A WHEAT POLICY FOR THE SEVENTIES*

KEITH O. CAMPBELL

University of Sydney

A study of the origins of the wheat surplus problem in Australia suggests that more far-reaching adjustments in national wheat policy are required than those currently envisaged. Ten specific recommendations for the reform of the present policy are outlined. A new form of income stabilization scheme is proposed.

The reaction of the Australian Wheat Growers' Federation and of the State and Commonwealth Governments to the current surplus problem of the Australian wheat industry seems to be based on the premise that the current imbalance between the supply and demand for the commodity is transitory. Elsewhere, I have described the resultant policy stance as one of hibernation in anticipation of a future spring.[1] A pragmatic basis for such a philosopy exists in that, on several occasions in the past, a seemingly threatening accumulation of wheat stocks has been dissipated through the fortuitous appearance of a new buyer (for example, Mainland China in 1960) or has been assuaged by an equally fortuitous reduction in yield in a subsequent season, caused by a temporary closure of 'the windows of heaven'.

The Need for a Change in Policy

In contrast, I would claim that any realistic examination of the current and emerging international market situation and of the production potential of the local industry indicates that such a stance is most inappropriate. Rather this should be an occasion for a major redirection of the domestic pricing policy for wheat. The wheat stabilization scheme designed to meet the exigencies of the immediate post-war years, even if patched up in several areas where it has gone rusty, will not, in my view, provide a sound basis for a viable and efficient industry in the coming years.[2]

All recent authoritative assessments of world wheat market prospects suggest that wheat surpluses will persist at least through the coming decade.[3] There is substance in the view that the realities of the situation would have been forced upon the Australian wheat industry earlier had it not been for the restraint exercised by the other major wheat exporters. In international company, the Australian Government is regarded as

* A contribution to a symposium on wheat policy at the annual conference of the Australian Agricultural Economics Society at Monash University, 18 February, 1970.

[1] Keith Campbell, 'The End of Expansionism?' *The Round Table,* Vol. XL, No. 237 (January, 1970), p. 88.

[2] In a recent issue of the *Current Affairs Bulletin* I set down in considerable detail the grounds for such conclusions. See Keith Campbell, 'Wheat', *Current Affairs Bulletin*, Vol. 45, No. 1 (December 1, 1969), pp. 1-16.

[3] By surplus, I mean that part of the product of an industry or a country which cannot be sold in the normal competitive channels of trade at an acceptable price, in the absence of any subsidy. Cf. F. V. Waugh, *Managing Farm Surpluses*, National Planning Association, Planning Pamplet No. 117 (Washington, 1962), p. 4.

having been irresponsible in allowing wheat production to expand as it has done in recent years. If there had been a degree of 'discipline' (as the French call it) in international wheat policy and consequently less regard for national sovereignty, it is certain that the expansionist policy that prevailed in Australia up till the end of 1968 would never have been countenanced.

Apart for the overriding lack of will on the part of the Government to intervene, the basic cause of the state of over-supply is not primarily technological advances nor contracting markets. It is rather dogged persistence with a price policy which has always had a potential to generate surpluses. This arises from the fact that the scheme contains no reliable in-built restraints which take adequate cognisance of shifts in demand or of changes in farm productivity when demand conditions remain static. Over the years the Government has taken steps to modify other commodity schemes having a comparable supply-orientated price policy, the modification of the dairy stabilization scheme in 1954 being the most significant early *volte face* and the gradual elimination of the cotton subsidy the latest. However, for political reasons, stemming apparently from the electoral power of the wheat industry, and the unique role of the Australian Wheat Growers' Federation in policy determination in particular, the wheat stabilization scheme has become a Frankenstein and, moreover, a Frankenstein which has god-like qualities and is untouchable.

The Simpson Committee which originally advised the Commonwealth Government in 1946 on the costing procedures to be used in the wheat stabilization plan foresaw something of the dangers of a scheme which contained no 'shifter' to take care of productivity changes. Its idea of the re-survey of the cost structure of wheat farms at five-year intervals and its concern about the so-called yield factor in the costing formula are evidences of this. But over the years much of what might have been accomplished through use of these indicators of productivity change has been nullified, not only by the refusal of the Wheat Growers' Federation to accept a realistic yield factor, but also by the success of the Federation in getting the relevant governments to increase the limit on the number of bushels of export wheat to which the guarantee applied, simultaneously with each reduction in the price guarantee which occurred at recent quinquennial reviews.

The marketing quotas introduced into the industry in 1969, though an easy and, in the eyes of some, the obvious expedient to forestall the production of wheat in excess of public storage facilities, also serve as an opiate discouraging the consideration by the industry and the Government of needed fundamental changes in a wheat pricing policy which has persisted virtually unmodified for a quarter of a century. The fact that other countries have had wheat quotas in operation for a long time is no reason for Australia to ape them. This is particularly so when it is obvious that the causes of the surplus stem from the inadequacies of existing price policy rather than from exogenous factors. It is unwise, moreover, to follow the policies of others instead of trying to benefit from their mistakes. Most of the overseas countries originally got embroiled in production controls as an expedient in what with some justification could be regarded as a temporary condition of over-supply. In the Australian case, it is clear the problem being faced is not temporary. We should therefore be introducing a policy which deals with the roots of the trouble and which consequently is more rational in a long-term context.

Recommended Modifications of Current Policy

There are ten principles which I believe should be taken into account in framing an Australian wheat policy which would be adequate for the seventies.

(1) *The home consumption prices for wheat should be reduced.* There is no valid justification for asking Australian consumers to pay $1·725 for wheat used for human consumption and industrial use and $1·46 for wheat used for livestock feeding when, on the one hand, there is evidence that a substantial part of the nation's wheat can be produced for less than $1·00 per bushel, and on the other hand, when there is a substantial carryover of wheat in storage (340 million bushels at December 1, 1969). The floor price of $1·45 set under the 1967 International Grains Agreement was clearly a mistake and in any case it is not a valid benchmark for fixing a price of wheat for domestic livestock feeding.

(2) *Greater use of price differentials in wheat pricing is required.* The return to differential prices for wheat used for human and livestock feeding in Australia in 1969 was long overdue. But wheat farmers need to get away from their well-entrenched belief that bread grains are something special. The price of feed wheat should be related to the prices of other feed grains not the price of grain used for breadmaking. If the product itself has to be differentiated to achieve this end, whether by breeding distinctive characters into the wheat or by denaturation, it is a small price to pay, if one needs an excuse for being rational. Incidentally, I derive considerable amusement from the fact that Section 92 of the Constitution has proved such an effective obstacle to would-be King Canutes endeavouring to stop wheat prices falling to their economic level.

Greater use of, and a more rational basis for, differential prices for wheat for human consumption are dependent on the achievement of a better system of wheat grading than has yet been devised in this country. There have been altogether too many excuses presented over the years for not effecting obviously needed improvements in the grading of wheat.

(3) *Price guarantees should be for one year only but given with adequate notice.* Guarantees of five years' duration are unnecessary to achieve production efficiency in an annual crop such as wheat. Moreover they preclude that flexibility of pricing which is essential when structural changes in the industry and changes in demand conditions are occurring rapidly.

(4) *The first advance should be substantially reduced.* The payment of first advances substantially in excess of production costs is an unwarranted production incentive. There is also no justification for the provision of subsidised credit to finance the storage of unmarketable wheat.

(5) *Marketing quotas are not a satisfactory policy instrument, either from a production or from a welfare point of view.* The widespread

notion that marketing quotas represent a means of equitably sharing the effects of restricted market opportunities is illusory. The burden is not being borne equally between states, between regions of states or between individual farmers within a region. There is indeed little to justify a belief that the distributive effects of a reduction in price would be any worse than the distributive effects of marketing quotas.

From the standpoint of production efficiency, marketing quotas clearly encourage the perpetuation of wheat-growing in areas and on farms which produce it at high cost and *ipso facto* discourage expansion of wheat-growing in low-cost areas. To advocate schemes which encourage wheat-growing by the more efficient producers does not imply a 'sell-out' to corporate farms. Evidence from the North-West of New South Wales suggests that additional economies of scale are unlikely to be gained, in the present state of technology, with wheat areas in excess of 1,250 acres.

(6) *Marketing quotas, if unavoidable for political reasons, should be made transferable.* The arguments for transferable quotas, rehearsed by agricultural economists so many times with respect to the dairy industry, apply with equal force to the wheat industry. There is a case for making quotas transferable within seasons to take care of inter-regional variations in rainfall, as well as making them transferable on a permanent basis, in the interests of promoting greater efficiency in the industry.

(7) *Wheat price policy ideally should form part of a general policy of agricultural support.* Part of the troubles about wheat over the years (both when in deficit and when in surplus) stems from the fact that production decisions about wheat in many areas are based on the price of wool as well as the price of wheat and the former has traditionally been determined in a free market. A portion of the increase in the acreage sown to wheat in the 1966 and 1968 seasons must be regarded as being a result of a deliberate strategy on the part of farmers in an endeavour to recover the more quickly from the financial difficulties occasioned by drought in the previous year. Considerations such as these point to the deficiencies of the commodity-by-commodity approach to Australian agricultural policy and its neglect of the problems of production uncertainty.

(8) *Price policy is a particularly inappropriate way to endeavour to achieve welfare goals in a situation of chronic surplus.* Whatever arguments can be adduced in justification of transfer payments to the wheat industry via home consumption prices, direct subsidies, and bounties on production requisites, it is inappropriate to use these when to do so aggravates the surplus problem. Judging from the standpoint of the wheat industry, the increase in the subsidy on superphosphate on the occasion of the 1969 budget, was an act of folly.

(9) *The current policy of protecting so-called 'traditional growers' should be replaced by a policy designed to encourage the reconstruction of uneconomic wheat-growing properties.* It should be a matter for public concern that, in the determination of wheat policy, the voices of the small, predominantly less efficient farmers drown out by weight of numbers the voices of the larger farmers who produce the majority of the crop. The initiation of a policy of reconstructing uneconomic

farms comparable to that envisaged for the dairy industry should be a constituent part of any future programme for the wheat industry.

(10) *Parliament should reassert itself as the maker of wheat policy in place of the Wheat Growers' Federation.* Irrespective of the ultimate legislative form of future wheat policy, it is important that the elected representatives of the people determine the policy to be followed with respect to this commodity rather than that the initiative should be left so much in the hands of the Federation. Pressure groups are acceptable as part of the process of policy determination and of its administration; ventriloquism is not.

A New Form of Stabilization

Part of the reluctance of wheat growers and their organizations to abandon the present wheat stabilization scheme lies in the fact that they see no scheme to replace it. I would propose that, concurrent with the adoption of a more rational price policy, an income stabilization scheme should be introduced. I recently suggested that such a scheme should be implemented for the wool industry and I see no reason why a similar scheme could not be applied to wheat.[4]

The scheme, in brief, operates on the basis of regions or local government areas. It is proposed that if the gross income from a commodity in a particular region in a particular year falls by more than, say, 10 per cent below the three-year moving average, then producers in the region would be entitled to compensation amounting to a specified proportion, say three-quarters, of the income deficiency. The percentages quoted are simply illustrative. The greater the fall in income, the greater the degree of assistance. A schedule of rates of supplementation would have to be worked out on the basis of past experience. The effect of using the three-year moving average is to terminate income supplements when a given emergency passes.

The advantage of this scheme is that it is an income-stabilizing measure rather than merely a price-stabilizing measure. (It would, in fact, be preferable if the scheme operated on the basis of net farm income rather than on the basis of the gross income from a single commodity, but the latter is more feasible from an administrative standpoint.) The scheme, moreover, provides protection against production instability as well as price instability, the absence of the former protection being a major deficiency of the current wheat stabilization scheme. In essence, protection is afforded against happenings beyond the control of the individual farmer, whether droughts or declines in overseas prices.

Using regional income changes as the criterion of entitlement for income supplements means that those who have lower yields than their neighbours are not rewarded for their inefficiency. It means also that farmers in a region are not compensated from the public purse if yields are rising sufficiently to offset falling prices. If the farmers in a region genuinely lack opportunities to produce alternative commodities or otherwise lack the means to mitigate a fall in income, following a decline in price, they get some public assistance in the short run. Likewise, in the

[4] For a further elaboration of the scheme and the results of a simulation study with respect to wool see K. O. Campbell and T. E. Glau, *An Income Stabilization Scheme for the Wool Industry* (University of Sydney, Department of Agricultural Economics, Mimeographed Report No. 4, April, 1970).

event that the farmers of a region diversify into other enterprises they are given an added incentive to do so, in the initial phases.

A scheme of this kind, dealing as it does with short-run emergencies, would need to be supplemented by a programme for the reconstruction of farms which are unlikely to be economically viable in the longer run. If the Government wished to make the income stabilization scheme self-financing, in whole or in part, levies could be applied in years of above-average income (whether this stemmed from bountiful seasons or good prices). However, if the potential Treasury commitment were not excessive, the income transfers paid under the scheme might be regarded simply as an alternative, more rational, use of the current direct subsidies to maintain price guarantees and the regressive indirect subsidies associated with the home consumption price scheme.