A Government Policy Failure or a Claytons Policy Success? - a Rejoinder to Males

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Males sees it as unfortunate that I have linked the wool and sugar industries for policy analysis. He writes: "The economic performance of the wool and sugar industries is quite different, as are their regulatory regimes and the consequences of the regulations affecting the two industries". That was my point precisely. The regulatory regimes of the two industries are very different, and have led to very different consequences: too much production of wool and too little production of sugar.

Further, Males claims that "the wool industry has recently been in decline" while the sugar industry is "a vibrant, expanding industry". It is by no means clear that this characterisation of either industry will prove accurate beyond the short term. It is certainly not true that the recent "resurgence of confidence" and expansion in the sugar industry means that the inefficiencies in the industry have been removed.

Males asserts that "there is no fundamental reason why single desk marketing arrangements must provide a less efficient outcome than private marketing". This assertion should be challenged. An institution which has a mandated monopoly is not subject to the ever-present incentives to minimise costs and seek out new marketing opportunities as are firms faced with actual and/or potential competition. That represents a rather "fundamental reason" for expecting competition would result in more efficient marketing.

Males argues that the QSC's monopoly situation allows it to achieve economies of size in shipping. Perhaps that is so, though size may also be associated with diseconomies. The Industry Commission suggested that statutory marketing of raw sugar in Queensland had forced the industry into "large scale" marketing when smaller marketing organisations may do a better job. Indeed, a submission to the Industry Commission by the Queensland Sugar Industry (comprising millers, canegrowers and the Queensland Sugar Board) acknowledged that a single desk seller was not necessary for efficiency in the marketing of raw sugar.

The Industry Commission was also told that marketing arrangements existing in the sugar industry gave little scope for firms to use financial market instruments to manage their own risks. The removal of compulsory acquisition would enhance opportunities for individuals to manage their own risks.

If the QSC is the most efficient marketer of all Queensland sugar it would lose a few sales in the event that competition in marketing was permitted. Growers/millers perceiving the QSC market their output more efficiently than other firms would continue to sell to the Corporation. Moreover, that outcome would remove what many see as a contradiction in terms in the present arrangements - the claim of efficiency via compulsion. A cautious way of proceeding would be to allow competition in domestic marketing only, as occurs in the wheat industry.

Males argues that the current regulatory system allows decisions on cane production to be made at the local level by growers and millers, and does not constrain industry production. The decentralised approach to determining assignment does represent major progress. However, it is doubtful whether retention of the land assignment system is consistent with achieving maximum efficiency in production in view of restrictions on the transfer of assignment and difficulties in developing new cane growers areas.

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Finally, the differential in price - at present 8 per cent - received by traditional producers for "peak" sugar and by producers of non-peak sugar is an impediment to efficient decisions on production. Even if the assignment system were having no effect on the level of and location of production, or on the number and size of farms, the two-price pooling arrangement would work against efficiency.

The deregulation that has occurred in the sugar industry has increased efficiency. Males acknowledges this. But while regulation continues to discourage production of raw sugar that would be profitable at the world price, while firms that may have innovative and cost-saving approaches to marketing raw sugar are denied the right to compete, and while the price structure of an import-competing industry continues to be imposed on one of Australia's largest export industries, it is not apt to call sugar industry policy a "government policy success". A person who swims with both hands tied may become a better swimmer if one hand is untied - but his performance will remain well below his potential!