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THE STATE MARKETING BOARD - RELIC OR PROTOTYPE?*

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This paper is primarily concerned with the place of producer-controlled marketing boards in contemporary agricultural policy. The accomplishments and limitations of state marketing boards are reviewed from the standpoint of their stated objectives. Their possible future role is discussed in the light of changes which have occurred in market structure and in public attitudes towards intervention in agricultural marketing, both in Australia and in other advanced economies.

During the past three years Australian farmers have demonstrated renewed interest in taking advantage of State legislation providing for the establishment of producer-controlled marketing boards backed by government sanctions. This contrasts with the comparative indifference with which New South Wales farmers, at least, have regarded this approach to market intervention during the greater part of the fifty years since the enabling legislation was introduced.¹

The Nature of the Marketing Boards

The 1927 Marketing of Primary Products Act in New South Wales, the 1926 Primary Producers' Organisation and Marketing Act in Queensland and the comparable Acts in the other States grew out of producer dissatisfaction with their economic plight.² As in other countries, voluntary farmer co-operatives had been tried as a means of raising producer returns, but had been found wanting primarily because of the impossibility of achieving the necessary loyalty from the membership. In those pre-depression days, governments had not become inured to participating in price-support and stabilization operations such as were to become a common feature of agricultural policy in the 1930s and later. To lend the power of the State to enable and enforce the establishment of boards operated by producers seemed a relatively costless way (from a treasury standpoint) of providing public assistance to the agricultural industries.³

That there were some qualms about delegating virtually unlimited power over pricing to particular industry groups is evident from the parliamentary debates of the day. There was talk in New South Wales

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¹ For statistical verification of this lack of interest see Longworth, J. W., 'The Problem of Meat Marketing', *Australian Quarterly*, Vol. 44, No. 1 (March 1972), pp. 57-58.

² For more details of the background to the legislation see Morey, J. A., 'The Role of the Statutory Marketing Board in the Organised Marketing of Australia's Primary Products', M.Ec. thesis, University of Sydney, 1959.

³ It is interesting to note the degree to which developing countries today are attracted to marketing boards as a form of agricultural market intervention presumably, in part at least, for much the same reasons.

of providing for the representation of consumers on the boards. However the perennial problem of finding a method of adequately representing such a diffuse and politically ineffective group led the government to fall back on the inclusion of a small number of ministerial appointees who were presumably to represent the public interest.⁴ The Minister himself was given no power to intervene directly in the affairs of a board whether in regard to its establishment or its subsequent operation. There has been little evidence that the Ministerial appointees have played an independent role on the boards over the years.

In Queensland the Director of Marketing was made a common member of all marketing boards. This doubtless has facilitated the dissemination of management expertise, but has done nothing to protect the public interest. In the Victorian legislation, provision was made for the establishment of a separate Consumer Committee, but like the comparable committee established under subsequent United Kingdom legislation, it has not proved effective.

Once the machinery for the establishment of a board is set in motion by a producer group, the board is constituted with an almost frightening degree of automatism. In New South Wales a referendum for the constitution of a board must proceed once a mere 100 producers in an industry, however large, feel disgruntled and petition for a poll. No matter how absurd the proposal or how inappropriate a board may be to the resolution of an industry's particular difficulties, the referendum must be held and a bare majority of affirmative votes in the ballot in which 66 per cent of those on the rolls actually voted can bring a board into existence for at least a three-year period. In other words, if producers are lax or disinterested, a mere third of the producers in an industry can have a board established.⁵ This automatism contrasts most markedly with the safeguards which exist in a comparable situation in the United Kingdom. There the Minister invites objections to any marketing proposals put to him, he may make suggestions for modification of the scheme, a public enquiry may be held in the event of serious objections being received, and parliamentary approval is required before a poll of producers is held.⁶

Under the Queensland marketing act, the government in that State may proceed to the establishment of a board without holding a prior ballot of growers. Only if 10 per cent of the growers affected petition the Minister for a ballot within 30 days of the gazettal of the relevant Order-in-Council, is a referendum held. Action for the establishment of the board is then discontinued unless two-thirds of the votes cast favour the proposal, provided 50 per cent of the electorate vote.

The Achievement of Pricing Objectives

The objectives of marketing boards primarily reflect the aspirations of the producers in whose interest and at whose instigation they are typically organized. These objectives are usually predominantly price-

⁴ It can be argued that conditions which are in the public interest are not necessarily identical with those which are in the consumer interest.

⁵ The fraction can be even smaller to the extent that producers in an industry who are eligible to vote do not ensure that their names are placed on the roll.

⁶ Hallet, Graham, *The Economics of Agricultural Policy* (Oxford: Basil Blackwell, 1968), p. 214.

oriented and appear to have changed little over the years. They may be summarized as (1) maintaining or increasing the prices and incomes of producers of the regulated product, (2) reducing fluctuations in producers' prices and incomes, and (3) equalizing market returns as between different producers.

The income-raising objective is usually deemed the most important, though producers repeatedly overlook the fact that ability to achieve this objective, whether by price-fixing or by bargaining, is dependent upon having effective control over the relevant supply. The degree of control possible varies considerably from commodity to commodity. Some boards by virtue of being restricted to a relatively small geographic area have been able to enjoy virtual monopoly power. Some, such as the N.S.W. Rice Marketing Board and the Queensland Sugar Board, have been able to engage in supply management. By contrast, the former N.S.W. Potato Marketing Board attempted a modest scheme of marketing quotas and this contributed to its loss of favour among its constituents. In cases where export sales have been involved, the predominant means of raising producer prices has been through the practice of price discrimination via home consumption price arrangements. However, it is doubtful if returns from these operations have been maximized.⁷

An overriding threat to a state board's control over supply in the Australian context is provided by Section 92 of the federal constitution, which effectively prevents any interference with interstate trade. Provided restraints arising from the perishability of the product and freight charges are not overwhelming, producers within a state can remove their produce from the control of a board by shipping it interstate. By the same token, a board's pricing plan can be upset by the arrival of supplies from interstate sources, which are not subject to its jurisdiction. The volume of interstate trade was a primary factor leading to the dissolution of the N.S.W. Potato Marketing Board.

Another obstacle to the achievement of pricing objectives which is frequently overlooked by proponents of marketing boards is the nature of the demand interrelationships with closely competing products. Lack of appreciation of substitution as a fact of economic life has, on occasions, caused marketing boards to adopt absurd pricing policies. Myopia in this respect was a feature of discussions in 1972 about the proposed sheepmeats marketing board in New South Wales.

Studies which have been undertaken (for example by the United States National Commission on Food Marketing) suggest that such gains in returns as are achieved by the exercise of market power are procured from consumers in the form of higher prices.⁸ Despite grandiose statements of intent, it is rare that producers achieve any significant gains from a reduction of marketing margins or increased efficiency.

Some boards, for example the N.S.W. Egg Board, have contributed to the stability of prices by regularizing the flow of commodities into markets by appropriate storage operations. Usually they have been

⁷ See, in this connection, Banks, E. L., and Mauldon, R. G., 'Effects of Pricing Decisions of a Statutory Marketing Board', *Australian Journal of Agricultural Economics*, Vol. 10, No. 1 (June 1966), pp. 1-13.

⁸ See also Warley, R. K., 'The Future Role of Marketing Organizations', *Journal of Agricultural Economics*, Vol. XV, No. 4 (December 1963), p. 555.

astute enough not to eliminate seasonal differentials in price, where they have an economic basis. There are, however, grounds for continued concern lest some boards in their efforts to equalize returns received by individual producers fail to provide sufficient incentives to the man who is prepared to produce a quality product or otherwise grasp market opportunities that his more lethargic brethren will let pass by.

The Question of Bargaining Power

In latter days, producer groups, particularly in the United States, have been putting increased emphasis on the need for bargaining power as a justification for collective action by farmers. Economists' interest in this approach was heightened following the appearance of Galbraith's argument that, given the nature of the agricultural industry and the market structure in which it operated, American farmers needed to take steps to develop the requisite degree of 'countervailing power'.⁹ Undoubtedly, there has been some yearning after enhanced bargaining strength among Australian farmers. However, it does not seem to have been very evident except in respect of the market for inputs where the relatively new farm organization, Organized Purchasing Power (O.P.P.), has been active.

Opportunities for bargaining between producer boards and processors or handlers seem to be currently of less potential importance in Australia than in North America. The majority of the State marketing boards in this country are either in a position to be able to fix prices directly or else are operating in international markets where they are predominantly price-takers. Indeed, it is hard to envisage that a small marketing board could achieve as good prices in an international context as a large trading company operating in the export marketing field on a continuing basis.

In the domestic scene, the N.S.W. Wine Grapes Marketing Board would appear to be operating in a bargaining situation though even in this case vertical integration by the wineries and the limited geographic extent of the board's jurisdiction (it is confined to the Murrumbidgee Irrigation Areas) must severely limit scope for the exercise of bargaining power. The new Oilseeds Marketing Board in the same State should also be in a position to negotiate price terms with the crushers.

In line with the statement in the previous section it seems highly probable that any gains as a result of bargaining are achieved at the expense of consumers and possibly other producers rather than from the immediate bargaining opponents. As Moore has recently pointed out, producers tend to have exaggerated ideas of the gains likely to accrue from bargaining with processors and handlers forgetting that the latter form part of a marketing chain and are not the ultimate consumers. He has presented figures demonstrating the insignificance of potential gains from bargaining in the U.S. marketing scene.¹⁰

The Non-Price Objectives of Marketing Boards

At the time the original marketing-board legislation was enacted,

⁹ See Galbraith, J. K., *American Capitalism: The Concept of Countervailing Power* (Boston: Houghton Muffin, 1952), especially Chapter 11.

¹⁰ Moore, J. R., 'Bargaining Power Potential in Agriculture', *American Journal of Agricultural Economics*, Vol. 50, No. 4 (November 1968), pp. 1051-53.

farmers were concerned about the inefficiencies of the marketing system and not about the excessive profits of middlemen.¹¹ Assertions about both marketing inefficiency and excessive profits have been frequently made since and have been to the fore in recent controversies concerning the establishment of additional marketing boards. Contrary to these assertions, results of empirical economic research and investigations by committees, as Warley says,

'lend support to the view that, in general, marketing margins are not excessive, that costs are kept low by active competition and innovation and that profits are low or moderate in relation to the capital employed and the risks which are borne by firms engaged in marketing'.¹²

One would think that practical experience in the form of the unsuccessful attempts by producers to do better than existing middlemen (such as the ill-fated excursion into meat wholesaling and retailing by N.S.W. farm organisations in 1963) would have made a greater impression upon them than it apparently has.¹³

In the circumstances it is not surprising that marketing boards have made little contribution to the improvement of efficiency in the marketing sector. As suggested earlier it is questionable whether in practice marketing boards pay more than lip service to such goals. Moreover, it is often to the advantage of a board to remain on good terms with established processors and distributors in the relevant industry. Marketing reforms which form part of the case of advocates of specific marketing boards (such as the proposals for better market information and better grading systems heard in recent discussions about meat marketing) can often be achieved by legislative or ministerial action and without resort to producer-controlled marketing machinery.

Despite their usual preoccupation with price-raising activities, it is conceivable that marketing groups particularly those operating in a bargaining context might be able to improve their terms of trade by effects on non-price variables (such as by improving grades and qualities of produce, by improving scheduling of deliveries, by promoting long-term contracts, etc.). Farmers stand to gain considerably in some situations from better co-ordination of production and marketing. Improvements in these directions could indirectly increase the net income of participating farmers.

Some marketing boards, particularly those dealing directly with consumers, have devoted part of their budgets to endeavours to expand demand by promotion, though usually this did not form part of the original objectives of the boards at the time they were constituted. There are good grounds for believing that the gains to the respective industries from these activities have been illusory, given the demand conditions confronting food products and in particular the high degree of substitution possible in many cases. Such programmes are operated more on faith than upon demonstrable evidence that the producers concerned

¹¹ Morey, *op. cit.*, p. 52.

¹² Warley, T. K., 'A Synoptic View of Agricultural Marketing Organisations in the United Kingdom' in Warley, T. K. (ed.), *Agricultural Producers and Their Markets* (Oxford: Basil Blackwell, 1967), p. 329.

¹³ The Producers Direct Meat Cooperative Ltd. was established in 1963 and went into liquidation two years later.

are beneficiaries. Frequently, promotion expenses represent merely an added burden on the consumer.

The Future of Marketing Boards

Reference has already been made to the recent accelerated demand by Australian producers for referenda to constitute marketing boards. To some extent, this can be explained in terms of purely local circumstances. For instance, the age-old tendency of farmers to suspect the marketing system in periods of price recession undoubtedly had a lot to do with pressure for the formation of a sheepmeats marketing board, coming as it did in a period of depressed wool prices. In the case of coarse grains and oilseeds, traditional wheatgrowers who turned to the production of these crops as a result of the existence of declining wool prices unquestionably made invidious comparisons between the guaranteed price existing for wheat under the price stabilization legislation and the price uncertainties associated with other crops. There was also some suspicion of grain and oilseed handlers reminiscent of that existing in the wheat industry in the 1930s.

However, changes in attitudes to collective marketing have been occurring in other parts of the world, some of them paralleling and others seemingly contrary to local developments. It is highly likely that a greater appreciation of the limitations of producer-controlled boards will manifest itself in this country, though the Country Party's strong and oftentimes unthinking commitment to 'orderly marketing' may make for strong resistance to any change of attitude in rural areas.

(a) The Changing Attitudes of Governments

Attention has already been drawn to the fact that the statutory marketing board largely antedates the era of large-scale governmental intervention in agriculture. With the wider experience in administrative control of agriculture now available there has been a tendency in countries like the United Kingdom where statutory bodies have been tried, to favour the establishment of authorities and commissions representing a range of interests and exercising general supervision over marketing in preference to the traditional type of producer-controlled board. In this position, the U.K. Government has had the support of a series of public enquiries including the Bosanquet Commission, the Runciman Committee and the Verdon-Smith Committee. Warley attributes this trend to (1) an appreciation that 'the marketing of some commodities is a commercial task of such magnitude as to be far beyond the capabilities of farmer-controlled monopoly selling agencies' and (2) the view that 'improvements in the functioning of markets are more likely to be accomplished by co-operatives and groups and by widely representative bodies akin to the pre-war commodity commissions than by the marketing boards which producers have had or have desired'.¹⁴ Cohen has also raised the point that it should not be possible for the farming community to nullify Government policy decisions on farm prices and incomes by the use of monopoly powers.¹⁵

¹⁴ Warley, T. K., 'A Synoptic View', *op. cit.*, p. 336.

¹⁵ Cohen, Ruth L., 'Further Reflections on Agricultural Marketing', *Journal of Agricultural Economics*, Vol. XIV, No. 4 (December 1961), p. 431.

In the United States by contrast, where the nearest approach to marketing boards to date has been the arrangements for the issuing of marketing orders, there has been evidence of interest in introducing something more akin to boards. The National Commission on Food Marketing viewed them with some favour,¹⁶ but no authorizing legislation has been passed by Congress.

In Canada the hands of marketing boards have recently been strengthened by the passage of the Farm Products Marketing Agencies Act (1972). Previously marketing boards established under provincial legislation had experienced difficulties in securing inter-provincial co-ordination of production and marketing and in developing export markets in an effective fashion. The new national legislation enables producers to develop marketing organizations of a compulsory nature on a national basis.

In the course of the recent controversy about meat marketing in New South Wales somewhat similar attitudes to those in the United Kingdom have been evident. A select committee, containing members of all political parties (the Brewer Committee), has reported in favour of the creation of a statutory authority representative of producers, meat packers and meat industry employees, stating that

'The scope of a board established under the Marketing of Primary Products Act will be far too limited in its application to deal with the real problems of the meat industry and meat is far too complex a commodity to be marketed by such a board'.¹⁷

Though the Minister for Agriculture has to proceed with the machinery for the establishment of marketing boards where statutory procedures have been followed, he did publicly support the proposal to create the authority.¹⁸ This was despite the fact that a referendum for the establishment of a sheepmeats marketing board was about to be held. In the event, a majority of producers still voted for the establishment of a board. The N.S.W. Government is accordingly proceeding with the establishment of both a board and an authority.

(b) The Rising Tide of Consumerism

There has always been a measure of dissatisfaction among consumers at the monopoly prices set by marketing boards in cases where they have been directly affected by the boards' actions. However, they have lacked the means to form a cohesive pressure group. With the latter-day rather militant attitude towards monopolistic pricing and practices detrimental to consumer welfare (epitomized in the activities of Ralph Nader and his associates), it seems likely that marketing boards which indulge in such practices are going to be less immune from attack in the future.

It is interesting to note that the original initiative for the passage of the Marketing of Primary Products Act in New South Wales came

¹⁶ U.S. National Commission on Food Marketing, *Food from Farmer to Consumer* (Washington: Government Printing Office, 1966), pp. 110-111. The proposed boards were to include representatives of handlers and the public as well as producers.

¹⁷ N.S.W. Parliament, *Report from the Select Committee of the Legislative Assembly upon the Meat Industry* (1972), p. 55.

¹⁸ *Sydney Morning Herald*, 20 October 1972.

from a so-called Conference of Producers and Consumers held in Bathurst in 1926. The somewhat conflicting interests of the two groups were broadly reconciled at the time by the notion that the consumer equally with the producer was the victim of marketing inefficiencies.¹⁹ Apparently some consumer groups can still identify themselves with producers judging by the recent appearance of representatives of CARP (the Campaign Against Rising Prices) and the Union of Australian Women before the Brewer Committee, advocating reduction in middlemen's margins. But such ignorance of the economic facts of life is not typical of the newer type of consumer advocate.

The inconsistency of having some laws on the statute books designed to suppress monopolistic practices and at the same time, other laws fostering the creation of marketing boards and granting them monopolistic powers has always been a source of unease particularly in the United States and Great Britain. Whatever may be the disabilities suffered by producers in a competitive industry such as agriculture, it should be possible to improve their economic position and bargaining power without giving them unrestricted monopoly powers. In Australia, where governments have been more dilatory in implementing action against restrictive trade practices, the anomaly has been less evident, but with the passage of time this is less likely to be the case.

(c) Changing Producer Attitudes

Not only is there evidence of increasing public and consumer disaffection with the traditional type of producer-controlled marketing board, but there are also signs of changing producer attitudes towards the issue of farmer bargaining power. In one manifestation these tend to reinforce pressures for the establishment of more marketing boards and like institutions; in another manifestation they suggest their eventual demise.

Agricultural producers and others appear increasingly to regard the exercise of political power and the exercise of bargaining power through grower-controlled institutions as alternative means of accomplishing economic objectives.²⁰ In other words, farmers may use political processes to influence politicians to give them the sort of price supports, stabilization measures or marketing reforms desired or alternatively they can endeavour to accomplish these goals through collective marketing machinery under their own control. In the United States increasing dissatisfaction with what has been achieved through administrative pricing is said to be causing farmers to seek support for measures to assist them to improve their lot through the alternative route of exercising private bargaining power. Tweeten claims that farmers have developed a feeling of frustration and alienation and that they seek to overcome this by personal involvement in economic decisions. 'Although self-help bargaining suffers from the same economic limitations as government programs', he says, 'the best case for it seems to rest on the sociological grounds of overcoming anomie'.²¹

The trend towards greater emphasis on farmer bargaining power

¹⁹ Morey, *op. cit.*, p. 72.

²⁰ E.g. Tweeten, L., *Foundations of Farm Policy* (Lincoln: University of Nebraska Press, 1970), p. 331.

²¹ *Ibid.*

can also be explained in terms of a well-founded realization of the diminishing electoral power of agriculture and the greater urban and consumer orientation of legislatures. Farmers, it is said, wish to develop market power of their own, less vulnerable to political fortune.²²

The decline in the political power of rural areas has not gone as far in Australia as it has in the United States. The importance of the rural industries in external trade may serve to ensure a more continuing government interest in agricultural support measures in this country. Nonetheless the possibility of a further decline in rural electoral power in Australia is very real, and the increasing stress on urban problems in a political context is readily apparent.

Whether any considerations of the foregoing kind have influenced Australian farmers to try to use marketing boards in preference to possible alternative public policy measures in an endeavour to improve their returns from meat, oil seeds and coarse grains, is difficult to determine. Farmers appear to be ready enough to use legislative measures as a means of stabilizing returns (witness the apple and pear legislation of recent time), but seem less sanguine about the prospects of using governmental measures for price-raising objectives. Opportunities to move to farmer-operated programmes of group action are greater in sectors of agriculture which have not previously been dependent on the provision of direct governmental assistance, unless disapproval of a government-sponsored programme is widespread.

(d) Changes in Market Structure

Some of the producer disenchantment with marketing boards, particularly overseas, seems to stem not so much from dissatisfaction with the results of or prospect of political intervention as from a questioning whether State-wide or country-wide marketing boards are likely to be satisfactory, given the structural changes which are currently going on in agricultural markets. Not only are large and efficient producers making their appearance, but there is increasing concentration in the wholesaling, processing and retailing sectors. There is a rising volume of specification buying and evidence of concerted efforts to integrate production and marketing functions by contractual arrangements and the like.²³ Larger, more commercially-oriented producers operating individually or in concert with other like-minded people in voluntary marketing associations have demonstrated to their own satisfaction that there are premiums to be achieved by direct decentralized negotiation with marketing firms.²⁴ They claim that statutory boards through their lack of flexibility and their commitment to treat all producers alike can

²² Paarlberg, D., 'Proposed and Existing Organizational Efforts for Farmers' in Ruttan, Waldo and Houck, *Agricultural Policy in an Affluent Society* (New York: W. W. Norton and Company, 1969), p. 202.

²³ The private initiatives recently displayed by Australian firms engaged in producing special types of meat for the Japanese market are illustrative of these developments.

²⁴ Some indication of the integration achieved by United States food industries and farmer co-operatives is given in Goldberg, R. A., 'Profitable Partnerships: Industry and Farm Co-ops.', *Harvard Business Review*, Vol. 50, No. 2 (1972), pp. 108-121. Some comparable developments in Britain are outlined by Dodds, P. R., 'The Group Marketing Movement in the United Kingdom', in Warley, T. K. (ed.), *op. cit.*, pp. 352-366.

stand in the way of improvements in marketing which would be to the community's advantage.

Where a marketing board already exists or a large number of small producers are intent on establishing a board, it is difficult for a relatively few large producers to get the independence they desire. There have been substantial difficulties in the United Kingdom egg industry in recent years on this score.²⁵ In the Australian scene, some producers can and do get relief from what they consider a repressive marketing system by moving their produce interstate. However, the fact remains that the principle of 'one man one vote' irrespective of his contribution to aggregate production can restrain adaptation to changes in market structure. It is apparent that the result of a ballot could be materially affected by the administrative decision regarding the minimum size of operations which a producer must carry on before he is entitled to vote. In New South Wales, the criteria of eligibility tend to be absurdly low.

Conclusion

There is clearly no consensus, even between producers or within government, concerning the place of producer-controlled marketing boards of the type existing in the Australian States. From an economic standpoint there is an unfortunate dearth of objective studies in depth of the operations of particular boards both in this country and abroad.²⁶ It is evident nonetheless that most farmers generally have a poor appreciation of the limits to the market power which the producer-managed boards may exercise and the gains in prices which they may achieve. At the time of the original ballot, producers usually have no idea how the board will carry out its functions if it is brought into being. Moreover, farmers are still prone to seek relief from low-income problems by market reorganization when the problem is essentially one of structural disequilibrium in the production sector.

There needs to be better recognition that producer-controlled marketing boards are not equally suitable to all marketing situations and indeed to all commodities. The relevant State acts should be amended along the lines of the current U.K. legislation to give the Minister and Parliament greater control over the establishment and operation of such boards.

It may well be that the structural characteristics of the rural industries necessitate that producers be given some public assistance to enhance their bargaining power, though there is evidence that some farmer groups are achieving this goal without public aid. If government assistance to increase the market power of farmers is required, the evidence does not suggest that the producer monopoly is the only, the most effective or the most socially acceptable way of providing such help. Producers should certainly not continue to be free to bring this anachronistic machinery into operation without any form of public scrutiny.

²⁵ Hallett, *op. cit.*, p. 221.

²⁶ Parish has suggested that one explanation is that comparisons of the actual performance of marketing boards with efficiency norms or with the hypothetical performance of a free market are likely to be inconclusive. See Parish, R. M., 'Marketing Agricultural Products' in Williams, D. B. (ed.), *Agriculture in the Australian Economy* (Sydney: Sydney University Press, 1967), p. 282.