STABILIZATION IN AUSTRALIAN AGRICULTURE

A REVIEW OF OBJECTIVES

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Stabilization is a much over-worked word which can mean many things to many people. This is largely because most arrangements to assist an industry or schemes to do with the marketing of agricultural products usually have the tag "stabilization" tacked on to them somewhere. The first problem therefore in tackling any aspect of a subject of this magnitude in a relatively short paper is to confine the discussion within manageable bounds.

This paper will take a brief look at the history of stabilization schemes concentrating particularly on the development of the objectives of such schemes. Having identified the objectives it is proposed to examine the extent to which these objectives have been met, and then to say something, possibly no more than the raising of a few difficult questions, by way of conclusion.

As a matter of convenience, the paper draws chiefly on the experience of the wheat and dairy stabilization arrangements. These typify Australian stabilization arrangements for predominantly export industries. Less extensive reference will be made to arrangements for other primary products.

Australian schemes which either are called stabilization schemes or in their effect give stability in one form or another variously include:[1] guaranteed prices, two-price schemes, bounties and subsidies, mixing requirements, protection from imports, protection from substitutes, production controls and orderly marketing.[2]

The failure to deal in depth here with all these types of arrangement is not a failure to recognize their importance. It is simply a matter of keeping the discussion within manageable bounds.

The current wheat, dairy and dried vine fruit stabilization schemes are of post-World War II origin. Still, the background against which they were designed initially was that of the great financial hardship and insecurity to farmers of the interwar period. The first major objective of "stabilization" in this period was the provision of direct financial assistance to primary producers. The assistance given, especially in the early 1930's, was essentially a form of income relief payment and was "regarded as a relief measure such as works carried out under the Income

[1] For a fuller discussion see: J. N. Lewis, "Agricultural Price Support: A Classification of Measures Operating in Australia", *N.S.W. Economic Society Monograph* No. 207, May 1958.

[2] External arrangements of one kind or another have been recognized as assisting the internal measures taken to achieve stability. These include some of a multilateral nature, e.g. the International Wheat Agreement, the International Sugar Agreement, the Commonwealth Sugar Agreement, and some important bilateral arrangements, e.g. the Fifteen Year Meat Agreement. This latter has no matching internal arrangement.

Relief Acts".[3] The wheat industry was the main recipient of this form of aid but practically every major primary industry, with the exception of wool, received some financial assistance.

In addition to direct assistance, the pre-War period saw the emergence of the objective of providing security to producers by way of two-price schemes, orderly marketing arrangements and attempts to guarantee a return for the entire output. While these attempts were related to direct assistance, they were in principle of a much different nature. Direct financial assistance to growers was a supplement to incomes but it provided no long term security of income. This lack of certainty led to producers' demands for something more than a home consumption price. They sought, but did not achieve, a guaranteed price for their entire output.

With the outbreak of War and the granting to the Commonwealth Government of special powers, important changes in the existing stabilization arrangements had become constitutionally practicable. Thus emerged organized marketing on a Commonwealth basis and comprehensive stabilization arrangements. The effect of these developments was to (a) educate producers, and others, in the benefits of national marketing and stabilization arrangements; and (b) to provide a basis for post-War schemes.

The objectives of stabilization policies during the War were to prevent inflation of domestic prices; to control output of rural commodities according to domestic and oversea requirements; and to assure a reasonable income to producers. These were also the objectives which were sought in the early post-War period. It is noteworthy that, unlike the present situation, the assistance measures used in these years were virtually the only means adopted to achieve the Government's objectives towards agriculture.[4]

It became evident in the late 1940's and early 1950's that expansion of rural output was not taking place at a rate adequate to meet the needs of the increasing population and to provide the volume of exports needed to finance larger imports. The War-time and post-War policies, while conducive to economic stability to producers and to the economy as a whole, were not considered appropriate for bringing about the desired expansion in output. This recognition resulted in a major change in emphasis in agricultural policy. The previous goal of price and income stability became subordinate to a more pressing need to expand output of export and import-competing commodities.[5]

In 1951 it was reported that the rate of increase in primary production was about one per cent compared with a rate of population growth of approximately three per cent.[6] These trends gave rise to concern that

[3] Commonwealth of Australia, Rural Reconstruction Commission, Tenth Report: *Commercial Policy in Relation to Agriculture,* Govt. Printer, Canberra, 1946.

[4] For example, the various taxation, investment incentive, and other non-price measures currently used to reduce costs were not then used. In the economic environment of the 1930's, and then during the War, these would have had little meaning in any case.

[5] Indeed, the action taken resulted in the creation of considerable income instability to producers—by the refund of stabilization funds—and a sharp rise in both butter and cheese prices to domestic consumers.

[6] Opening Address of the Chairman (Rt. Hon. J. McEwen, Minister for Commerce and Agriculture) to 34th Meeting of the Australian Agricultural Council, 4th June, 1951. Reprinted in D. B. Copland and R. H. Barback (eds.), *The Conflict of Expansion and Stability,* Cheshire, Melbourne, 1957, pp. 573-574.

within a short time, supplies available for export, especially the food items of wheat, meat and dairy products, could be greatly reduced, if not eliminated by rising domestic consumption. At this time Australia was also committed to supply foodstuffs to the United Kingdom and to contribute to easing the dollar problem of the sterling area.

In the early 1950's the post-War stabilization schemes for wheat and dairying were renewed for a further five-year period. While Government policy towards agriculture had shifted markedly in emphasis at about this time,[7] this shift was not reflected in alterations in the basic structure of these stabilization arrangements. Those changes which were made, however, were related closely to the new production objectives.

In the late 1950's and early 1960's the emphasis in objectives was placed largely on providing security of income to the producer and the provision of uniform and stable prices to consumers. This emphasis is reflected in the extension of the quantitative guarantee for wheat to 150 million bushels; and the evolution of appropriate provisions to permit a guaranteed price to operate under the special conditions of the dried vine fruit industry.

The goal of stimulating export production in line with the general needs of long-term economic development has continued but many of the means used to achieve these objectives are to be found outside the conventional stabilization schemes. Expansion of most rural industries has of course been made increasingly difficult by the slowness of growth and restriction in some major overseas markets.

More recently two industries, cotton (1963) and tobacco (1965), have had new arrangements for their assistance introduced. Some elements of both these arrangements are noteworthy, particularly as they apply to industries whose products are imported in substantial quantities. In introducing the new cotton arrangement the Minister for Primary Industry (The Hon. C. F. Adermann) indicated that "the level of assistance should be such as to induce the very heavy initial investment required in the more favoured areas, . . . and should operate for a sufficiently long period to enable the currently less favoured areas in Queensland to adapt to new conditions. The ultimate aim of any assistance should be to promote a self-contained and economic industry."[8] The tobacco stabilization proposals contain provisions for marketing quotas with a minimum price for such quotas.

Clearly the circumstances operating at the time when a stabilization scheme is initiated bear on both its form and its objectives. The peculiar problems and characteristics of an industry, including importantly the extent to which its product is exported, influence the nature of any arrangement. The particular attitudes of the industries themselves as expressed through their organizations are also important.

It is often argued that Australian policy in relation to agriculture is a pragmatic one—that each problem and each industry is dealt with on an *ad hoc* basis. It is difficult to deny the broad truth of this argument

[7] To quote the Rt. Hon. J. McEwen in a 1952 address to the Australian Agricultural Council: "The Commonwealth Government has therefore decided to adopt as its policy objective a Commonwealth-wide programme of agricultural expansion."

[8] Commonwealth of Australia, *Parliamentary Debates H. of R.* Vol. No. 40 (1963), p. 2268.

although it is not entirely true. What is more difficult to argue is that in the circumstances of the historical development and particular problems of each industry and of constitutional limitation of owners it should, or could, be otherwise. This has important implications for the development of criteria for future policy making.

Objectives

There are one or two generally recognized and broadly accepted objectives of stabilization—allowing for the imprecision in the definition of the concept of stabilization itself. A perusal of the literature on the subject, however, suggests that there is some uncertainty, even disagreement, on the detailed objectives of stabilization policy in Australia.[9]

The purpose of this paper is not, at this point, to argue the validity of stabilization objectives, but to look at the stated objectives of stabilization and to consider to what extent those objectives have been met. The stated objectives are defined therefore as those made by Ministers responsible for policy. The policy statements of such Ministers usually find expression in the form and content of appropriate legislation. From a review of such policy statements a distillation has been made of the many objectives of stabilization schemes. There appear to have been three broad economic objectives. The first was general economic stability including stability of farm incomes and purchasing power and stability of the domestic price of foodstuffs. This latter is of particular importance in Australia's institutional setting[10] although less so now than in earlier years. The second was greater efficiency of resource use by reducing the risk and uncertainty in farming, and the third the welfare of the farmer. This third objective includes a substantial economic element as well as the more obvious social objective.

The detailed objectives of the various stabilization schemes may be summarized as follows.

1. *Income Objectives:*

   To raise the level of living of farmers.
   To make more secure the levels of living of farmers.
   To provide comparability of income between incomes in the farm sector and the non-farm sector.

2. *Price Objectives:*

   To guard against ruinous prices.
   To give prices fair to producer and consumer.
   To stabilize prices to producers and consumers so as to iron out fluctuations over the long-term.

[9] J. N. Lewis, "Organised Marketing of Agricultural Products in Australia", *Australian Journal of Agricultural Economics,* Vol. 5 No. 1, Sept. 1961. pp. 1-8; K. O. Campbell, "Economic Aspects of Agricultural Stabilization Schemes", *Journal of Australian Institute of Agricultural Science,* Vol. 16, Dec. 1950, pp. 144-153; J. H. Duloy and A. S. Watson, "Supply Relationships in the Australian Wheat Industry: How Stable is Stabilization?", Paper presented at the Conference of the Australian Agricultural Economics Society, Canberra, February 1964, mimeo.; K. O. Campbell, "National Commodity Stabilization Schemes: Some Reflections Based on Australian Experience", in R. N. Dixey (ed.), *International Explorations of Agricultural Economics,* Iowa State University Press, Ames, 1964, pp. 55-63.

[10] Where there is a close link between price movements and wage fixation.

To provide a minimum level of farm prices.
To give orderly marketing, i.e. to remove the competitive struggle among growers.

3. *Production Objectives:*

To produce enough to meet domestic food and raw material requirements.
To produce enough to expand the volume of exports.
To encourge efficient production.
To orient production towards more favoured areas.

4. *More General Objectives:*

To give assistance to industries to enable them to adjust to a changed market situation.
In time of depression to offset effects of depressed conditions then expected to be temporary.

Before proceeding to a discussion of the achievement of objectives it may be useful to attempt some clarification and elaboration of the above summary.

Income Objectives

The objective of raising farm incomes was most clearly stated in the decade before the War and in the period immediately following the War. These were periods when Government thinking was largely influenced by very low levels of income and indeed outright poverty in many rural areas and industries. Security of farm income was also clearly stated as an objective in those periods. In more recent years the direct expression of the objective of raising farm incomes of individual industries relative to that in other sectors is seldom heard. The security objective is still very prominent.

The provision of comparability of income between incomes in the farm sector and the non-farm sector has often been stated in such terms as "providing an equal opportunity for all Australians to share in the benefits which growth and development bring."[11] This carries some implication that comparability already exists, and the objective now is to maintain this situation. A more direct statement of this objective was the desire to provide "a return to the producers that is designed to give them the same standards of living as are enjoyed by the rest of the community."[12] The objective of comparability or parity of incomes is much more common in the agricultural policies of other countries, notably the United States, the United Kingdom and the countries of Western Europe, where incomes in the farm sector are lagging behind those of other sectors.

Price Objectives

The objective of guarding against ruinous prices stems from the unhappy price experience of the 1930's and the price instability inherent in the marketing of agricultural products.

The concept of a fair price to producer and consumer is one that

[11] Statement by Rt. Hon. J. McEwen, Minister for Trade and Industry, in an Address to the Annual Conference of the N.S.W. Country Party, Sydney, 24th June, 1964.
[12] Commonwealth of Australia, *op. cit.*, p. 2265.

has defied precise definition for many years in a large number of international arenas as well as in some hotly fought contests in the local arena. I will attempt to be no more precise in a definition of the concept here except to say that it would be remarkable to find a series of price objectives for agricultural products in any country in the world which did not pay homage to this concept.

The objective of stabilizing prices to producers and consumers around a long-term trend raises the question: which trend? Under most types of stabilization arrangement the consumer, both as a taxpayer, and as a purchaser on the domestic market, may be required to contribute to the support of producers' incomes. It is usual therefore to find some expression of the consumer interest among the objectives.

In most countries the provision of a minimum level of price is a common facet of agricultural policy and almost without exception the minimum level of price guaranteed is clearly stated. In Australia it has been customary either to limit the quantity of production covered by a guarantee, or the total amount paid by way of subsidy. This makes the definition of a precise minimum price for total production impossible. In two past arrangements there was a declared minimum price—the cotton bounty arrangement which terminated in 1963, and the first post-War Dairy Stabilization Arrangement which terminated in 1952.

The orderly marketing objective has been listed under the heading of price objectives since its effect is immediately one of price. This objective was stated as one which would "remove the competitive struggle among growers". Clearly the objective of the removal of such competition among sellers is to improve the average price to producers, and to give them greater negotiating and bargaining power.

Production Objectives

The objective of producing enough to meet domestic food and raw material requirements is clear enough in regard to food. However, the objective of producing our own raw material requirements, e.g. cotton, tobacco, raises the question of import replacement. The objective of producing enough to expand the volume of exports has its background in the slow rate of growth in agricultural production in the early post-War years.

The objective of encouraging efficient production is near to the heart of the matter. The production objectives of most stabilization arrangements have become largely secondary to the major objectives of income and price. However, in the recent cotton arrangements and the proposed tobacco arrangements, the production objectives are of very obvious importance. Limitation of production has not been an objective of post-War stabilization arrangements. Nowhere has any statement been made that stabilization includes stabilization of acreage or production.[13] Some arrangements for other commodities have in them the concept of production control although these are not formalized in any sense, e.g. rice, the production of which can be limited by restriction of water rights.

Other Objectives

The more general objectives are self-explanatory. Perhaps the tobacco

[13] See Duloy and Watson, *op. cit.*, pp. 23-24. "The stabilization scheme (for wheat) . . . has not had similar success in stabilizing the *acreage*." (Italics added.)

stabilization proposals are the most recent example of an attempt to assist an industry to enable it to adjust to a changed supply-demand situation. One can only conceive of such assistance being given to enable an industry to adjust to a market situation which has changed for the worse. It is unlikely that an industry would seek assistance by way of stabilization where its market situation had improved and had good long-term prospects.[14] The measures on cotton recently enacted are an example of Government action to assist an industry to adjust to changing production circumstances.

The traditional objectives ascribed to stabilization by economists have tended to be submerged in the above point by point enumeration of objectives. However scattered, such traditional objectives are explicitly or implicitly recognized, depending on how wide a view one is prepared to take of the efficiency objective. The statement of objectives in this form is also coloured by the fact that in Australia it is most unusual for Governments to intervene directly in agriculture except at the request of, and with the agreement of, the industry concerned.

Meeting of Objectives

The major problems within agriculture arise from three main sources: production variability which usually results from seasonal conditions; price variability which derives from the supply-demand situation; and cost instability. The stabilization schemes introduced in Australia have attempted to meet their objectives largely, although not exclusively, through their impact on price. Their effectiveness in meeting the objectives as they are enumerated above is discussed in the following paragraphs. One immediate difficulty is to identify the extent to which other factors in addition to or even despite stabilization schemes have contributed to a situation in which the objectives of stabilization have apparently been met.

Price Objectives

To assist in the discussion of the achievement of price objectives a situation has been assumed in which no stabilization scheme is in operation. Estimates of the prices received by producers have then been made based on the following assumptions:

1. That prices received for exports would not have been altered over the longer term by changes in supplies available from Australia;
2. The prices received for exports are the same as those received by the Marketing Authority. This implies that traders collectively would have adopted the same stock holding policies as the respective Marketing Authorities;
3. The prices received for sales on the domestic market are the same as those received for exports. This assumption is based on the consideration that in a perfectly competitive situation the domestic consumer has to pay at least as high a price as received for exports in order

[14] Governments have, however, taken measures which have the effect of increasing production of a commodity for which immediate and long-term market prospects are good. Beef is a case in point. Substantial public investment has been made in beef roads and the development of the brigalow areas of Queensland. There is a large element of regional development in this investment, and it cannot be regarded as assistance to an industry in the same sense as that conveyed by the use of the term elsewhere in this paper.

to secure supplies, while the pressure of additional supplies tends to force domestic prices down to the level of export prices. Thus average prices to producers are assumed to equal export prices less marketing margins;

4. The storage, handling and administrative costs are the same as those incurred by the Marketing Authority. Based on these assumptions, returns to producers of wheat and butter have been calculated for each season since 1946-47 and compared with actual returns in Table 1.

TABLE 1

Actual Prices Received by Producers of Wheat and Butter and Estimated Prices to Producers in the Absence of Stabilization Schemes

Year	Wheat producers*		Butter producers	
	Actual prices	Estimated prices	Actual prices	Estimated prices
	Per bush. s. d.	Per bush. s. d.	Per lb.† d.	Per lb.† d.
1946-47‡			20·62	20·23
1947-48‡			24·00	23·79
1948-49	11 3·4	13 10·7	26·00	26·06
1949-50	13 0·1	15 10·1	28·38	28·41
1950-51	12 7·4	16 3·8	31·42	29·70
1951-52	14 2·9	16 8·6	42·02	36·78
1952-53	14 11·7	16 4·9	47·10	37·04
1953-54	12 0·8	13 2·5	47·88	38·36
1954-55	11 11·8	11 6·6	46·63	37·14
1955-56	12 0·0	11 11·0	45·30	33·20
1956-57	12 6·1	13 2·4	44·47	27·37
1957-58	12 11·9	12 10·1	43·85	20·91
1958-59	13 2·0	12 3·8	46·37	30·99
1959-60	13 5·4	12 3·2	46·57	31·85
1960-61	13 7·6	12 7·8	44·87	22·73
1961-62	14 5·3	13 6·7	44·05	25·84
1962-63	13 11·3	12 10·4	45·34	29·67
1963-64	13 8·5	13 8·5	n.a.	n.a.

* Subject to the deduction of individual producers' freight.
† Commercial butter.
‡ Wheat Stabilization Scheme began in 1948-49.

The first price objective was that of *guarding against ruinous prices.* While "ruinous" is a word containing a large element of value judgement, it is fair to say of wheat that under stabilization growers have not been paid ruinous prices nor would they have received ruinous prices in the absence of stabilization schemes. There are strong external reasons for the maintenance of prices. There is the International Wheat Agreement with its minimum pricing provisions and possibly more important the strong stock holding and selling policies of the major wheat exporters of North America. The general level of wheat prices in world trade is, at best, only partly determined by market forces.[15]

The objective of guarding against ruinous prices has had somewhat greater meaning to the butter producer. In the years 1957-58 and

[15] For discussion of formation of world wheat prices see R. G. Lewis, "Competition and Co-operation in the Pricing of U.S. Wheats in Export Markets", *Third National Wheat Utilization Research Conference Proc.,* Kansas State University, Kansas, November 1964.

1960-61 the estimated price to the producer in the absence of a stabilization scheme would have been 21d. and 23d. per lb. respectively; ruinous prices to a large sector of the dairy industry under any definition of the word "ruinous".

An important aspect of the objective of guarding against ruinous prices is that the producer is assured against not only disaster itself, but also against the fear of price induced disaster.

The achievement of a *minimum level of farm prices* is closely linked with the objective previously discussed. In Australia no outright guarantee of minimum prices is made under any existing stabilization arrangement. However, there is the first advance on wheat and the underwriting of equalization values at 40d. per lb. for commercial butter, but these are not the same as minimum prices guaranteed in many overseas countries. Nevertheless both are of great value to producers. The benefit of the first advance on wheat accrues to the producer in two ways. First it gives him at the time of delivery a payment for his wheat which is normally a fairly high proportion of his final price—in most cases enough to cover his cash costs.[16] Second it relieves the producer of any urgency in selling and places the Wheat Board in the position of a stronger seller. The arrangement on the Commonwealth's underwriting of equalization values for butter has similar effects.

The concept of a *fair price to producers and consumers* is very much a value judgement. It is pertinent with regard to the fairness of prices to consumers to comment that given the protection afforded to the non-rural sectors of the economy through tariff and other means, this price can be reasonably expected to be above the export price.[17] For dairying, and to a lesser extent wheat, the schemes have resulted in recent years in a level of domestic price above the export price. Whether this protection is comparable to that afforded to the non-rural sector is difficult to measure. It may be added however that, as shown in Table 2, domestic prices for these products have moved up at a slower rate than earnings in the non-rural sector as measured by average weekly earnings in factories.

A further objective was *stability in prices to consumers*. Stability in this context has to be read as the absence of wide annual or seasonal variations. Perhaps at the same time it is not inappropriate to take a sideways look at price movements in other sectors of the economy. Given the nature of the determination of domestic prices for commodities subject to stabilization schemes, the achievement of this objective is assured almost by definition. Annual or seasonal variations in consumer prices for stabilized products have generally been less than for those of unstabilized products such as meats and wool.

Closely related was the objective of *stability of prices to producers*. In addition to the understanding of stability in the previous paragraph, there must be consideration of stability in relation to export prices. An

[16] In recent years this has run at about 75 to 80 per cent of the final return to the producer. It should be noted that there is no legislative commitment as to the size of the first advance on wheat, and its payment (despite its name) has in one recent year been made in two parts.

[17] See H. P. Schapper, "Dairy Policy for Australia", *Australian Journal of Agricultural Economics*, Vol. 5 No. 1, Sept. 1961, pp. 67-79; A. J. Reitsma, "The Australian Policy of Tariff Protection and Primary Industry", *Australian Journal of Agricultural Economics*, Vol. 6 No. 1, Sept. 1962, pp. 74-75.

TABLE 2

Relative Movements in Prices of Butter and Wheat Compared with Those in Retail Prices and Wages

Pre-War (Base: 1937-38 = 100)

	"C" series	Basic wage under Cwlth. awards	Av. retail price butter Sydney*	Wheat price (gross to farmers)
1928-29	115	117		121
1929-30	115	119		108
1930-31	104	103	123	59
1931-32	96	87	109	89
1932-33	91	84	100	79
1933-34	91	85	88	80
1934-35	93	88	93	94
1935-36	95	90	98	104
1936-37	97	92	97	134
1937-38	100	100	100	100
1938-39	103	104	107	72
1939-40	105	106	109	93

Post-War (Base: 1952-53 = 100)

	Consumer price index	Av. weekly earnings per employed male unit	Av. retail price butter Sydney*	Domestic price for wheat
1948-49	61	57	57	56
1949-50	66	62	60	59
1950-51	75	74	60	66
1951-52	91	91	67	84
1952-53	100	100	100	100
1953-54	102	109	114	105
1954-55	103	115	114	105
1955-56	107	123	117	110
1956-57	113	129	124	115
1957-58	114	132	125	119
1958-59	116	136	126	122
1959-60	119	147	128	124
1960-61	124	154	131	127
1961-62	124	158	134	132
1962-63	125	162	134	133
1963-64	126†	170	133	121
1964-65			135	

Sources: Commonwealth Bureau of Census and Statistics and B.A.E.

* Retail prices for calendar years corresponding to first year shown (i.e. read 1930 for 1930-31).

† Preliminary.

examination of Figure 1, which shows the percentage year to year changes in wheat values in the 1920's, the 1930's, and 1950's, indicates that in the latter period when the stabilization schemes were operating, percentage annual changes in wheat unit values were much less than in the earlier period. Thus it may be argued that the stabilization arrangements have given the producer greater stability of price than he had previously. Figure 2 sets out the annual percentage changes in actual payments per bushel to wheatgrowers and the annual percentage changes in estimated returns per bushel based on export prices. (The absolute price series for both are given in Table 1.) This shows about the same variability for each series, with fluctuations in both becoming much less marked over the last eight years. Export prices for wheat have themselves become much more stable in recent years (although at a relatively low level in comparison to producer prices in most countries), particularly when compared with the 1920's and 1930's and the early post-War period. This reflects the existence of factors already mentioned—the International Wheat Agreement, the strong selling policies of the North Americans, and generally the extent to which world wheat prices are

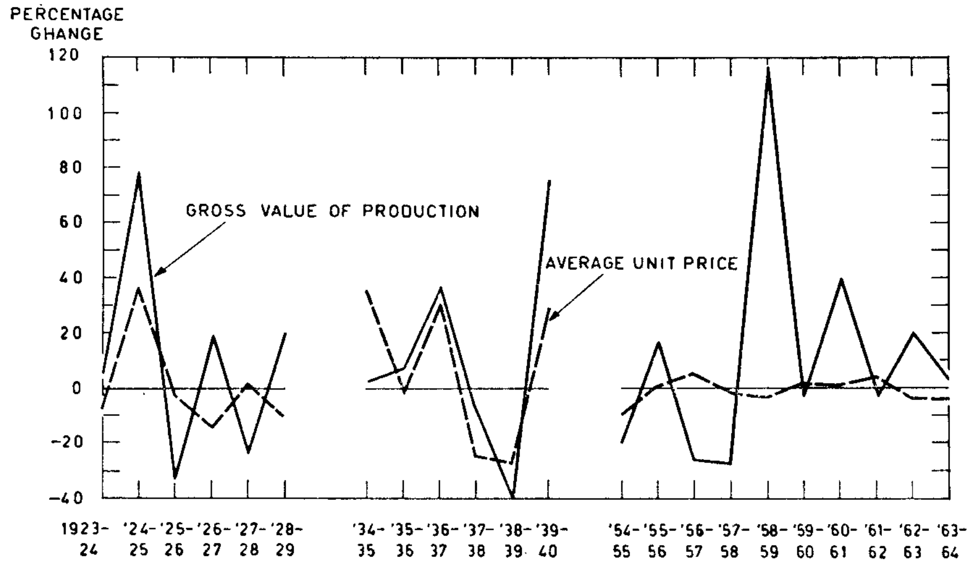

FIG. 1. Percentage year to year changes in gross value of production index and average unit price.

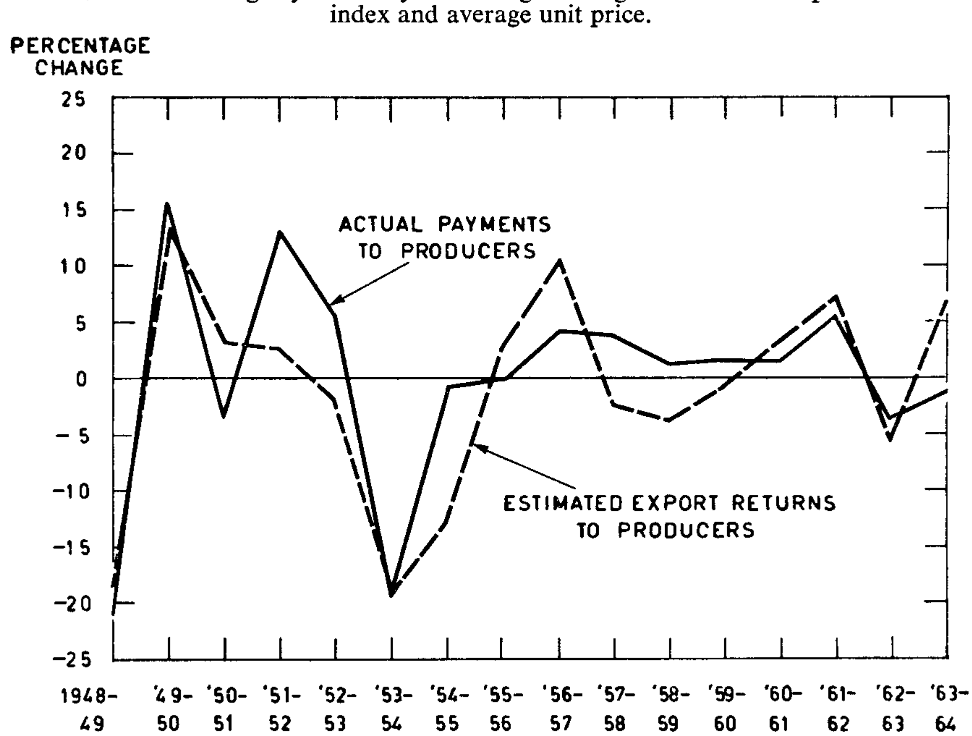

FIG. 2. Wheat: Percentage year to year changes in actual payments and estimated export returns to producers.

determined within a framework of administrative and political decisions.

In 10 out of the 16 years shown in Table 1 the average price for wheat to the Australian producer varied in the same direction as the estimated return based on export prices. In four of the six years where this was not the case the variation in both the actual price and the estimated price was less than 5 per cent. For the first few years of wheat stabilization the actual price received was below the estimated return. Over the years 1954-55 to 1957-58 any differences were negligible. Since then actual payments have exceeded estimated returns by amounts varying from 10d. to 14d. per bushel until the year just ended (1963-64) when they were nearly identical. Whether or not for reasons of internal stabilization policy, prices for wheat received by the Australian producer have moved generally with movements in world price, and in recent years have varied little in absolute values from such prices. I make this point without seeing much virtue in it, since the whole world wheat economy is these days so little a child of market forces.

The price guaranteed to wheatgrowers, which is also the domestic price, has of course been stable in relation to movements in prices and costs within the domestic economy, allowing for increasing efficiency in the industry as reflected in higher yields.

The introduction of the post-War stabilization schemes for butter has certainly stabilized the price received by producers. Producer price variations within a year have been eliminated. After some sharp increases from 1946-47 to 1952-53, actual prices paid to butter producers have been remarkably stable due to the fact that only relatively small changes were made in the domestic price after 1952-53, and the total subsidy remained virtually unchanged. Production has also been relatively stable so that the proportion of high value domestic sales (relative to export values) has remained little changed, as has the unit value of the subsidy. Returns to butter producers have, as a consequence, been much more stable than export values. It was noted earlier that butter prices received by producers have been substantially higher in absolute terms than estimated returns based on export prices. The situation has been brought about essentially by the operation of the stabilization arrangement.

The objective of achieving *orderly marketing* by removing the competitive struggle among growers has certainly improved the competitive position of the individual seller. The creation of the Wheat Board with its powers to acquire and sell the crop is one of the most vital features of the Wheat Stabilization Plan. The operation of the Australian Dairy Produce Board, equalization and the associated marketing arrangements have also been of very great benefit to the butter producer. An important aspect of orderly marketing is that it permits the administrative arrangements necessary to give effect to two-price schemes.

Production Objectives

The objective of *producing enough to meet domestic food and raw material requirements* involves the vexed question of import replacement. This question is usually raised in relation to raw materials produced in the agricultural sector. While there are still and will always be imports of some foodstuffs, the objective of providing enough food for domestic requirements has been met. Whether it has been met in terms of optimum resource allocation is a separate question.

There is not room in this paper to enter into a discussion of the important problems inherent in policies of import replacement.[18] Clearly the position has not been reached where Australia's agricultural raw material requirements are being met from domestic production. This is true of cotton where a bounty scheme has operated for a long period, but the near future may see a substantial change in the whole cotton situation. The tobacco industry is turning to a form of stabilization which is likely to have the effect of modifying the rapid expansion of production recently experienced.

Related to this objective is that of *producing enough to expand the volume of exports*. The export of wheat has certainly been expanded. The existence of the stabilization scheme has probably been a factor in this expansion, but as already noted in the discussion on price, external factors have also been important. In addition, the opening of new and large markets has been a vital element.

Exports of butter have been relatively stable. To the extent that they have varied, seasonal conditions were the factor largely responsible. In recent years import quotas operating in the United Kingdom (which takes over 80 per cent of all butter exported) and the development of markets in Asia for alternative forms of butterfat products have been large determinants of total butter exports. Given the continuation of protective policies in other countries, butter production and exports would certainly have been at lower levels without stabilization. Indeed, with the marked differences between producer prices in the two situations (see Table 1) it is likely, given reasonable estimates of supply elasticities, that the level of exports of butter would have been significantly lower.[19] The first assumption made in drawing up Table 1 is unlikely to be valid[20] *if* the assumed reduction in Australian exports had led to a net reduction in total supplies to the U.K. market.

It would seem on this rather superficial examination that stabilization has been a factor in the increased volume of exports of wheat and the maintenance of butter exports. It may be accepted that stabilization of rural industries in general has not affected exports from the secondary sector, minerals and other non-rural exports. Essentially, the production objective in regard to export products should be interpreted in terms of export income rather than export volume. The question then is not has export production been raised, but has the balance of production between export industries been one which has maximized earnings of foreign income from the rural sector? It may be defined in another way, that is to mean production of maximum quantities having regard to market demands.

To answer these questions sensibly, one would need to know a lot more about supply responses in Australian agriculture—not only to price, but to a number of other factors. Even if this knowledge were available, the questions would have to be answered against the shifting

[18] For discussion of import replacement see: L. J. Hume, "Import-Saving and the Balance of Payments", *Australian Journal of Agricultural Economics,* Vol. 5 No. 1, Sept. 1961, pp. 23-33; B. D. Cameron, "Import Substitution", *Economic Record,* Vol. 40 No. 92, Dec. 1964, pp. 500-507.

[19] See R. M. Parish, "The Costs of Protecting the Dairying Industry", *Economic Record,* Vol. 38 No. 82, June 1962, pp. 167-182.

[20] That prices received for exports would not have been altered over the longer term by changes in supplies available from Australia.

sands of international commodity markets; the more predictable influence of international commodity arrangements, some of which impose export quotas; and export markets which may be closed or opened by administrative decree. It should be noted too that there may be non-price factors operating which have a bearing on export strategy. An example of this would be the export of a commodity in order to build up a high export performance as a basis for future international trade negotiations which may involve export quotas.

The objective of *encouraging efficient production* raises a large number of questions, the answers to which are fundamental to an assessment of the success or otherwise of stabilization, judged purely in economic terms. Defining efficiency as optimal resource use, stabilization policies may have a bearing on "efficiency" at three levels:

(a) In their effect on the efficiency of an industry and the producers in it.

(b) In their effect on the efficiency of the agricultural sector as a whole.

(c) In their effect on the total economy.

With regard to (a) it may be argued with some force that the present stabilization schemes contain an element of inefficiency in that they keep the marginal producer in business. At the same time they have the effect of encouraging expansion of activity by efficient producers. This leads to pressure on supplies which in a difficult marketing situation may worsen the situation of the marginal producer who then turns to Governments for further assistance.

There may also be some argument as to whether the determination of a specific yield factor in a cost formulae is an encouragement to efficiency. There is a considerable reward to the producer producing at levels above the determined yield. There are some proponents of a high yield factor being determined as an incentive to efficiency. The price effect of such a yield determination may, of course, be unacceptable. Nevertheless, there would be wide, if not general, agreement among economists that the existence of a stabilization arrangement giving a certain security in price would result in a more efficient use of resources within an industry.[21] This would include the more rapid adoption of new and efficient techniques of production, particularly in the case of those innovations which require the expenditure of large capital sums. The existence of a stabilization scheme is an encouragement to the producer to undertake the investment and an encouragement to a lender to provide the money.

There is the second question (b) as to whether stabilization arrangements have led to efficiency of production in the sense of the most efficient allocation of resources within agriculture as a whole. To the extent that stabilization in one form or another now operates over a wide range of agricultural commodities *and* one accepts the general proposition in the preceding paragraph, it may be concluded that on balance there is a more efficient use of resources generally within agriculture than would be the case if there were no stabilization arrangements at all. This is not to say that an optimum allocation of resources has been obtained—far from it. There is probably no definitive answer to the latter problem.

[21] See D. G. Johnson, *Forward Prices for Agriculture,* University of Chicago Press, 1947.

The question raised in (c) as to whether stabilization in (some) agricultural commodities has led to greater efficiency in the economy generally is, in the present state of knowledge, also a matter of judgement. Stabilization has involved transfer payments from the non-farm sector to the farm sector. This may have attracted some resources into the farm sector. However, the various protective devices applied (quite legitimately) to the non-farm sector have involved transfer payments, and resource shifts in the opposite direction. Stabilization of agriculture has given relative stability in consumer prices of many agricultural products to the non-rural sector. It has also been a factor in preserving the farmers' purchasing power as a consumer of the products of secondary industry, thus providing an admittedly small element of security to the total economy.

On balance, my judgement is that stabilization in agriculture has not led to any worse allocation of resources within the total economy than would have been the case *if market forces alone had been left to determine such allocation for agriculture.*

Income Objectives

The three income objectives noted were to raise farm incomes, make farm incomes more secure, and to make farm incomes comparable with incomes in the non-farm sector.

The objective of *raising farm incomes* is seldom, if ever, stated explicitly now. There is no general low income problem in agriculture although there are low incomes in some sectors of some or even all industries. Examination of the farm income statistics given in Table 3 shows some wide fluctuations in aggregate farm income. Nonetheless, in general the level of aggregate farm income is much higher in real terms than it was at the time (the 1930's) when the objective of raising farm incomes was most frequently voiced.

Gruen[22] has provided a useful series showing income and spending power of farmers after tax. His table has been reproduced and brought up to date as Table 4. The figures show that the farming community has maintained its gross spending power after a fall from the high levels of the early post-War period and the boom conditions of 1950-51.

A series of net farm income figures for the wheat industry (and some other industries) is shown in Table 5. A considerable increase in the incomes of wheat producers has occurred over the period of the stabilization plans.

The influence of the stabilization arrangements on farmers' attitudes to investment and expansion has no doubt been one factor in this increase. Figures presented by Harris[23] in an assessment of our rural protection showed that the effect on wheatgrowers' revenue of the protective element of the stabilization arrangements had been negative over the early life of the arrangements, but had been a relatively small positive sum in recent years. The substantial increase in production and acreage has been the obvious factor directly contributing to the increase in wheatgrowers' farm income. This expansion—undertaken against the security

[22] F. H. Gruen, "Australian Agriculture and the Cost-Price Squeeze", *Australian Journal of Agricultural Economics*, Vol. 6 No. 1, Sept. 1962, p. 5.

[23] S. F. Harris, "Some Measures of Levels of Protection in Australia's Rural Industries", Paper presented at the Conference of the Australian Agricultural Economics Society, Canberra, February 1964, mimeo.

TABLE 3

Trends in Incomes: Farm and Non-Farm

	Total farm income		Average income per rural holding		Mean actual incomes			Median actual incomes		
	Actual	Deflated*	Actual	Deflated*	Primary producers	Other self employed	Male wage and salary earners	Primary producers	Other self employed	Male wage and salary earners
	£m.	£m.	£	£	£	£	£	£	£	£
1948-49	326·1	567·7	1,295	2,254						
1949-50	456·4	707·0	1,825	2,827						
1950-51	787·7	1,035·5	3,171	4,169						
1951-52	472·0	501·0	1,898	2,014						
1952-53	586·1	591·9	2,344	2,368	1,576	1,146	770	973	804	765
1953-54	512·6	507·6	2,036	2,016	1,468	1,128	815	940	870	810
1954-55	449·2	436·8	1,780	1,731	1,345	1,333	868	920	950	858
1955-56	465·3	430·0	1,841	1,701	1,303	1,355	923	924	984	905
1956-57	555·4	489·4	2,205	1,943	1,556	1,365	962	1,024	991	939
1957-58	356·2	308·9	1,410	1,223	1,231	1,360	986	889	991	960
1958-59	485·5	414·1	1,924	1,641	1,269	1,391	1,018	962	1,017	987
1959-60	503·0	419·1	1,994	1,662	1,412	1,478	1,100	1,062	1,076	1,067
1960-61	512·0	411·2	2,032	1,632	1,428	1,498	1,150	1,099	1,103	1,105
1961-62	479·0	381·0	1,896	1,508	1,393	1,514	1,162	1,079	1,106	1,123
1962-63	573·0	454·8	2,272	1,803						
1963-64	724·0	568·3	2,859	2,244						

Source: Commonwealth Bureau of Census and Statistics.

* A composite index made up of the living expenses and a combination of the machinery and plant, motor vehicles, fencing and building materials components of the B.A.E. Index of Prices Paid by Farmers (all indexes converted to the base average 1952-53 to 1953-54 = 100) is used as a deflator.

TABLE 4

*Income and Spending Power of Farmers After Tax**

Item	1948-9	1949-0	1950-1	1951-2	1952-3	1953-4	1954-5	1955-6	1956-7	1957-8	1958-9	1959-0	1960-1	1961-2	1962-3
1 Income of farm unincorporated enterprises† (£m.)	303.1	432.4	740.1	443.8	557.6	484.2	429.0	446.1	527.7	348.1	474.5	482	494	466	557‡
2 Gross spending power (£m.)	331.1	484.4	806.1	497.8	628.6	576.2	537.0	568.1	648.7	479.1	607.5	624	639	614	709¶
3 Income tax paid§ (£m.)	38.2	48.7	170.4	66.9	100.5	105.4	83.7	62.9	56.4	80.1	40.8	42.2	49.7	54.1	49.1
4 Real income after tax per non-rural employee** (£)	1,589	2,067	2,740	1,501	1,619	1,303	1,179	1,251	1,469	839	1,349	1,336	1,293	1,188	1,465
5 Index of 4††	109	141	188	103	111	89	81	86	101	57	92	91	89	81	100
6 Real gross spending power after tax per rural non-employee** (£)	1,757	2,347	3,057	1,176	1,870	1,619	1,547	1,650	1,845	1,249	1,763	1,767	1,715	1,459	1,904
7 Index of 6††	101	135	175	98	107	93	89	95	106	72	101	101	98	84	109

* An extension of Table 2 from F. H. Gruen, "Australian Agriculture and the Cost-price Squeeze", *Australian Journal of Agricultural Economics,* Vol. 6, No. 1, Sept. 1962, p. 5.
† Formerly "Farm Income".
‡ Estimated as £705m. for 1963-64.
¶ Estimated as £862m. for year 1963-64.
§ Credited to assessment year.
** Deflated by B.A.E. "Living Expenses" series.
†† Base of 1952-53 to 1953-54 equal to 100.

TABLE 5

*Selected Rural Industries: Australia: Net Farm Income**

(£ per farm)

Year	Sheep industry		Wheat industry	Dairy industry	Dried vine fruit industry†
	Pastoral zone	High rainfall zone			
1952-53	11,730	2,474		1,018‡	
1953-54	10,482	2,180			
1954-55	8,814	1,860	2,909		
1955-56	10,247	1,850	2,901		
1956-57	13,432	3,205	3,502		
1957-58	2,698	1,534			
1958-59	3,988	1,064			2,225
1959-60	6,569	1,880	3,200		1,634
1960-61	4,990	1,830	4,313		1,286
1961-62	5,586	1,820	4,055		1,331
1962-63	7,494	2,403			693

Source: B.A.E. industry surveys.
* Net farm income is gross returns less cash costs and depreciation.
† Sunraysia region.
‡ Average 1950-51 to 1952-53.

of stabilization arrangements—has been facilitated by a run of generally good seasons giving high yields, and by new market opportunities.

The results of the more recent B.A.E. Dairy Survey are not yet available, so that it is not possible to give a series of figures on dairy farmers' net incomes. Harris, in the paper already quoted, showed that the value of the dairy arrangements to the butter and cheese producer have been of the order of £35m. to £40m. annually with domestic sales of butter valued at export parity. This indicates that dairy farmers' incomes have been raised above the level they might otherwise have been as a result of stabilization. It may be argued that without stabilization considerable adjustment may have occurred in the dairy industry—the elimination of marginal producers—which may have led to a rather different price and income situation. Undoubtedly there would have been some adjustment, but recognizing the immobility of resources within this industry,[24] it is unlikely that it would have been sufficient to give those dairy farmers remaining in the industry an income situation equal to that brought about by stabilization. No one would claim that stabilization alone can, or will, solve the problem of the relatively large low income sector of this industry.

There can be no doubt that stabilization arrangements by their very nature have given farmers a measure of *security of income*. This security has largely stemmed from their influence on price. Production remains subject to the hazards of seasonal conditions. Movements in farmers' costs largely have their genesis in other sectors of the economy, but costs may be influenced directly, in either direction, by policy decisions, e.g. the decision to give a subsidy on superphosphate. Those industries whose stabilization arrangements include an annual cost adjustment formula have had the impact of this variable partly removed. Probably well over half of the farmers in Australia get some help from orderly marketing, home price schemes and other arrangements which help to give them greater security of income than they might otherwise have.

[24] H. Fallding, "Precept and Practice on North Coast Dairy Farms", University of Sydney, *Department of Agricultural Economics Research Bulletin*, No. 2, 1958.

Generally incomes in the farm sector are sufficiently *comparable* to those in the non-farm sector (see Table 3) to result in less emphasis being given to the comparability objective in Australia than in most other countries. Although incomes of primary producers tended to decline relative to those of other self-employed persons and those of wage and salary earners in the decade ended 1961-62, there has since been a substantial rise in average farm incomes, which appear to have exceeded average incomes in other sectors in the past two years.

To some extent the concept of "cost of production" implies a suggestion of comparability of income. The inclusion in the formula of an owner-operator's (managerial) allowance usually in excess of the relevant award wage for an industry implies some consideration of a guaranteed labour reward at least equivalent to the labour rewards of many non-farm occupations. This, in addition to the allowance of interest on capital (including land), has the effect of putting the producer in industries where such formulae apply in at least as happy a position as the self-employed person in the non-farm sector, provided the farmer is operating at or above some accepted level of average farm size or output for his industry.

Some Concluding Remarks

A discussion of stabilization policy in Australia is incomplete unless some attention is drawn to the various limitations on Governments in the determination of such policy. These limitations have varying degrees of force.

The most obvious is the Constitutional limitation—problems arising from Sections 51 and 92 are those which spring most readily to mind. Practically all formal stabilization arrangements require the agreement of and complementary legislation by the States. This gives any one State a virtual veto on any proposal. The constitutional hurdle need not prove insuperable given the goodwill of all State Governments and full support from growers.

International obligations have an important impact on any Government's choice of means to achieve its objectives. Examples are commitments under the G.A.T.T. which have considerable legal force; undertakings given within F.A.O., e.g. Guiding Principles for Agricultural Price Stabilization and Support Policies, which have considerable moral force; commitments under international commodity agreements; and commitments under bilateral trade agreements. Precedent and tradition within Australia cannot be brushed aside lightly. There must be good grounds for a Government to treat one industry differently from another. Often there are, but the industry in question must be brought to understand and accept these differences. There is, too, the long held policy that industries must come to Governments with their proposals.

As a matter of good financial management, Governments prefer that the commitment of public monies to stabilization funds be for a predictable amount. Certainly Treasuries prefer this. A further vital consideration in Australia is the extent of our dependence on exports for most of our primary products. This is a consideration which affects each industry to a different degree. All of these sorts of limitations are important in a consideration of the future course of stabilization policy in Australia.

This paper has dealt with the question: "How effective have the stabilization measures been in achieving the objectives stated?" But it may be suggested that this is only part of the question. Economists would probably prefer to ask whether the stated objectives of stabilization in relation to incomes, price and production within agriculture which seem to be generally accepted by the community, have been achieved in the most efficient way possible, i.e. at the lowest social cost.

Some of the objectives themselves may be questioned or at least qualified. No one would quarrel with the objective of orderly marketing. The only argument can be about the degree of benefit to producers from such arrangements. The more cantankerous may wish to argue about the degree of benefit to consumers. There are few rural industries in Australia without some form of orderly marketing.

The objective of security of income is one which would still win almost universal approval. But how valid is the cost of production approach as a means of achieving security? Is it valid to use the same general formula for an industry whose average return to land and management is of the order of £2,000 per annum as for an industry whose return is £200 per annum? It has already been noted that the raising of farm incomes seems to loom less large in people's minds than it did once although this is largely a matter of economic circumstance. Stabilization plans or arrangements applicable to a whole industry may not be needed to solve the problems of the low income sectors of agriculture. Other forms of assistance by the community may be needed but these in turn may have social and political difficulties. Reconstruction proposals for the dairy industry are an example.

Often the pure economic solution of a problem is readily apparent (to some at least). Equally the political solution may be apparent. In many cases the political solution is not the economic solution. Moreover, it may be questioned whether the apparent pure economic solution that takes the existing export price as the equivalent of a pure competitively determined price is valid, when that export price reflects institutional and non-economic influences and may be very unstable in the long term; and when the question of market strategies becomes important. Even were the complete economic solution readily discernible, Governments find themselves in the situation of having to be fully aware of that economic solution, but then perhaps being obliged to find a solution which in addition takes some non-economic factors into account.

There is no doubt that there will be a continuing policy of stabilization for agricultural industries and that the pragmatic approach of the past will continue. The very nature of Australian agriculture and the Australian environment suggests that this latter will be the case. The reason industries seek for Governments to intervene in this way is that, based either on observations of the past, or beliefs with respect to the future, or both, they do not accept that their (legitimate) aspirations will be fulfilled without Government intervention in the market. Governments assist them first because they accept this basic proposition, and second because they believe their intervention is consistent with the interest of the whole community. The question then is not whether Governments should intervene—but by what means should Governments intervene?