DAIRY POLICY FOR AUSTRALIA

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It was not until 1959 when the Commonwealth Government set up a Dairy Industry Committee " to enquire into and report upon the Australian dairying industry ; its conditions, structure and problems ; and to make recommendations . . . " that Australia-wide economic studies were made of the whole industry. The enquiry became the signal for all sections of the industry—manufacturing as well as farming, to examine themselves and each other and to be studied by economists more intensively than ever before. An outcome of these studies was the presentation of new facts and new ideas which have set the stage for new economic policy on dairying by the Commonwealth Government. The Government has yet to declare itself and to act.

To the Committee of Enquiry there were presented three important and fairly distinct economic analyses of dairying, each with a set of recommendations. Particular recommendations between sets were similar, but each set *in toto* contained different implications for dairy farmers and the economy.

It is the purpose of this article to describe the more important economic characteristics of dairying in Australia and to review the analyses and recommendations made. From this review an attempt will be made to sketch a synthesis for policy.

The Economic Environment of Dairy Farmers

Regardless of the final form in which milk is sold, the technical and economic aspects of production are basically similar for all dairy farmers. But with respect to marketing, pricing and consumption, the economic environment of dairy farmers differs according to the market for their product. Butter and cheese account for the equivalent of about 1,000 million gallons of milk or 72 per cent of the total milk production. Liquid milk for domestic purposes, for sweet cream and ice cream accounts for about 300 million gallons or 22 per cent of total production, and condensery products account for about 80 million gallons or six per cent of total production. Most farmers supply milk for only one of these markets, but there are many who supply milk to more than one.

Milk for Butter and Cheese

Milk for butter and cheese manufacture is produced under extensive arrangements made by governments and the industry to protect and supplement the price of butterfat. The Commonwealth Government ensures protection from competition of oversea supplies and pays a price support subsidy to producers. Protection from overseas is effected by a tariff on imports and by an informal agreement with New Zealand. It is this protection from oversea competition which permits the industry to recommend and the Commonwealth Government to fix the domestic wholesale price above not only export parity, but above import parity as

well. This is effected by agreement (whether tacit or overt is irrelevant) between manufacturers not to engage in interstate price competition, and by State legislation which fixes the maximum quota which a manufacturer may sell within his State. This agreement and legislation are reinforced by the size of the price subsidy and its distribution. The subsidy which is distributed by the Equalization Committee is of a size to permit the overall return to manufacturers to exceed the local price. For as long as this continues, there appears to be no incentive for manufacturers to break away from equalization to attempt to sell more or all of their produce at local prices and to avoid paying into the equalization fund the difference between home and export realizations. These features of protection and co-operation between the Equalization Committee and the Australian Dairy Produce Board, which controls the export marketing of butter and cheese, permit the Commonwealth Government to fix the local price at the highest level above import parity, namely that which maintains maximum sales revenue on the Australian market. Evidence that this is the price level aimed at is the Australian Dairy Industry Council's concern with the possible effects of a price rise on local consumption and its willingness on occasion to forego the price rise required to cover increases in the cost of efficient production.

In addition to this sort of protection and its use to maximize sales revenue, the Commonwealth Government subsidizes the producers' prices by a subsidy of £13.5 million, which amounts to about six pence per lb. of butterfat sold by farmers. Further protection is afforded to farmers by State governments which prescribe limits to the output of table margarine and other conditions designed to discourage its use. These arrangements constitute a complete and effective scheme of maximization and supplementation of the prices to farmers for their cream and milk sold for butter and cheese.

Offsetting, partly at least, the income increasing effects of these arrangements, are the declining and constant Australian consumption per caput of butter and cheese, respectively ; the relatively low rate of improvement in dairy farmers' productivity ; the unrestricted entry of producers and their reluctance to withdraw from this overcrowded industry ; and the unrestricted entry of supplies of cream and milk for butter and cheese manufacture.

A long standing feature of Australia's principal market for butter, namely Australia itself, is the declining consumption per caput. The consumption per caput of cheese is constant in Australia and in this country's principal market, the United Kingdom. Thus the physical capacity of these markets to absorb butter and cheese is comprised of increasing population and constant and decreasing consumption per caput. In recent years in Australia the tendency has been for the rate of decline in consumption per caput of butter to equal or slightly exceed the rate of increase in population. This, and the increased production of butter has tended to hold the average equalization value and the overall return to manufacturers, lower than otherwise by maintaining the proportion and volume exported.

There are good reasons for thinking that the rate of improvement in the productivity of dairy farming is rather less than in some other sectors of agriculture. Increases in the general price of labour will affect a labour intensive industry, such as dairying, more adversely in terms of costs than a less labour intensive industry. An important efficiency ratio in this connection is butterfat per labour unit. Unless output of butterfat

per labour unit can be increased faster than output per labour unit engaged in the other agricultural sectors (which are all less labour intensive than dairying), increases in the general price of labour will bear most heavily on the net incomes of dairy farmers. Moreover, agricultural research does not favour dairying and many technological improvements acceptable to dairy farmers are equally acceptable to farmers who produce beef, mutton, fat lambs and wool. For instance, pasture management techniques which can increase butterfat production per acre can as readily increase meat and wool production per acre. Advances in mechanization which can result in increased output per unit of labour, are likely to be the most effective in crop production. In the management of sheep and beef cattle, large numbers can be handled per unit of labour without mechanization, whereas with dairy cattle it is hardly possible at present to increase production per labour unit by further mechanization, once hand-milking has given way to machine milking. Even then the maximum number of dairy cows that can be managed is 40-50 per average man.

Finally, there is the reluctance of producers to withdraw and the unrestricted entry of additional suppliers of cream and milk for butter and cheese manufacture. New production is free to enter the market in response to any increase in the price of butterfat relative to the price of other agricultural products, or for any other reason at all. With the market situation as it is, this new production increases the proportion exported and tends to lower the average equalization value and the overall return to manufacturers.

Despite the extensive arrangements made by governments and the industry to protect and increase the price of butterfat, and because of the constant and declining consumption per caput, the labour intensity of dairying, and the inherent difficulties in improving labour productivity, and because of the unrestricted entry of new supplies and occupational immobility of old suppliers, there is, in this butter and cheese section of the dairy industry, a low-income problem. Drane and Edwards estimated for 1953 " a per capita dairy family income of about £270 per annum, as compared with a national average of about £350 per annum "[1]. The low-income problem occurs not only in spite of price protection and subsidization, but in part also because of it.

The Liquid Milk Trade

Dairy farmers who produce for the liquid milk trade have an economic environment which is entirely different from that of dairy farmers whose milk is used for butter and cheese. It is characterized by two dominant features, namely a wholly local price and restriction of entry into this sector of the industry. Whereas greater costs are inherent in production for the liquid milk trade as it is now organized there is evidence to suggest that these costs are covered to an excessive degree and that farmers who supply this market are in a privileged economic position.

The price of this milk is under the control of State governments or of their Milk Boards which tend to favour the interests of producers rather than consumers. The prices paid to producers vary between States. In 1959 it was 3s. 3d. to 3s. 6d. per gallon in Western Australia, 3s. 4½d. per gallon in Victoria and 4s. 3¾d. in New South Wales. At that time

1. Drane, N. T. and Edwards, H. R., (ed.), *The Australian Dairy Industry* (Cheshire : Melb., 1961), p. 171.

suppliers of cheese factories were obtaining about 2s. 0d. per gallon. These differences were maintained by the price policies of the Milk Boards.

Producers of liquid milk are in a privileged position in every State, except South Australia, because supplies are restricted to those requirements of the market which can be cleared at the prices fixed for consumers by Milk Boards. Restriction is of suppliers who must be licensed, and of supplies from each, for which there is a quota. Filled milk, a potential near substitute for fresh whole milk, has been banned throughout Australia by State legislation leaving the market of producers of liquid milk fully sheltered.

Another feature of this sector of the dairy industry is that supplies in excess of requirements are dumped into the butter and cheese markets. In this way a licensed producer in Victoria for instance can arrange for himself an equalized price almost anywhere within the range of 2s. 0d. to 3s. 4½d. per gallon by varying his surplus production. This surplus above local quota requirements is eligible for the overall butter or cheese price, whereas surpluses above local butter and cheese requirements are sold at export prices plus a share of the subsidy.

The liquid milk market is a valuable preserve for relatively few dairy farmers. The market price appears to be unnecessarily high, competition between producers to share in this market is minimized by license and quota, and non-quota production from licensed producers participates fully in the subsidy and equalization arrangements of butter and cheese producers. In general, farmers who produce for this second class of dairy product are prosperous.

Milk for Condensery Products

Farmers producing milk for condensery products have an economic environment similar to that of farmers supplying milk for butter and cheese. However, because supplies of milk have to be paid for at prices competitive with those paid by butter and cheese manufacturers for milk which is subsidized, this section of the industry with its more promising export markets appears to be needlessly handicapped.

An Economic Analysis

In the foregoing section some economic features of the dairy farmers' environment have been outlined. In this section it is proposed to examine the major effects of the Governments' and the industry's arrangements to protect and assist those dairy farmers who produce cream and milk for butter and cheese.

Protection

Exclusion of oversea supplies of dairy produce, whether by tariff or agreement, of itself is pointless whilst Australia is a net exporter of such produce. In this situation the local price would, as a result of competition between manufacturers, be equal to the export price. On the other hand, in the event of Australia becoming a net importer and imports permitted to enter freely, the local price would be equal to the import price. However, the purpose of exclusion is protection, and under present conditions where Australia is a net exporter, it enables the local price to be maintained above the import price and at the highest possible economic level. But protection from oversea competition, though necessary, is insufficient on its own for the achievement of this objective. Competition between manufacturers within the States has to be prevented and this is

effected by State Government quotas limiting the manufacturers' volume of intra-State sales. Competition between States has also to be prevented. As long as the Commonwealth subsidy ensures that overall values exceed local values, and the possibility exists that it will be withdrawn from a manufacturer dumping inter-State, there is no likelihood of competition. Thus protection, legislation and subsidy between them effectively control supplies to Australian consumers and ensure maximum sales revenue from the local market. This revenue, together with the subsidy and oversea realizations, make up the overall price to the dairy farmer.

The effects of these arrangements will now be examined from several points of view. One point of view is the value and adequacy of protection and assistance given to dairy farmers by consumers and taxpayers. The value of this assistance has already been calculated by Downing and Karmel whose presentation is followed here.[2]

TABLE I.

Value and Source of Protection and Assistance to Butter and Cheese Producers (1955–1959)

Year	Value of All Production		Assistance From		Value of Total Assistance
			Consumers	Taxpayers	
	Actual Realization (1)	At Export Rates (2)	Value Realization in Excess of Export Rates (3) (1) minus (2)	Subsidy (4)	(5) (3) plus (4)
1954–55	£84.2 m.	£81.1 m.	£3.1 m.	£16.2 m.	£19.3 m.
1955–56	92.4	82.4	10.0	14.6	24.6
1956–57	84.1	63.8	20.3	13.6	33.9
1957–58	73.9	45.7	28.2	13.4	41.6
1958–59	90.2	75.1	15.1	13.5	28.6

Without protection the value of realizations would have been £15 million less than they were in 1959. This sum was the excess paid by Australian consumers above export realizations and obtained from them by the government and industry policies previously described. Taxpayers contributed £13.5 million by way of subsidy which with the value of protection yielded total assistance to dairy farmers worth £28.6.

With respect to the adequacy of this sum dairy farmers maintain that this assistance is justified to offset the higher costs induced by protection of other industries which service and compete with the dairy industry. In other words, the costs of dairymen's inputs and the incomes of Australian consumers are higher because of general protection policy. For the reason that the unit costs of all inputs are set finally by the Australian cost structure it may not be entirely irrelevant to consider that the appropriate price for butter and cheese is the Australian price on all produc-

2. Downing, R. I. and Karmel, P. H., "Protection of the Australian Dairying Industry", *Econ. Record*, 36 : 351, 1960.

tion. In Table II the difference in value between the sum of actual realizations plus subsidy, and realizations calculated at local prices is positive. In fact the subsidy brings up the actual realization to a figure greater than the value of all production at local prices. Thus even on the criterion of local price being the appropriate price for all production, the dairy industry has been receiving full and even excessive price assistance.

TABLE II.

Adequacy of Assistance to Suppliers of Butter Factories

Year	Value of All Butter Production Actual Realization (1)	Subsidy (2)	Total Value to Manufacturers (3) (1) plus (2)	Value of All Production At Local Prices (4)	Excess of Assistance (5) (3) minus (4)
1954–55	£74.5 m.	£14.9 m.	£89.4 m.	£76.2 m.	+£13.1 m.
1955–56	82.5	13.4	95.9	90.2	+5.7
1956–57	74.5	12.5	86.9	86.0	+0.9
1957–58	65.8	12.4	78.1	78.4	−0.3
1958–59	78.8	12.4	91.2	89.4	+1.7

Source : Commonwealth Dairy Produce Equalization Committee, Report No. 26, 1960.

Equalization

The value of protection and the subsidy are merged with sales revenues in a single price to dairy farmers, by the Equalization Committee. Thus in 1959 dairy farmers received about 46d. per lb. of butter. This included the subsidy of 7d., local and interstate realizations at the rate of about 47d. and oversea realizations at the rate of 31d. An effect of equalization is to misrepresent the actual economic position of the industry. The price indicator as seen by dairy farmers in 1959 read 46d. for extra production whereas its sale price was merely 31d. In this way resources are bid away from wool and meat, are valued unrealistically, and are kept in production of butter and cheese. But there is a further implication. As pointed out by Candler[3] each extra pound of factory butter produced in recent years added about 29d. to the dairy industry's total realizations but for this the farmer was paid 44d. The difference of 15d. came from the other producers through a slightly lowered equalized price. At current rates of expansion, the equalized price through this process is tending to fall by one per cent per annum. Furthermore, owing to natural and other advantages enjoyed by some dairying regions over others, for example, Gippsland, Victoria, over Busselton-Margaret River, Western Australia, increased production is not taking place at the same rate or at the same cost in each of the dairying regions throughout Australia. Regions with natural and other advantages for dairying and which are expanding pro-

3. Candler, W., " Dairying—The Case for Quotas ", *Farm Policy*, No. 1 : 14, 1960.

duction more rapidly, are able to offset this downward trend through equalization at the expense of declining, stationary or slower expanding regions, by their more rapid increases in sales.

Subsidy

The subsidy is assistance to dairy farmers which is superimposed upon the value of protection. This is shown in Table I. In Table II it is shown to raise the actual realization on all production above the value of all production at the rate of return on local sales. Added, as it is by the Equalization Committee, to the average equalization value, it further distorts the farmers' price indicators. Another feature of the subsidy is its distribution. In 1959 each dairy farmer received about 8½d. subsidy on each pound of butterfat sold for butter or cheese. In this way the few largest farmers received the greatest proportion of the total subsidy and the many small farmers received the smallest proportion. The statistics of 1955/56 on size of dairy herd lead to the inference that the 29 per cent of dairy farmers with herds of less than 30 cows received about ten per cent of the total subsidy whereas the 13 per cent of farmers with herds of 100 or more cows received 31 per cent of the subsidy. It appears therefore that not only is the subsidy excessive but that as a welfare payment it is inappropriate. This assumes of course that farmers with the smallest herds have the lowest net incomes.

Low Income

Despite the assistance given to the industry by protection and subsidy there is a continuing problem of excessively low net incomes being earned by possibly 25 to 30 per cent of dairy farmers.[4] The extent of assistance suggests that the plea of excessive costs due to protectionist policy and wage fixing processes cannot be sustained. The low income situation can however be explained in terms of excess labour resources in dairy farming. The relative ease of entry into the industry, the attraction of farming and independence through self-employment, past unemployment and uncertainties of future employment and the distortion of the price indicators through equalization, serve between them to maintain and enlarge rather than to contract the supply of labour in dairy farming.

For entry into dairying there is little capital required and at low levels of income little formal knowledge and skill are needed. Returns are almost immediate. Along with most other one-man businesses such as suburban shopkeeping, tea rooms and boot repairing, small scale dairy farming is a means by which employees and unemployed persons in the past have, and can still, become relatively independent through self employment. It is likely that many of today's dairy farmers or their parents were unemployment casualties of the Great Depression. And even today despite more than 20 years of full employment, an independent life in a rural dairy slum is no doubt superior to urban unemployment or even its possibility, and idleness. The forces which have attracted new labour in the past, may not be attracting it now, but some of them probably are operating to keep in this industry more labour than can be employed at desirable levels of income. And not all of these forces are exogenous to the industry ; some like protection, subsidy and equalization, come from within the industry.

4. Drane and Edwards, *op. cit.*, p. 179.

The Recommendations

Three important and fairly distinct economic analyses were made for the Committee of Enquiry. One analysis with recommendations came from dairy farmers represented at the federal level by the Australian Dairy Farmers' Federation and the Australian Dairy Industry Council[5] and at local levels from representatives of about 12 other dairy farmers' organizations. A second set came from a group of agricultural[6] and other economists[7] and a third from two other economists, namely Professors Downing and Karmel[8] of the Universities of Melbourne and Adelaide respectively. These, together with the recommendations of the Committee of Enquiry will now be examined in the light of the foregoing analysis.

The Dairy Farmers

The final recommendations of the dairy farmers through their Australian Dairy Industry Council and their Dairy Farmers' Federation may be summed up by the words of Omar Khayyam, " Ah, take the Cash in hand and waive the Rest ".

The dairy farmers recommended :—

(i) That the subsidy be maintained at £13.5 million.

(ii) That equalization be retained and strengthened by legislation.

(iii) That the current price policy be continued, with minor alterations, for another five years.

(iv) That the production of table margarine be pegged at present levels.

(v) That special advances from the Commonwealth Development Bank be made at concession rates to approved dairy farmers to assist with farm development and, in some cases, aggregation of properties.

These recommendations are in line with the dairy farmers' leaders' beliefs that the low income problem lies outside the industry, that the industry should not be contracted (nor should it be expanded by the creation of new dairy farms), and that protection, subsidy and equalization serve merely to put dairy farmers in their rightful place within the protected economy of Australia. The recommendations acknowledge existence of the low-income problem but the causes of low incomes have not been reflected in these recommendations. In effect the industry has simply said, " the present arrangements suit us fine though some of us are short of a little capital which we'd like to have made available at concession rates ". The fact that some aspects of government and dairy industry policy contribute to the low-income situation and would continue to do so if the industry's recommendations are effected, is not simply ignored, it is specifically rejected by their recommendation that the Committee rejects the evidence of the economists.

5. *Report*. Dairy Industry Committee of Enquiry, App. 5. Commonwealth Govt. Printer, Canberra, 1960.

6. Candler, W., Gruen, F. H., Schapper, H. P. *et al.*, " Submission by a Group of Agricultural Economists ". App. 4. Dairy Industry Committee of Enquiry. *Report*.

7. Drane and Edwards, *op. cit.*, p. 307.

8. Downing and Karmel, *op. cit.*

The Agricultural and Other Economists

A group of University agricultural economists submitted to the Committee of Enquiry a joint statement[9] which in part bears close similarity to a proposed plan for the future organization of the dairy industry, prepared by some members of the Faculty of Economics of the University of Sydney.[10] A feature in the joint statement and of the proposed plan is for each existing butter and cheese producer to be given a domestic market participation quota which states the amount each producer can sell at the domestic market price. Production in excess of the quota amount would be paid for at export rates.

This quota scheme would lower the price for additional production to the price at which it would sell. For as long as Australia is a net exporter, this would be the export price, and this would be the price which the individual farmer receives, not the average equalization value as at present. Thus, implicit in this scheme is the idea that the local price as at present determined, that is, a revenue-maximizing price over the long term, supported by protection, is appropriate for home consumption, and that for additional production the export price is appropriate.

Another major recommendation from the group of University agricultural economists was the gradual abolition of the subsidy and in this manner to further discourage additional dairy production.

All economists recommended special capital assistance to help some small producers to move to other employment and to help others to become more efficient by means of farm amalgamation and by assistance for development programmes.

These recommendations reflect the continuing influence of equalization and subsidy in attracting and maintaining resources in the production of dairy produce which is being sold at uneconomic rates of return in an export market which does not appear to give any cause for optimism. Recognition is also made of the low-income problem and its causes, namely, excess labour and inadequate capital.

Downing and Karmel[11]

These two economists regarded the existing level of protection to dairy farmers as excessive. They recommended :—

(i) That protection given to the dairy industry should be not greater than the difference between the export and import parities on butter, supported by an excise on margarine equal to this difference.
(ii) That subsidy, tariff and import controls and restrictions on margarine be abolished.
(iii) That price equalization be continued within the range of export-import parities.
(iv) That capital assistance be devised to assist some producers to establish themselves within the industry and others to move out.

Apart from putting margarine on to an equal footing with butter these recommendations would reduce protection to import parity (estimated at 15-18 per cent above export rates when the United Kingdom price is 300s. per cwt. sterling). In the event of Australia becoming a net im-

9. Candler, Gruen and Schapper, *op. cit.*
10. Drane and Edwards, *op. cit.*
11. Downing and Karmel, *op. cit.*

porter of butter this arrangement would not constitute protection at all if protection is defined as something over and above natural shelter. This recommendation reflects concern for the consumer who would now be permitted to buy much more closely to the world price.

The Committee of Enquiry[12]

The Committee made an extensive list of recommendations. The vital ones for policy are as follows :—

(i) That during a 10-year period taxpayers' assistance gradually move from subsidy to once and for all capital grants at concession rates of interest to encourage some farmers to increase the productivity of their holdings and others to leave the industry.
(ii) That the present tariff be maintained (and import restrictions?).
(iii) That equalization be supported and strengthened.
(iv) That margarine production be limited to present levels during the 10-year period of rehabilitation of the dairy industry.
(v) That " costs of production " be abandoned as a basis for judging the merits of claims by the dairy industry.
(vi) That a closer relationship between the prices of liquid milk and of milk for butter, cheese and processing, be established.

These are similar to the recommendations of the dairy farmers, except for the subsidy and costs of production issues. The policy they reflect does not acknowledge the economic defect of equalization, nor is it sensitive to the interests of the Australian consumers of butter, though concern is expressed for consumers of liquid milk. This last is perhaps not strictly true. References to the high prices received by dairy farmers producing liquid milk are made in the Committee's Report, more in terms of their position *vis à vis* other dairy farmers than in terms of concern with the high consumers' price.

Discussion

Implicit in these sets of recommendations are ideas and judgments on how much protection for dairying is appropriate, and each set can be seen as the reflection of an answer to this question.

The dairy farmers' answer appears to be " all that we already have ", and the Committee of Enquiry's answer appears almost the same except that the subsidy should give way to capital assistance. But this does not put the position fairly. With respect to the level of protection obtained through the present average equalization value, the dairy farmers, Committee of Enquiry and the agricultural economists are apparently in agreement. The consumer should pay a price that will maximize revenue from the home market *protected from oversea supplies*. This policy, *tacitly* accepted for the time being at least by everyone except Downing and Karmel, could rest on the point that the money incomes of Australian consumers are higher, with the general protection that exists, than they would be without it, therefore for production consumed locally at least, the appropriate price is the protected price which will maximize revenue. This price is much higher than the free alternative price, namely the export price, which affords no protection at all.

12. *Report*. Dairy Industry Committee of Enquiry. Commonwealth Govt. Printer, Canberra, 1960.

In their recommendations Downing and Karmel adopted a position between no protection and full protection for locally consumed production. They considered that protection given to the dairy industry should be rather below the average level of protection enjoyed by protected industries and they fixed it at import parity for locally consumed production. However, they apparently do not hold this position strongly for its was mainly on the ground that a quota scheme would be difficult to administer that they refrained from supporting this recommendation made by other economists.[13]

But should dairying receive non-subsidy protection ? Those who favour it could argue that not only does the dairy farmer need it but also that the consumer can afford it from his protected income. Downing and Karmel's unconvincing reply is, because a " contraction of dairying production might require an expansion of protected and sheltered production in order to absorb some of the labour released . . . "[14]

Policy

The fundamental policy issue is the degree of protection for dairy farmers. The Committee of Enquiry and all economists advocated less protection, though they differed as to how much less, and how it should be effected. In all cases concern was expressed for dairy farmers who could suffer hardship as a result of less protection, and specific recommendations to minimize distress were made by everyone.

It would appear that the Commonwealth Government is in a position to choose from several protection-reducing policies.

Less Protection

Less protection was advocated at two levels. Abolition of the subsidy was recommended by the Committee of Enquiry, and all other protection was to remain, for the time being at least. This policy of minimum reduction would involve the following :—

(i) No change in price to consumers.

(ii) About 3½d. per gallon less to producers on all milk sold for butter and cheese.

(iii) No measures to offset the influence of equalization on the producers' marginal price, and consequently, a possibly rapid re-emergence of the low income problem after the capital grants and rehabilitation processes had been finalized.

A policy of maximum reduction, short of zero protection was advocated by Downing and Karmel. The subsidy was to be abolished and non-subsidy protection was to be reduced to the level of import parity. This would involve the following :—. .

(i) About 8d. less in the price of butter to consumers.

(ii) About 6d. per gallon less to producers on all milk sold for butter and cheese.

13. Downing, R. I. and Karmel, P. H., " Rejoinder ". *Econ. Record*, 37 : 114, 1961.

14. Downing, R. I. and Karmel, P. H., " Protection of the Australian Dairying Industry ", *Econ. Record*, 36 : 351, 1960.

Maximum Protection on Today's—Zero Protection on Tomorrow's Production

This is, in effect, the policy of those who advocated a quota scheme. It would involve maintaining equalization as at present, solely for the benefit of existing suppliers and on existing supplies. In this way the protected income and price position of these farmers would not change. Today's production would continue to receive full non-subsidy protection, depending on whether quotas were permanent or gradually retired. Increased production however would be paid for at export values, that is without protection. New suppliers would enter the industry only on someone else's quota or at export values, and high cost regions would be unable to expand dairy production. This policy also involves acceptance of the idea that for the present at least, the consumer should pay the price he can afford rather than the minimum alternative price. It would require new administration to handle quotas.

Zero Protection and Equalization within the Whole Industry

In time, the policy of maximum protection today—zero protection tomorrow would put the dairy industry onto a fully competitive and unprotected basis. But it would not assail directly the highly favoured position of the producers of liquid milk.

It appears possible to combine zero protection with equalization within the whole industry. This would mean the major burden of reduced protection would fall onto the most prosperous section of the dairy industry, namely the liquid milk section. But the Committee of Enquiry has already recommended closer relationship between the prices of liquid milk and of milk for butter and cheese and for processing.

The arithmetic of this equalization would, on an Australia-wide basis, approximate the following situation. (All prices per gallon of whole milk to the farmer in 1959 and where necessary an adjustment is made of 4d. per gallon for skim milk.) The farmer's price of cream for butter-making without subsidy or protection is at the rate of about 1s. 3d. plus 4d. per gallon for skim milk. Liquid milk is taken at the Perth price of 3s. 3d.

Assuming that 20 per cent of total milk production is for the liquid milk trade and 80 per cent for butter, the equalized price would become 1s. 11d. Thus the butter producer who received 1s. 10d. for cream for butter and 4d. for his skim milk, would, by equalization of butter at export rates, and liquid milk at 1959 prices, Perth, receive 1s. 11d. Liquid milk producers at present receive 3s. 3d. However they normally produce a surplus above their quota. This surplus is paid for at the protected and subsidized equalization rate of 1s. 10d. plus 4d. Assuming they produce a 20 per cent surplus their overall price would be 3s. 0d. This would mean a fall in the price to the liquid milk producer from 3s. 3d. to 1s. 11d., though for the farmer who produced a surplus of 20 per cent the fall in his price would have been from 3s. 0d. to 1s. 11d. The actual prices paid to the liquid milk producers under this arrangement would have been 1s. 11d. and to the butter producer, 1s. 7d. per gallon.

This policy would involve the following :—

(i) Abolition of subsidy, tariff and import controls.

(ii) A fall of 11d. in the local consumers' price of butter which would now equal export values.

(iii) The price to consumers for liquid milk being maintained (at Perth rates in the example).

(iv) Three pence less per gallon of milk to farmers supplying butter factories.

(v) Thirteen pence less per gallon of milk to farmers supplying the liquid milk trade.

(vi) A fall of 12d. to 4d. in the difference between equalized and export prices (subsidized) from the present difference of about 16d.

(vii) Drawing liquid milk supplies from further afield than at present.

(viii) Improvement in shed design and hygiene of some farms.

(ix) Failure to concede that because consumers' money incomes are protected they should pay a protected price.

(x) Relying on world market prices to determine the appropriate level of butter and cheese production in Australia.

Conclusion

It is not unreasonable to assume that the Commonwealth Government is in a strong position, politically, to reduce protection of the dairy industry if it so desired. Abolition of the subsidy at least, was widely recommended and there was considerable support for reduction of non-subsidy protection. There was almost unanimous agreement on the need for capital assistance for many dairy farmers.

My preference now, is for the policy of zero protection and full equalization within the dairy industry as outlined ; *provided that* it is coupled with adequate capital assistance and a policy of fuller permanent employment than exists currently. Fundamentally, the choice is, minimum prices to consumers, or maximum prices for producers.