CORRUPTION ! AT FLEMINGTON MARKETS ? :
A CASE STUDY IN PUBLIC POLICY *

by

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ABSTRACT

In mid to late 1987 a major furore erupted over public accusations by the NSW Farmers Association (NSWFA) of corruption and malpractice at the Flemington Fruit and Vegetable Markets in Sydney. Claiming to represent the interests of distant fruit and vegetable producers, the NSWFA called for a Royal Commission into the Markets.

This paper is a case study of the public policy reaction to those events. Important background to the case is the traditional mistrust of wholesalers by producers and the alleged way in which the NSW Farm Produce Act 1983 has failed to protect the interests of producers. In the context of the operation of Flemington Markets the study documents and analyses the reactions of industry groups, bureaucracy and politicians to the issues which emerged.

The analysis uses the perspectives of equity and efficiency in "free markets" to examine the role and motives of different groups. Neo-Classical Economic and quasi-Marxist logic is used to arrive at a familiar conclusion that producers, lacking effective power in the marketing process, remain in a position open to exploitation. A situation exacerbated by the illusion of security offered by the state.

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1. Introduction

This case study is concerned with recent allegations of corruption at Flemington Markets (the Markets): the central wholesale market in Sydney for fresh fruit, vegetables and flowers. The study is focussed on the policy action and debate which occurred following the ABC television program Countrywide of 28 August 1987. A key part of the case is the call by the New South Wales Farmers Association (NSWFA) for a Royal Commission (NSWFA 1987). The study covers 12 months from August 1987 to August 1988. This period includes the NSW state election and subsequent change in government.

In the documents cited in this case study the term corruption has been emotionally, and perhaps inappropriately, used to describe various illegal, dishonest or unfair business practices. In this study an arbitrary distinction is made here between 'market corruption' and 'criminal corruption'. Certain types of alleged criminal activity at the Markets (such as tax evasion and money laundering associated with drug trafficking), at the time the study was undertaken, were being investigated by the Australian Taxation Office and the National Crime Authority (NCA). These investigations were possibly stimulated by the allegations made by the NSWFA (Grealy 1987, Dick 1987, Brown 1988); but they are not the main types of corruption dealt with in this study. Rather this study is limited to 'market corruption' which has been variously described as 'wholesaler malpractice', 'rip-offs', 'bribe', 'corruption' etc. and which broadly can be defined as systematic breaches of the New South Wales (NSW) Farm Produce Act 1983 (the Act). The regulatory functions of the Act and the key offences it creates are described later.

Important questions analysed in the study are whether 'market corruption' can exist in a competitive market; whether the observed 'malpractice' is isolated and chiefly the result of ignorance (or similar market inefficiencies), as is maintained by the wholesalers and some key public service administrators; or whether it is the result of a fundamental imbalance of power which is reflected in the domination and pervasive exploitation of producers by wholesalers. The possible questions and issues are numerous and complex; perhaps the underlying reason for NSWFA calling for a Royal Commission.

The case study has three main parts. The first part (which follows) provides some further background to the institutions and people involved and describes briefly the policy setting of the case study. The second part describes the circumstances, main events and actions taken during the case study period. The third part of the study is a multidisciplinary analysis of two aspects of the corruption issue. The first aspect concerns the economic and social relationships between competition and corruption. The second aspect is the interrelationship of pressure group,
Here the efficiency-equity dichotomy of the debate is emphasised. Both aspects are also relevant to the increased prominence given to ‘market forces’ in the philosophy of the New Right reflected variously in the espoused policies of the Greiner Government in NSW.

2. Background to Flemington Markets and the Act.

The administration of both the Act and the Markets comes under the purview of the Minister for Agriculture and Rural Affairs, currently Mr. I Armstrong (Member for Lachlan and Deputy Leader of the National Party) and formerly Mr. J Hallam MLC (as Minister for Agriculture, Lands and Forests) of the Australian Labor Party (ALP). Flemington Markets is a publicly owned facility managed by the Sydney Market Authority (SMA), a statutory authority with a management board of industry and government appointees. The operation of the Act is the responsibility of the NSW Department of Agriculture and Fisheries (NSWDAF), which also independently operates a market reporting service at the Markets and is an important source of policy advice to the Minister.

The operation and function of the Markets is described in a booklet produced by the SMA (SMA 1987). The SMA is financed by rental income and other fees and charges paid by users of the Markets. At the Markets fruit and vegetable growers can either sell their produce on their own behalf as grower-sellers, or use the marketing services of commercial sellers (μερκατηστής). The SMA (1987) report that an average of 400 grower-sellers use the Markets. Grower-sellers come mainly from districts close to Sydney and form a distinctive pressure group, the NSW Free Growers Horticultural Council (the Free Growers).

There are some 154 wholesalers at the Markets who are licensed under the Act, which in various ways governs the commercial relationship between producers and wholesalers (NSWDAF 1988). A summary of these regulations can be found in SMA (1987). There are three methods of sale set out in the Act. First, under the traditional method of sale, a producer may consign produce to a wholesaler to be sold on an agency basis. The wholesalers maximum commission is set by the Act and the produce remains the property of the producer until it is sold or legitimately discarded under an order issued by NSWDAF. Second, producers may elect to sell to a wholesaler acting as a merchant. In this case a price must be negotiated between the producer and the wholesaler before it is resold by the wholesaler to other buyer at the time of resale the produce is the property of the wholesaler. Third, under the '24 hour option', which is also known as the 'third box method', the produce is forwarded initially on an agency basis but with the provision that it may be converted to a merchant transaction if a fixed price is agreed within 24 hours of the produce being received by the wholesaler.

Traditionally wholesaling of fruit and vegetables was a flash business. However, wholesalers have increasingly sold to buyers on credit terms, with consequent reductions in the
liquidity of wholesale businesses. But the Act has not been amended to reflect these trends; it still requires wholesalers to pay producers by the Friday of the week following the day of sale, whether or not the wholesaler had been paid for the produce. In recent times delayed payment to producers has been one of the main offences prosecuted under the Act.

Sales between wholesalers and buyers, who comprise retail retailers, corporate buyers for chain stores, suppliers to restaurants, exporters, etc. are chiefly negotiated on a private treaty basis. Under this system the agreed prices are not public knowledge, as would be the case if sales were conducted by auction. To compensate for this deficiency the NSWDAF has since 1926 operated a market reporting service which disseminates market information to producers via the media.

The information state of the Markets has become a key issue in the debate concerning the extent of desirable government intervention in the functioning of the Markets. In particular whether the provision of comprehensive information, including objective data on quantities derived from compulsorily completed manifests, would produce more equitable outcomes for producers.

The official propaganda for the Act is that it is essential protection for producers against the depredations of a minority of unscrupulous wholesalers.

"The farmers' best incentive is the assurance that they will receive a fair price and some guarantee of payment.....I regret to say there are occasions when such rightful expectations do not materialise"

Hallam (1983 p.4553)

However, it is contended in this study that producers' longstanding belief in the pervasiveness, rather than occasional instances, of such corruption is the raison d'etre of the Act. Hence the term 'market corruption' refers not to occasional malpractice by a few individuals but rather to widespread, almost institutionalised, corruption. It has economic, legal, moral/ethical, political and social dimensions.

This is not primarily a case study of the way the Act has been administered. However, the Act is a major instrument of government intervention in the Markets, and some of its provisions, as later discussed, have been central issues in the debate. The NSWFA (1987 p.5,6) have also maintained that the Act cannot be effectively implemented because (given market corruption) it is not adequately resourced. The resources provided are a Registrar, Deputy Registrar and two inspectors (1). In contrast there are about 10,000 producers in NSW, some 220 licensed wholesalers throughout NSW, and potentially many thousands of individual transactions per year. In every transaction there is the potential to breach the Act.
3. The Case Study: An Outline of Events and Actions.

3.1 The Countrywide Programme and its Aftermath.

The complaints made by producers (represented by the NSWFA) against wholesalers, and the ensuing dispute between the NSWFA and the Registrar, and the previous Minister (Hallam) for which the Countrywide programme was an explosive catalyst, had been smoldering for a number of years. A short history of events leading up to the Countrywide programme helps to place the case study in context.

The Act replaced the Farm Produce Agents Act 1926 following an extensive period of enquiry (Beal 1978) and review, and was the subject of a further review after 12 months of operation. An amending Act was passed in 1985. However, despite a history of over 60 years of legislative intent and considerable recent refinement, complaints by producers over the actions of wholesalers are little different today from those identified by the 1913 Royal Commission (as cited in Hallam 1983). Chief amongst these complaints are alleged underpayment, implying deceitful trading practices, excessive commission rates, and deliberately delayed payments; in various ways all offences under the Act.

The NSWFA (1987 p.5) trace the latest upsurge in complaints by producers against wholesalers to "the full implementation of the complaint procedures under the Farm Produce Act in April 1986". From about this time to about April 1987 correspondence passed between the Minister (Hallam), the Registrar and the NSWFA regarding complaints of fraudulent malpractice and the difficulties of obtaining the evidence on which prosecutions could be based. By about May 1987 it became clear that conventional lobbying activities by the NSWFA in seeking action were meeting with little success. Also about this time a new Executive officer (Intensive Industries) was appointed by the NSWFA: a change which heralded new, more aggressive, tactics.

On August 28 1987 ABC-TV screened a 'Countrywide' programme, one segment, titled 'A Case of Rotten Apples', was devoted to an exposé of corruption at Flemington Market: a programme which won an award for investigative journalism and which possibly was orchestrated by the NSWFA. There were also follow-up programmes on ABC-Radio especially 'Country hour' (ABC 1987, 1987a, 1987b, 1987c).

The Countrywide programme had a particularly hostile reception from the wholesalers and their representative organization, the NSW Chamber of Fruit and Vegetable Industries (the Chamber), who claimed that sweeping general assertions were made based on flimsy or no evidence. The Chamber view was supported by the Registrar (ABC 1987) and subsequently by the Minister in Parliament (Hallam 1987, 1987a, 1987b). Their reaction followed a consistent pattern; an admission that there could be isolated instances of malpractice; a call for producers to come forward with complaints, supported by evidence, and promises of investigations and prosecutions.
In September 1987 'conciliatory' meetings were held between the parties. The outcome was that the NSWFA was offered, by the SMA and the Chamber jointly, the option to purchase the leasehold of a selling module: a place from which a wholesale business can be conducted. The offer was announced by Hallam (1987c) and was rejected by the NSWFA the next day.

In late September Paciullo (1987) (then Minister for Police in the Unsworth Government) offered in Parliament to refer NSWFA allegations of corruption to the Commissioner of Police for investigation by the Fraud Squad. A promise subsequently reiterated, in a letter to the NSWFA, by ex-Premier Unsworth (NSWFA 1988 p.103). Shortly thereafter, as mentioned in the Introduction, Tax Office and NCA investigations were launched. The scene was set, that in the lead-up to the March 1988 State elections, the business activities of wholesalers and producers were subject to prying investigations by the Tax Office, NCA, NSW Fraud Squad, and the routine probes of NSWDAF! (2).

On 23 October the NSWFA launched its 'Call for a Royal Commission Document' (NSWFA 1987) to an audience of mostly opposition parliamentarians and the media. Hallam had consistently rejected the need for an extensive inquiry and the call for a Royal Commission was similarly rejected. The Liberal-National Party opposition meanwhile promised an inquiry but stopped short of supporting a Royal Commission (3).

By late November 1987 both the Unsworth Government and the NSWFA were looking for ways of managing what had rapidly become a sensitive and divisive issue. It appears that the computerization and compulsory manifest (quantity information) option was re-promoted about this time probably initially by bureaucrats within NSWDAF. The promotion of this option accords with an hypothesis that observed 'corruption' is merely a sign of an inefficient market which can be rectified by State provision of better and more timely information, enabling producers to make better marketing decisions based on a more accurate assessment of the market.

At the end of December a second replacement of executive officer staff at NSWFA took place which brought about a change of tactics on their part: from the confrontational to the conciliatory (Comensoli pers. comm. 1988). The confrontationalist tactics pursued by the previous executive officer had succeeded in focusing political attention on the issue, but had not won the NSWFA many friends in the industry or bureaucracy.

3.2 Case Study Part 2: January 1987 to August 1988

In the heady atmosphere of the March 1988 State election campaign the NSWFA released (perhaps inadvertently) a survey of wholesale/retail prices which highlighted high mark-ups (reported as 250 per cent in The Land 1988, Weekly Times 1988 and elsewhere) on fruit and vegetable prices. Comensoli in a NSWFA News Release dated 10 February said,
"Our concern is about the entire marketing system and its lack of accountability to either growers or consumers".

And is reported to have said;

"The NSW Farmers' Association hopes that the survey will help convince the State Government of the need for an inquiry into the fruit and vegetable marketing area"

Weekly Times (1988 p.2)

At this time the Opposition had promised an inquiry and were hopeful of winning government. Meanwhile the State bureaucrats had also been at work. Shortly after coming to office the new Minister for Agriculture and Rural Affairs, Ian Armstrong, was able to announce an industry meeting, with many groups including NSWDAF represented to discuss computerization and compulsory manifests (Brown 1988). This meeting was held on 19 April, and the proceedings were published (SMA 1988). Prior to the meeting the NSWFA produced a second major document (NSWFA 1988) concerned with 'Future Directions for Wholesale Marketing', in which there was no mention of 'corruption' or 'malpractice' and which strongly supported an 'efficient markets solution' to the problem. A solution also favoured by NSWDAF.

Since that meeting, at which there reportedly was widespread agreement, there has been a remarkably orderly and bureaucratic process of committees and meetings managed by NSWDAF, which stands in stark contrast to the tumult of the previous period. This outcome may have happened whether or not a change in government had occured.

Nevertheless it was the new Minister, Armstrong, who was able to announce that a "Flemington Market reform package had been welcomed" (The Land 1988a); and in a speech to the NSWFA he made the cryptic yet revealing comment:

"Also, the markets must not be used for ulterior purposes. I will therefore be implementing an investigation which will take place with a minimum of fuss. This investigation will be the sort of one that any large private company would undertake, and it will be comprehensive. If it is to succeed, the investigation must not have media speculation and sensationalism. I do not want such an investigation turned into a three ringed circus."

Armstrong (1988)

It is believed that Armstrong had commissioned an investigation by private consultants, circumventing the normal bureaucratic inquiry procedures (4). On the perhaps less controversial computerization issue, Armstrong (1988a) subsequently announced the formation of a "Computerization Working Party", to be chaired by a senior officer of NSWDAF. At the time of writing (October 1989) the Working Party was still working (5). This is the anti-climactic, yet thoroughly bureaucratic, conclusion to the events included in this study.
4. Analysis of the Issues

4.1 Market Capitalism: Conflict and Competition

The capitalist system does not behave as a neat harmonious system, it is based on competition and competition involves conflict. The market place can be seen as an arena where producers, wholesalers and retailers struggle for a share of the consumers dollar. It has been suggested that simple statistics such as the farmers share of the consumers dollar do not merit the attention that they receive (Kohls and Uhl 1985 p.228). But it is a common suspicion amongst producers that merchants/agents take higher profits than the statutory limits (Cole 1980 p.127). Accusations of profiteering by "middlemen", particularly of the sort described in this study are not new or rare; both Victoria and Queensland have, over the years, faced similar problems with their farm produce marketing systems and have similar legislation to the Act.

The discordant relationship between producers and wholesalers can be characterized in neo-classical economic and social (quasi-Marxist) terms, although juxtaposition of the analyses is somewhat more difficult. A wider framework of analysis must also take into account the roles played by the state bureaucracy and politicians, this is the subject of the second part of this analysis.

In quasi-Marxist terms producers are open to exploitation because they do not control the sale or distribution of their product. Wholesalers are able to act as capitalists by extracting surplus value through paying prices which do not reflect the product's value. This analytical proposition can be strengthened by introducing the neo-classical concept of the production of marketing services. That is to envisage the marketing function performed by wholesalers as involving the forces of production. While producers and wholesalers could be considered to be capitalists in the sense that each owns a means of production, the relationship between producers and wholesalers has class dimensions. Wholesalers control the means of production within the market, producers as a rule do not. Wholesalers therefore, within the constraints noted in section 2, are able to extract surplus value (economic rent) by exploiting their advantageous location within the marketing system and by manipulating the flow of information. An outcome of quasi-Marxist analysis is that exploitation of producers, expropriated from the means of producing marketing services, is inherent to the system.

In contrast the New Right considers that in open competition between capitalists such 'exploitation' is a legitimate business activity and quite ethical. To buy as cheaply as possible, to sell as dear as possible is not, by their standards, corrupt. Sawyer (1987 p27) claimed that a basic proposition of the New Right is that, "exploitation does not derive from the exercise of economic power but from the exercise of political power to redistribute social and economic resources". The underlying belief to this proposition is that individuals are not exploited if they enter willingly into free market contracts, and is readily
extended to include the belief that corruption exists because the market is regulated and not that regulation exists because the market is corrupt.

But does ideal competition exist at Flemington Market? On some criteria such as high numbers and apparent independence of buyers and sellers it does. But on other, more crucial criteria, it does not. These criteria are the ease of entry into wholesaling and the quality of information available to producers. Some elements of these criteria have already been mentioned but further illustration is useful.

On appearance the offer by the Chamber and SMA of a selling module to NSWFA provided an easy entry for producers into wholesaling. But there are good reasons for making the offer (to provide growers with the opportunity to become more involved in the selling of their produce) and for refusing it ("How will one extra stand, in the already suspect and antiquated markets, help gain a better deal for growers or consumers?") (NSWFA 1987 pp.57-59) probably do not put adequately the underlying motivations and fears. A better understanding of the offer may be derived by commencing with the knowledge that it is in the wholesalers interests to maintain the economic subjugation of producers, and the fact that producer marketing co-operatives in Australia have not met with great success.

Competitive theory suggests that firms tend to conform with patterns set by the most efficient. The production of fruit and vegetables probably comes close to the competitive ideal. But between the farm-gate and the consumer the agricultural marketing system is becoming increasingly less competitive. It is suggested here that the rigid adherence to neo-classical economic dogma could lead to an incorrect analysis of the problem.

Proponents of efficient (ie competitive) markets have argued that competitive pressures eliminate corruption. Excessive profits cannot be sustained in a competitive system. This was the adopted position of the Registrar of the Act in his immediate reaction to the 'Countrywide' allegations. His argument rested on the belief in the economic rationality of buyers of produce (especially supermarkets). For example, if producers were willing to accept 4 dollars for an item which wholesalers sold at 8 dollars, buyers would rather purchase directly from producers. Wholesalers in turn would be forced to lower their selling price (to retain customers) and raise the price paid to producers (to obtain supply). Excessive profits are thereby competed away. Corruption therefore can exist only as isolated instances. However this argument fails to acknowledge the monopoly power given to wholesalers by virtue of their location within the central market, the information they possess, the extent to which they are able to control the flow of information, and the substantial transactions costs involved in suggested alternatives such as selling direct to retailers. In an industry known for its fragmentation, the risks associated with long distance trade in perishable produce which is notoriously difficult to describe and where uniform grades or standards are virtually absent, the market position of
the fruit and vegetable wholesaler does not conform readily to the competitive model.

Further, following Parkin (1985 p.360), if market corruption is an 'over-riding systemic and structural constraint', conformity to its logic, namely profit maximization by subjugation of producers, is essential for business survival. Based on this view all wholesalers must indulge equally in corrupt practices to survive. Corrupt practices are pervasive, enforced by the system, and not isolated instances.

Akerlof (1970 p495) suggests that, "dishonest dealings tend to drive honest dealings out of the market". In a process known as 'adverse selection' dishonest dealings may be promoted because they are more profitable and cannot easily be distinguished from honest dealings. Such a situation may arise because of information asymmetry (6). The adverse selection of dishonest dealings is institutionalised as the economic rents so earned become capitalised in the market value of selling modules (7). The purchaser of a module must maintain the corrupt level of profit in order to service the capital debt of the business. Data on the selling prices of modules is not readily available, however an indication of the rapid inflation in the capital value of selling modules can be gained from the comments made by Doohan (1983 p.4624): "A module or selling site at Flemington Markets was worth $50,000 four years ago; today it would be worth $220,000." The selling module offered to the NSWFA was valued at $410,000 (Hallam 1987c). Although it is dangerous to make too much of these figures, they convey an impression that wholesaling is a profitable activity. They add weight to the conclusion that competitive pressures can perpetuate market corruption; and that an honest business established by the NSWFA would not be able to meet its financial obligations.

Competition, and the conflict it engenders, are concomittants of market capitalism. Advocates of the 'free market' might claim that producers who have been 'ripped-off' by this system are simply naive. The capitalist state cannot be expected to always protect these few from the trials and depredations of a rigorous commercial environment. There is an analogy here to the biological principle of the survival of the fittest. Leftists and agricultural fundamentalists on the other hand would argue that the state does have a role to play in protecting the vulnerable small producer. In fact, whilst the state has assumed the veneer of this protective role, it appears that a combination of bureaucratic and professional economic expertise has acted to limit the role of the state to that of provider of information of dubious worth. This proposition is argued further in the next section.

4.2 Group, Bureaucratic and Political Interests: Implications for Equity and Efficiency.

In this part of the analysis the efficiency and equity themes, raised in the previous section in the context of
conflict and competition, are continued but placed in the context of group, bureaucratic and political interests.

Weber's (1968) analysis of bureaucracy suggests that bureaucrats tend to adhere to formal rationality (ie to be concerned with the means) to the exclusion of substantive rationality (concern with the ends). Hence efficiency considerations receive prominence over equity considerations. Australian agricultural economists, a group which includes policy advisors and administrators in NSWDAF, have been criticized for their narrow adherence to liberal economic orthodoxy (Stent 1976, Lawrence 1987). Their methodology emphasizes the rationality of the market and ignores equity which is taken to be a 'political' consideration. Alston (1988) provides an interesting account of the ideology of agricultural economists wherein he draws comparisons with religious zealots. Lloyd (1982 p.364) suggests that,

"Australian agricultural economists, including many official policy advisors, are notably and openly more laissez-faire on price policy than their overseas counterparts, and it is likely that they have significantly influenced events in this direction."

Some agricultural economists have recognized that policy advice calls for a broader field of reference (Richardson 1986, Standen 1983). However given their ideological and bureaucratic character it is not surprising that NSWDAF bureaucrats actively pursued the efficient markets solution in the problem of inequitable outcomes for producers. In the bureaucratic terms of Sir Humphrey Appleby, such advice is also 'sound' since it furthers public sector growth, power and responsibility (Lynne and Jay 1988). The former Registrar of the Act is on record warning producers that they should not see computerization as, "a panacea for all the alleged problems at the markets" (Buffler 1988 p 4), possibly an allusion to the continuing need for the bureaucracy to stamp out occasional instances of corruption.

But computerization of Flemington Market was promoted as the rational means of obtaining an efficient market; seen as a desirable end in itself. The underlying economic theory is typically neoclassical, relying on individuals within the system being singularly motivated by the pursuit of economic rationality. However, as noted above, the applicability of this theory is questionable. For example, the state provision of market information may be tolerated by wholesalers, but it is likely that it will also be manipulated by them, where possible, to suit their purposes since they are unlikely to yield this component of their market power willingly. All parties (producers, wholesalers, retailers) could fear better information because it may enable investigation of income-tax fraud. At this level the natural conflict between producers and wholesalers tend to be suppressed for the sake of their mutual interest. This suppression of conflict operates to the advantage of wholesalers who find allies especially among grower-sellers. The Free Growers were opposed strongly
to computerization and compulsory disclosure of manifest
data (B). Market corruption, broadly defined, therefore can
lead to the primacy of defensive self-interests over the
social desirability of policies to deal with it; that is
individual self-interest sees that it is more desirable to
have an inefficient corrupt market, rather than an efficient
honest one.

There is an interesting contradiction between purely
bureaucratic interests and the ideology of the free market.
The Industries Assistance Commission (IAC), in a recent
report on Fruit Products (IAC 1988), advocated deregulation
of state Farm Produce Legislation. On efficiency grounds
they found no sustainable argument for state intervention.
Faced with the compelling ideological argument to
deregulate, state bureaucrats, whose interests lie in
maintaining the system, can only defend it by resorting to
equity arguments and the provision of information as a
public good. Therefore state provision of information
remains as a tenuous link between efficiency and equity.
However it was the alleged failure of the Act to achieve
equity which motivated NSWFA to call for a Royal Commission.

One aspect of the Act, namely the legislated limit on
commission rates for agency sales illustrates well the
ideological contradictions and pluralistic stagnation of
tries to obtain reformist policy. While the wholesalers
have frequently submitted that commission rates should be
deregulated, the NSWFA have opposed it. (The maximum
commission for agency sales is set by the Act at 10 per
cent.) The motivations of the NSWFA are unclear, but their
actions are consistent with the naive belief that the
commission rate limit effectively restrains the excess
profits of wholesalers. Perhaps, as Wildavsky (1985)
suggests, producers have over relied on the state to
anticipate market risks for them and as a result lack
resilience to cope with the ‘natural’ depredations of
wholesalers. But politically the commission rate limit is
also a bargaining chip over wholesalers which the producers
would be reluctant to give up. Hallam, in a letter to the
NSWFA, (See NSWFA 1988 p.82) implied a possible trade-off:
market corruption might be reduced if wholesalers could
obtain their desired profit margins legally rather than
illegally or surreptitiously. Hallams views on this no
doubt reflected those of his bureaucratic advisors. Is this
an example of corruption being caused by state intervention?
The New Right would certainly think so.

In terms of political interests, Hallam, in other ways,
attempted to undermine the case of the NSWFA and to support
the state bureaucracy. For example, in arguing against the
NSWFA case for a Royal Commission; Hallam claimed that the
NSWFA was not representative of fruit and vegetable growers
(Hallam 1987 b), whereas arguably they are representative of
‘producers’ as defined in this study. Also he claimed that
there had been 73 successful prosecutions under the Act “in
recent months” (Hallam 1987c). In fact 73 was the number of
offences prosecuted, the number of wholesalers prosecuted
was only about nine (compare for example Hallam 1987c with
Further it seems unusual for Hallam, a political representative of a horticultural district, to have apparently so little personal interest in the area. Although in his political biography Hallam (1983a) discussed the equity issue, it was in relation to its historical importance to ALP electoral success under the Lang and McKell regimes. In his discussion of his own administration the Act is mentioned only in connection with its use as a revenue raising device to fund the promotion of fresh food. Overall Hallam presents a picture of a Minister well 'tamed' by his Department.

But by the criteria stated by Richmond (1980 p.82) Armstrong has not yet been tamed. The political problems faced by Armstrong as Minister are quite different and potentially more complex than those faced by Hallam. Armstrong is expected to give primacy to the needs of rural people and at the same time to restrain bureaucracy.

Further there are at least four areas of political interest which pose problems for Armstrong in dealing with the problem of market corruption. First, Queensland, the National Party power base, is a major supplier of fruit and vegetables to Sydney. The NSWFA has complained of undue 'outside' influence in revising the Act, but attempting to assert parochial state interests may generate internal party discord. Second, at the local constituency level, the electorate of Hawkesbury held by Mr Rizzoli for the Liberal Party contains a concentration of the 'Free Growers' group. This group is opposed to market regulation and computerization, and hence provide a potential source of tension within the coalition. Third, it has been suggested that Armstrong has close personal ties with producer groups and representatives of wholesalers. Fourth, Armstrong also would be suspicious of the political orientation of the state bureaucracy after 12 years of ALP rule. It is not surprising therefore to find that Armstrong opted for an investigation of "the sort that any private company would undertake" and not a typical committee of inquiry where bureaucratic and industry interests predominate.

5. Conclusion

During the period covered by this study there has been struggle and conflict between interest groups, the bureaucracy and politicians, with the interests and ideologies of each influencing the terms of the struggle. Equity issues prominent early eventually were submerged by efficiency issues. An outcome considered favourable to bureaucrats. The position of the bureaucrats is not enviable, but it is of their own making. The Act, a regulatory instrument designed by bureaucrats, is resourced and enforced by bureaucrats at a level which is predicated on only occasional instances of corruption and therefore discovers only occasional instances of corruption. Further to attempt to adequately police the Act might uncover widespread market corruption and therefore give credibility to the case made by the NSWFA.
The NSWFA has struggled to obtain a fair and honest marketing system for fruit and vegetable producers. But the struggle has been waged at an organizational and bureaucratic level. At this level their struggle has been foiled, the initiative has been seized by state bureaucrats and politicians who are now in control of the agenda. Neither bureaucrats nor politicians want to see Flemington Markets denigrated by the stink of market corruption. For the bureaucrats and the ALP such an outcome would seriously question their past performance and the efficacy of their management. For the politicians of the Right the market is a respected, even worshipped, institution which forms the keystone of Rightist policies. The denigration of the market brings into question the ideological foundation of these policies.

For producers and wholesalers the market is a source and distributor of income. The conflict between producers and wholesalers is over the distribution of that income. The market place is an 'arena of struggle' (Hindess 1982) where the wholesaler has the upper-hand. But attempts by the NSWFA to conduct the struggle in bureaucratic and political arenas have to date been frustrated.

The long-term interests of producers at Flemington Market may not be best served by playing along with bureaucratic interstests. But in order to achieve market supremacy over wholesalers producers need the 'coercive power of the state' (Stigler 1971), and hence the co-operation of NSWDAF. They also need strength through unity, currently impossible while producers and grower-sellers are divided ideologically. Historically disunity amongst farmers has been seen as a political liability (Campbell 1966).

There has been a tendency for the issues outlined in this study to be seen in fairly narrow terms. Initially, the complaints of the NSWFA, while set against an equity background, were articulated in terms of the legal relationships between producers and wholesalers and the administrative inability of NSWDAF to enforce the Act. But treating the conflict described in this case study as merely a legalistic squabble between capitalists ignores the social and political dimensions of the problem. The focus of later debate changed to the economic functioning of the Markets, and the political containment of the controversy. By regarding the dispute as the epitome of capitalist ethic consideration of equity was severely compromised. Never did it seem likely that a broader, systematic study of the Markets would take place. Clearly answers to complex problems such as those analysed in this study do not lie in a single course of action. It is likely that a Royal Commission, risky politically, would not have produced a solution for the same reasons that stymied NSWDAF and Fraud Squad investigations, namely a conspiracy of silence.

Inevitably producers remain in a position open to exploitation while they are dependent on the goodwill of wholesalers for their economic welfare. They must obtain control over the marketing process, necessitating
revolutionary rather than reformist policies. Computerization of the type envisaged by NSWFA (1988) offers a technocratic solution to what is essentially a socio-economic problem. Managed by the bureaucracy, whose interests lie in preserving the status quo, better information is likely to be no more than mildly reformist, as it will favour the larger producer who can flexibly pursue market opportunities as they arise. Further, computerization is unlikely to change the fundamental relationship between producer and who esaler; the social forces within the marketing system will probably act to maintain the status quo.

ENDNOTES

(1) One inspector resigned in January 1988 and was not replaced immediately due to the staffing freeze instituted when the Greiner Government came to power.

(2) Subsequently Premier Greiner stated that the Fraud Squad enquiries were frustrated by "lack of co-operation on the part of producers and retailers" (Greiner 1988).

(3) This reaction adds weight to a view put by Thompson, Painter, Wheelwright and Mutch (1986 p21), who wrote in general terms on the issue of corruption in NSW State politics,

"Whatever might be the case, the marked reluctance of successive state governments to engage in serious investigation of many of these allegations gives sustenance to the widespread belief that state (and local) politics is riddled with persons seeking opportunities for personal financial gain through corrupt practices."

(4) The Minister (Mr. Armstrong) has refused to release this report. The circumvention of normal bureaucratic processes, and the secrecy of the investigation perhaps is the harbinger of the new corporate style of public administration.


(6) In the context of longer term dealings, where established business reputations are important, Heal (1976) questions this result. Akerlof’s model has been developed by Leland (1979) to encompass minimum quality standards under a licensing system.

(7) Under some definitions, market corruption is a typical rent seeking activity, it may even be in Bhagwati’s terms a Directly Unproductive Profit-Seeking Activity. However, whether the rents so obtained are merely transfers or are partially offset by the provision useful services is debatable. Definitional details and further discussion is provided by Brooks and Heijdra (1989).
See SMA 1988 for a statement of the Free Growers position. The trenchant opposition of this group to compulsory manifests lead them to blockade the Markets in September 1989. Reportedly they feared that the data on quantities marketed would be used as a basis for an industry levy (Macey 1989). But its usefulness to the Taxation Office cannot be denied.
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