cont Eur	North Am	Far East
1888		23	5	
1889		29	7	
1890		43	1	
1891	28	46	4	
1892	32	48	6	0.4
1893	24	56	5	0.2
1894	25	60	3	0.2
1896	19	62	8	
1897	29	56	8	
1898	23	62	7	
1899	26	64	2	
1900	20	70	4	
1901	43	42	5	
1902	32	55	4	
1906	23	65	6	1
1907	24	64	10	3
1908	31	59	5	1
1909	26	64	7	1
1910	22	66	7	1
1911	26	65	2	1
1913	27	66	1	2
1914	19	70	5	1
1922	41	37	8	9
1923	31	42	10	9
1924	28	49	6	9
1925	28	45	7	13
1926	28	50	8	8
1927	25	53	5	10
1928	23	52	3	14
1929	24	54	3	13
1930	22	55	2	13
1931	23	48	3	21
1932	29	39	1	23
1933	24	45	1	21
1934	22	46	1	22
1935	31	36	1	23

Notes: Since sales cross calendar years, the year stated is the end year. Far East is mostly Japan.
Sources: *AIBR; APR, DAWR*

Table Six: Alternative Marketing Strategies

Point of Sale	Transaction Costs	Realisation Speed	Market Signalling	Sale costs	Selling Services	TOTAL
Australia	1	1	1	1	1	5
Britain	0	0	0	0	0	0

Notes: Scores are 1 for a positive facet and 0 for a negative and are based upon the foregoing discussion in the text. Thus the highest score respresents the preferred strategy.

Table Seven: Comparative Broker Selling Costs at Australian Wool Auctions, 1933

	Sydney	Melbourne	Adelaide	Perth
Bales sold	136 106	68 876	62 133	19 265
Cost per bale	7s 7d	11s 9d	9s 0d	15s 5d

Source : NBAC, Goldsborough Mort 2A/206, miscellaneous wool figures