ORGANIZED MARKETING OF AGRICULTURAL PRODUCTS IN AUSTRALIA*

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The story of agricultural marketing policy in Australia is for the most part one of the efforts of primary producers to organize themselves and governments for the purpose of obtaining higher prices for their products. Improving marketing efficiency, in the sense of getting the operations making up the distribution process performed with the expenditure of less resources than previously, has not engaged the attention of organized agriculture or of governments to anything like the same extent. Pricing efficiency and the whole problem of integrating agricultural production and marketing more effectively, have likewise been subordinated.

I am not going to suggest that, apart from organizing for higher prices, Australia has no agricultural marketing policy. We do have a standard set of weights and measures, except when ordering draught beer outside our respective home States ; we do have rudimentary grading systems for a number of agricultural commodities, and in some States market information services are not entirely undeveloped. Moreover industry promotion campaigns financed from producer levies are " in ", " U " or whatever the O.K. term of the moment is. However, there has been, comparatively speaking, little interest in marketing as such. Marketing policy has been viewed primarily as a device for price support and not as the framework for a co-ordinated programme to improve the performance of our marketing system on the basis of criteria other than sectional interests.

The chief instrument of agricultural marketing policy in Australia is the home consumption price system under which supplies of export products are diverted to overseas markets in order to raise domestic prices above export parity. Many of the other measures used to support agricultural prices in this country are essentially devices to make the home price effective. These include import duties and embargos and quota restrictions on the production of substitute commodities.

For price discrimination, of which export dumping is a special case, to be feasible it is, of course, necessary to be able to divide the market for a product into two or more distinct parts or separate markets on the basis of *geographical areas* (as in the home price scheme), *the end-use of the product* (as in the case of milk for liquid consumption and for processing and shell-eggs and egg pulp), *income classes or capacity to pay of consumers* (discrimination in freight rates per ton mile for commodities such as wool and coal), *time* (as in the case of off-peak power, night rates for trunkline telephone calls, etc.), or of *some other factor*.

Most of the problems encountered in organized marketing policy for agriculture in Australia have derived from the difficulty of achieving and

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maintaining this separation of markets, of enforcing the diversion of supplies from the market of less elastic demand or of dividing the spoils equitably by means of pooling or equalization arrangements. These difficulties in turn stem first from the atomistic organization of agricultural production and secondly from the well-known peculiarities of the Australian federal constitution. Because of the large number of widely dispersed producers, voluntary organization in the form of co-operative societies has failed to achieve the necessary conditions for effective implementation of two-price schemes. Because neither the States nor the Commonwealth has full powers to control marketing under the particular interpretation of Section 92 of the Constitution made by the Privy Council and because of the defeat of two referenda to amend the constitution, the enabling conditions for two price plans have often proved impracticable of achievement, even with the ready backing of governments.

Despite the constitutional difficulties confronting its use, especially for commodities entering or enterable in interstate trade, and the availability of alternative methods of price support which are relatively free from these difficulties (e.g. deficiency payments, buffer stocks or the Paterson formula of export bounties financed from a levy on production) nevertheless the home price plan has remained the method most favoured by producer organizations. The political reasons for this pointed out by Australian economists in the thirties,[1] are that it is less subject to regular parliamentary scrutiny and therefore likely to be more permanent than other measures, and that the responsibility of governments is not so starkly exposed to the public gaze.

American farmers are by no means unique in their distaste for direct subsidies openly paid from government revenue. But even American farmers have cause to envy the success of their Australian counterparts in establishing as an unquestioned principle the view that the government's role is merely to use its powers of legal compulsion to effectuate a producer-controlled monopoly and thereafter either abdicate completely from responsibility in all matters affecting determination of the home price and the control of marketing, or else confine its activities to the beneficial task of calculating the increase in costs of production resulting from the previous year's increase in the home price.

An American official of the International Federation of Agricultural Producers stated recently that " These agricultural marketing boards in the southern British Dominions provide the best examples to be found anywhere in the world of co-operation between governments and producers in the marketing of agricultural products."[2]

Before examining the economic consequences of Australia's reliance upon home consumption price schemes, it will be instructive to review briefly the antecedents of our marketing policy, and to compare its evolution with that of policy in the United States.

Agricultural marketing policies in both countries share certain ideological origins, although the paths of development have been markedly divergent.

The movement for organized marketing of agricultural products in the United States during the early 'twenties derived its inspiration from

1. See Copland and Janes, *Australian Marketing Problems*, Sydney, Angus and Robertson, 1938.

2. Leslie A. Wheeler, " The New Agricultural Protectionism ", *Journal of Farm Economics*, Vol. 42, No. 4, (November, 1960) p. 801.

the appealing vision and spellbinding oratory of Aaron Sapiro. The central idea in the Sapiro doctrine was that by combining in large regional or industry-wide co-operative farmers could achieve control over the flow of their products to market and could secure higher prices. As Sapiro himself expressed it in an address to the American Farm Bureau Federation in 1923 :

> " The aim is to control flow of supply as to time, place, and quantity, so that you have something to say about the conditions that affect price values. You cannot do it as individuals, you cannot do it as local units, but if you take the local units and federate them from a commodity viewpoint, then you can do something to affect the price."[3]

Sapiro was a most eloquent and persuasive speaker and his campaign was conducted with an evangelist's zeal appealing to the emotion rather than the understanding of producers. It is recalled that his usual presentation of his proposals was to paint a dismal picture of California plagued in the early years of the century by most of the economic ills known to humanity—women and children dropping of exhaustion as they toiled in the fields, overproduction, run-down farms and schools and impassable roads. Next he put forward his proposals " presenting just enough of the difficulties to convince his hearers of his complete candour but not enough to damage his cause in the slightest degree ".[4] Finally came the new picture of California, the pride of the nation, with development unlimited, York ham and the children standing with their heads up and hope in their faces—all ostensibly the result of the new form of co-operative organization amongst farmers. The Sapiro philosophy dominated the co-operative movement in the United States during the 'twenties and spread rapidly to other countries.

It soon became apparent that the Sapiro-type co-operatives contained the seeds of their own disintegration. They failed one after another because they could not achieve the control of supply necessary to make good Sapiro's promise of monopoly prices. Clearly any restriction of supply achieved by the co-operative through withholding stocks from sale or diversions to export or lower-order domestic markets would increase prices for members and non-members alike. However as non-members did not suffer diversion of part of their output to lower-priced outlets, the advantages of membership became less obvious and more and more producers broke away.[5] Despite these failures Sapiro's ideas continued to influence thinking on agricultural marketing.

In the United States, the co-operative approach to market power and the home-price scheme came to be looked upon as competing or alternative proposals for improving farm prices. A strong campaign for the use of the two-price scheme in agriculture had been waged in the United States throughout the 'twenties around such slogans as " making the tariff effective " (for agriculture) and " equality for agriculture ". Five McNary-Haugen bills were introduced to Congress between 1924 and 1928, providing for the establishment of a government export corporation to purchase agricultural commodities for dumping on the export market in order to raise the domestic price. The fourth and fifth bills in 1927

3. This and other extracts are reprinted in F. V. Waugh, (ed.) *Readings on Agricultural Marketing*, Ames, Iowa State College Press, 1954, pp. 384-386.

4. R. H. Montgomery, " A Co-operative Pattern for Cotton ", *ibid.*, pp. 386-389.

5. See J. K. Galbraith, *American Capitalism, The Concept of Countervailing Power*, Boston, Houghton Mifflin, 1952, Chapter II and Murray R. Benedict, *Farm Policies of the United States*, 1790-1950, New York, Twentieth Century Fund 1953, p. 235.

and 1928 were passed but vetoed by President Coolidge whose administration accepted much of the Sapiro philosophy. Sapiro's ideas were also reflected in the Federal Farm Board set up in 1929 with a revolving fund of $500 million to finance the withholding of supplies from the market by "farmer-owned and farmer-controlled stabilization corporations or associations". To borrow D. Gale Johnson's pithy observation, the revolving fund failed to revolve.[6] This ill-fated venture represented an unsuccessful attempt to make the Sapiro ideal realistic with the backing of government.

In Australia government backing of primary producers' efforts to organize themselves for higher prices, took the form of compelling producers to dispose of their products through or to a marketing board. In Queensland, the State which pioneered this approach, marketing boards, are, in fact, still often referred to as compulsory co-operatives. It would be misleading to exaggerate the direct contribution of Sapiro as a formative influence upon marketing policy in Australia. That a strong influence was in fact exerted by the Sapiro philosophy is suggested, however, by the frequently identical terminology characterising the campaign for producer-controlled marketing organizations. The term "orderly marketing", for example, was introduced as a slogan by Sapiro in 1921.

The main features of the Queensland legislation were adopted by N.S.W. and other States. State Marketing Acts provide for establishment of a board to control marketing of primary products, provided that a majority of growers has voted in favour at a poll. The required majority varies somewhat in the different States.

As already indicated, Section 92 of the Constitution has often offered an escape for producers opposed to the principle of legal compulsion or acquisition in marketing or seeking to obtain more than the Board's equalised payment for his product. Until the James Case of 1936, it had been considered that the Commonwealth was not bound by Section 92, and that the Commonwealth powers over exports could be used to achieve the necessary diversion of supplies from the home market. After the decision in the James Case, home price schemes have been carried on for dairy products and dried vine fruits under voluntary equalization arrangements between processors. In the case of dried fruits this co-operative basis has the supporting suasion of licensing of packing houses by State Dried Fruits Boards. Considerable uneasiness concerning the continued adherence of manufacturers to the voluntary equalization arrangements for butter and cheese exists within the industry. The inducement to defect could become much stronger as the margin between domestic and equalized prices widens as a result of declining export prices and an increasing proportion of production exported. To date defections have been confined to small factories, including manufacturers of speciality cheeses. Clearly, however, any major breach in the equalization front would bring about the collapse of the entire rickety structure. Perhaps this is the ultimate consequence of a two-price plan without production controls, or more correctly, without sterilization of induced tendencies towards expanded output.

An important consequence of the constitutional limitations to marketing powers of governments in Australia is that two-price schemes for the

6. D. Gale Johnson, "*Economics of Agriculture*" in B. F. Haley (ed.) *A Survey of Contemporary Economics*, 1952. Richard D. Irwin Inc., Homewood, Illinois, p. 243.

most part are confined to commodities where processing takes place close to the farm, but in plants of moderately heavy capital requirements. Not only is organization of producers easier to accomplish, where the factory or packing shed provides a nucleus, but voluntary equalization arrangements are much more practicable where a limited number of processors, rather than many thousands of individual producers, are directly concerned.

This tendency combined with the greater reluctance of governments to pay subsidies than to authorize two-price marketing schemes has resulted in major differences in the ease of access to protection between agricultural industries. These differences are based on the arbitrary factor of the organization of processing plants and are unrelated to the normal grounds on which a case for protection might be built.

The economic effects and implications of home price programmes were fairly thoroughly discussed by leading Australian economists twenty-five years ago and the introduction to Copland and Janes book of documents on *Australian Marketing Problems* should be made compulsory reading for all future industry committees of enquiry.

One of the rallying cries of the Sapiro movement, " Monopoly and Prosperity ", has never been a prominent part of the Australian campaign for orderly marketing. Either industry leaders and political representatives in Australia have been less forthright than Sapiro or they have been more muddleheaded. Sapiro had no illusions about what he was trying to do whatever the weaknesses in the methods he counselled. He was aiming quite openly at producer monopolies. Industrial firms used monopoly powers to control supply for higher prices. Agriculture should do likewise. In sharp contrast Australian primary producers have been considerably more pussyfooted about calling a monopoly a monopoly than the robustness of the Australian legend would lead us to expect.

Australian economists have at times shared this fondness for euphemism. Thus Brigden wrote of the Queensland Marketing Boards that " (apart from the special circumstances of sugar) the government policy of increasing production has operated to prevent monopolistic tendencies ".[7]

Apparently, ability to control production was regarded as the criterion for determining whether monopoly existed. The development of the theory of monopolistic competition during the thirties and its refinement for agriculture by W. H. Nicholls showed the inadequacy of such a criterion to determine the presence of monopoly elements.

A more serious problem is the frequent unwillingness of proponents of the home price-equalization scheme to concede that restriction of output is necessary if the addition to average returns, initially derived from the use of the home price, is not to be eroded by uncontrolled expansion of output. As emphasised by Copland and Janes, " for the satisfactory working of the home price system production should not automatically expand and so increase the portion of products sold at the lower price abroad ".[8] They went on to express surprise that " advocates of the home price for butter and wheat have no place in their philosophy for the restriction of production ".

There is a strikingly modern ring in this. One could almost imagine that Copland and Janes were writing about the recent Dairy Industry Committee of Enquiry. For a classic example of the failure to distinguish

7. J. B. Brigden, " The Home Price Principle ", *Economic News*, June, 1935.
8. Copland and Janes, *op. cit.*, p. xii.

between restriction of output as a general policy and restriction as the counteraction of expansionary side effects induced by the administering of home consumption prices, I commend to you paragraphs 955 to 957 of the Committee's report.[9] The Committee's argument, it will become apparent from our subsequent discussion of these paragraphs, takes the following syllogistic form :—

A. Since he contracted the disease the patient's head has swollen to several times its initial size, seriously threatening his stability ;

however *B*. Headshrinking is bad ;

therefore *C*. No action to relieve or obviate the swelling of the head can be tolerated.

It is to be hoped the Australian government will consider the implications thoroughly before accepting the Committee's case against rendering the two-price scheme for butter and cheese a little more seaworthy by restraining the use of the Snowy waters for irrigated dairying and by the introduction of some form of domestic allotment programme.

The domestic allotment plan was an unsuccessful contender in the policy-making arena in the United States during the late 'twenties and early 'thirties.[10] Its basic idea is the issuing of a quota to each producer entitling him to a share of the home-price market. Production in excess of these quotas would receive only the export price, rather than an average or equalized price as in the current two-price schemes in Australia and as was proposed in the McNary-Haugen bills in the United States. As a method of sharing equitably between producers the gains from home-price schemes, domestic allotments have a number of advantages over the traditional pooling or price equalization arrangements. Domestic market allotments would equate private and social marginal revenue for additional output whereas equalization drives a wedge between them. At present uneconomic use of resources results from the disparity created between the price upon which individual producers base their production plans and farm management decisions and the price fetched by additional output on the export market. This would be avoided if allotments operated.

Secondly, by providing for allotments to be a transferable asset, unattached to a particular person or a particular piece of ground, land values would not be inflated, hampering resource shifts to alternative enterprises. Capital requirements for the beef producer on the North Coast of N.S.W. or the woodlot operator in south western Australia are higher than they need be because pooling is employed instead of allotments to divide the takings from the home-price scheme.

Thirdly, the substitution of domestic allotments for equalization makes production controls unnecessary to the successful operation of a two-price plan.

The Dairy Industry Enquiry Committee's stated reasons for rejecting the proposal for domestic quotas, put forward in evidence by Dr. Candler with a supporting statement by myself, were that the introduction of

9. Commonwealth of Australia, *Report of the Dairy Industry Committee of Enquiry on the Australian Dairy Industry*, August, 1960 (Canberra : Commonwealth Government Printer) p. 91. (All subsequent quotations from the report in this address are from these three paragraphs.)

10. For a more recent version of the scheme, containing a good discussion of its advantages see G. K. Brinegar and S. Johnson, " On Letting Go of the Bear's Tail ", *Journal of Farm Economics*, Vol. 36, No. 1 (February, 1954).

controls would be needed and that " where there are controls there will be lawbreakers and the Committee sees no need to add to the number of either ". One might as validly argue that the Tariff Board should be disbanded because its activities might bring into existence a race of smugglers.

The Committee also misrepresented the situation in suggesting that the plan is output-restrictive. Domestic allotments do not involve restrictions to production unless we are to adopt the extra-ordinary definition that a restriction is anything that doesn't itself tend to increase production. Such an interpretation is implied in the Committee's claim that " to the extent that such controls " (i.e. presumably the administrative arrangements to put domestic allotments into operation) " curtailed the volume of production they would have all the disadvantages mentioned in previous paragraphs ".

In any case, let us hope the Government does not accept uncritically the Committee's argument against restraint of induced (as distinct from autonomous) increases in production. " Australia has the conditions ", it suggests, " for large production of milk and its derivatives and has some moral obligation to use these resources to add to the world's supply of food. The fact that butter may not be sent to these countries does not dispense Australia from this obligation, the important need is to increase the total supply of food ". Is there not some inconsistency between this view and the attitude Australia has expressed in international trade forums ? In G.A.T.T. and in F.A.O. we have usually taken up the position that other exporting countries have a responsibility to stop stoking the fires of increased production when a boilover into export-dumping and burdensome surpluses is reached. Now the Dairy Industry Committee of Enquiry asks us, in effect, to accept that America has the resources for large grain production and a moral obligation to keep producing and moving surplus grain into consumption by any expedients she can devise. A somewhat bifocal view of restriction in external and domestic markets is involved in this attitude. The strength of the Committee's prejudice against restrictionist policies depriving undernourished peoples of food supplies, which are clearly uneconomic to produce even when alternative resource-uses considered are arbitrarily limited to foodstuff production, contrasts with the apparent lack of concern at the restriction of supplies to domestic consumers, implicit in the home price plan. These and other inconsistencies in the Committee's report add support to Galbraith's claim that " progress will not come except by the wildest accident from the *ad hoc* brilliance of lay committees "[11].

The domestic allotment plan would not of course elude the Constitutional and legal difficulties which have beset equalization. However it is at least equally practicable on this score and could be applied in those export industries where two-price schemes already operate without weakening the viability of the schemes.

Two further aspects of organised marketing which received little discussion in the pre-war period are the international trade aspects and the effects on enterprise and innovation in marketing. The relative unconcern with international trade implications during the years in which Australian orderly marketing policy was being shaped, was not unnatural. The 'thirties were a period in which the so-called enlightened principles of

11. J. K. Galbraith, " Farm Policy : The Current Position ", *Journal of Farm Economics*, Vol. 37, No. 2 (May, 1955), p. 297.

international trade tended to be suppressed. Since then considerable agility has been displayed in official attempts to reconcile Australia's use of two-price schemes with our professed international trade policy. The home price is always presented as an instrument of price stabilization. It cannot, the argument runs, be proscribed in international trade charters without interfering with the freedom of primary exporting countries to take action to shelter their producers from violent price fluctuations in export markets. A home price must, therefore, not be confused with other forms of subsidisation of export industries.

The fixing of home consumption prices below export parity for a number of commodities as a means of controlling price movements for anti-inflationary purposes during the war and immediate postwar period is cited to support the claim that the home price, as practised in Australia, is a measure for stabilizing prices not for increasing them. A few isolated instances when short-lived peaks in export prices for sugar and even butter exceeded domestic price levels are advanced as further proof as is the substantial excess of export over domestic prices for wheat during the Wheat Stabilization Scheme introduced in 1948.

It requires some tenacity to maintain this argument in the face of widening disparities between export and local prices as in the case of butter and cheese. When the protection afforded the dairy industry through home price and subsidy reaches a level of 91 per cent of export parity value, as calculated for 1957-58 by Downing and Karmel,[12] and when there seems so little prospect of reversal in the relationships between the export and home price, the Australian attempt to pass off its actions as stabilization begins to demand the talents of a Dr. Goebbels.

It is possible that Australia's interests as an exporter of primary products may have been better served had she been able to adopt a more straightforward position in international trade negotiations.

A detailed exploration of the implications of Australian agricultural price policy for development of improved marketing practices cannot be attempted in this address. However, there are often important conflicts between the means employed to support agricultural prices and the objectives of marketing efficiency and close integration of production and marketing. Equalization in the dairy industry, for example, has tended to discourage efforts by individual firms at product promotion and adaptation to consumer preferences. In the case of products marketed through producer controlled marketing boards there is often little attention paid to the task of market development. This is not merely due to the fact that under producer-controlled marketing the marketing job is often controlled by producers, although that fact is sometimes by no means irrelevant.

The marketing of foodstuffs is currently entering a more dynamic era in Australia. The spread of the self-service, one-stop, retail store and the vertical and horizontal integration taking place in this industry will require many changes in marketing techniques extending throughout the whole chain from producer to consumer. It is important that we ensure that the marketing institutions associated with organized marketing do not unduly impede adjustments necessitated by these changes.

12. R. I. Downing and P. H. Karmel, " Problems of the Australian Dairy Industry ". *The Economic Record*, Vol. XXXVI, No. 75 (August, 1960), Melbourne University Press, p. 351.