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Margarine and the origins and timing of microeconomic reform in Australia

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The production of margarine in Australia was for a long time the subject of strict quotas designed to limit the output of the industry in order to protect the dairy industry. The industry was effectively deregulated by the Whitlam, Dunstan (South Australia) and Wran (New South Wales) governments in the years 1975 and 1976. This move was effectively the first measure designed to deregulate an industry in modern Australian economic history and aimed to promote competition in order to improve efficiency and community welfare. It also began the long process of eliminating government intervention in the Australian dairy industry, which was not to be completed until 2000.

Key words: competition, deregulation, efficiency, margarine, microeconomic reform.

1. Introduction

Microeconomic reform in Australia is regarded as starting with the float of the Australian dollar and deregulation of the banking sector in 1983. Subsequent reform included deregulation of various industries, the removal of trade restrictions and production bounties/consumption subsidies, tax reform, labour market reform and the corporatisation/privatisation of government-owned enterprises. One issue that arose was of timing – that is why did reform take place when it did, and why in some industries before others? Over many years prior to the economic reforms of the 1980s, governments in Australia had intervened in the production, marketing and pricing of a multitude of goods and services. For agriculture, this led to complex systems of subsidies, regulations and restrictions, resulting from policy responses to land settlement objectives, perceived needs to countervail the marketing power of ‘middlemen’, market collapses in times of depression, droughts, exigencies of wartime and balance of payment needs. Many of the apparent justifications for these interventions were transitory and were vigorously defended by those whom they assisted.

During the 1960s and 1970s, economists increasingly turned their attention to assessing the benefits and costs of these interventions. From the viewpoint of economic theory, they could be justified only if they were a response to ‘market failure’: that is, the inability of private markets to provide goods and services at the most desirable levels (Veljanovski 2010). A number of strict

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criteria were developed in the literature by which potential market failures could be assessed. By reference to these, most of the interventions were found to be wanting, but so long as financial markets remained regulated and other industries were protected against imports, the arguments remained equivocal.

Apart from the justification of interventions on grounds of market failure, economists also sought to account for the introduction and continuance of intervention in terms of 'private interest' or 'capture' theories, which assert that intervention occurs in response to the demands of competing interest groups (Stigler 1971). Typically, the private interest approach argues that small groups which benefit from intervention often are successful at lobbying for support, especially if costs are spread over a relatively large field of people who are all, individually, only slightly affected. A subtheme of these theories is that institutional arrangements through which policy is determined frequently favour the beneficiaries and exclude the losers.

The pressure for microeconomic reform that leads to the removal or modification of regulation is, however, difficult to explain using private interest theories. One interpretation of microeconomic reform is that the gains to beneficiaries dissipated over time and the losses to others rose, thereby increasing the incentives to reform (Peltzman 1989). Becker (1983) went further and stressed that an increase in takings by a predatory interest group can prod victims to invest equivalent efforts in resisting intervention.

In the Australian case, calls in the late 1960s and early 1970s for greater openness of government led to greater public scrutiny of the benefits and costs of interventions, empowering the losers and identifying costs to the wider community. Gregory (1992) argued that the demand for microeconomic reform increased as the economic performance of Australia worsened through the 1970s and 1980s, in part because of these economywide costs, while Dollery (1994) stressed the Peltzman argument that over time mounting losses and falling benefits from regulation shifted the balance towards deregulation.

Even though most microeconomic reform occurred after 1983, some earlier reform measures took place. During the years of the Whitlam Government (1972–1975), there was a debate over tariff protection, bounties/subsidies, competition policy, the need for a more economically rigorous and open evaluation of the impact of government intervention, and the creation of commercially orientated agencies to operate post, telecommunications and the national railways. One additional area of controversy was the margarine industry, which at the time was the subject of production quotas designed to limit the output of the industry in order to protect the dairy industry. Margarine production was effectively deregulated by the Whitlam, Dunstan (South Australia) and Wran (New South Wales) Governments in the years 1975 and 1976, being the first measure to deregulate an industry in the modern Australian economy. An examination of this reform helps to promote a better understanding of the timing of microeconomic reform. Policymakers are always dealing with interest group and economic pressures,

changes and reform options. Microeconomic reform can take place at an incremental level or can involve widespread changes, and advances in microeconomic reform are often confounded with other policy changes.

The paper seeks to evaluate this reform in terms of the broad theoretical explanations of the timing of government intervention and deregulation. It is structured as follows. The first section provides a general background to the microeconomic reform that occurred in the early 1970s. This is followed by sections on the structure of margarine and dairy industry regulation in the 1940s and political and policy shifts in the 1960s. These sections are followed by an analysis of the Whitlam Government's attitude to deregulation of the industry. In the final section, some conclusions are drawn about the timing of microeconomic reform.

2. Whitlam and microeconomic reform

When it came to office in 1972, the Whitlam Government was committed to boosting expenditure on welfare, health, urban development and education. Whitlam, as Prime Minister, perceived industry protection measures as restricting wealth creation and obstructing his government's objectives (Whitlam 1985, p. 191; Warhurst 1988, p. 36; Hone 2003, p. 15). At the time, the Tariff Board, a government statutory body, had the role of evaluating and recommending the levels and types of import protection on individual products. Whitlam recognised its limited scope and requested Sir John Crawford, Vice Chancellor of the Australian National University and former Secretary of the Department of Commerce and Agriculture (and later of Trade) to report on replacing it. Crawford reported in June 1973 and legislation was passed creating the Industries Assistance Commission (Crawford 1973). Unlike the Tariff Board, the Commission evaluated the impact of all government assistance (including tariffs, statutory marketing arrangements and bounties/subsidies), not just on industries directly affected, but also on the general community, in terms of resource allocation and economic efficiency.

At the same time, the Whitlam Government launched other measures to reduce protection. In 1973, in response to upward pressure on the international value of the Australian dollar caused by a surge in Australian exports, a committee chaired by Alf Rattigan (the Chairman of the Tariff Board and later the first Chairman of the Industries Assistance Commission) investigated a possible across-the-board tariff reduction. The committee reported on 15 July and its main recommendation of a uniform 25 per cent tariff reduction was implemented.

In addition to reductions in trade barriers, the Whitlam Government in 1974 passed the *Trade Practices Act*, which replaced previous legislation and outlawed a number of anticompetitive practices. The Whitlam Government also attempted to make government-owned enterprises more commercially orientated by breaking up the Post-Master General's Department into two

separate commercial entities (Telecom and Australia Post) and creating the Australian National Railways Commission from the Commonwealth Railways of the Department of Transport.

As the Whitlam Government was keen to fund its own priorities, it sought to reduce the inefficient spending programs of the previous government. In March 1973, H.C. (Nugget) Coombs, Chancellor of the Australian National University and former Governor of the Reserve Bank, chaired a Task Force which scrutinised past programs (Australia, Task Force to Enquire into the Continuous Expenditure Policies of the Previous Government 1973). The Task Force advocated various cutbacks including the expiry of the *Phosphate Fertilisers Bounty Act (1963–1976)* and the *Nitrogenous Fertilizers Subsidies Act (1966–1976)* and the abolition of the dairy industry bounty arrangements that had operated since 1942.

There was a long and complex history of government intervention in Australian agriculture, mainly influencing the prices for farm commodities and inputs. On 14 December 1973, a Working Group, led by Stuart Harris (Deputy Secretary of the Department of Overseas Trade), was appointed to prepare a Green (discussion) Paper on all aspects of rural policy in Australia. The Green Paper, which was released in mid-1974, expressed views that were to be largely followed by the Australian Labor Party in its approach to agricultural policy until the present day. The basic postulate, according to the Paper, was that markets are generally the most effective method of allocating productive resources (Australia, Working Group 1975, p. 278) and government intervention should be restricted to supporting research, education and assistance to low income earners. It also advocated that rural policy should not just concern itself with the interests of farmers, but also the welfare of the whole community.

The restraints on the production of margarine were severely criticised by the Working Group (Australia, Working Group 1975, p. 48). It argued that they were not only an unfair burden on low income earners but also a cause of a misallocation of resources in agriculture and a major cost to dairy farmers and to agricultural producers generally in terms of 'image' that they presented to the nonrural sector. It asserted that on economic grounds, there were no valid reasons for restricting the production of a commodity simply to protect the market of another. The restriction of margarine production to protect dairy farmers was found to be anomalous with few, if any parallels in other fields of economic endeavour in Australia.

In terms of the various explanations of microeconomic reform, a number of factors can be identified. First of all, the moves by the Whitlam Government to reduce levels of protection and expenditure in some areas indicate that there was a growing awareness that the costs of intervention were high and growing. In particular, the market failure arguments that were often popularly used (but inadequately understood) to promote intervention were questioned. Secondly, there was growing pressure from a variety of interests to expand expenditure in areas such as welfare and education, which

put pressure on the government to reduce intervention in other areas. Finally, the economic climate was becoming more unstable, which meant that there was a change in the relative costs and benefits of regulation, affecting attitudes towards them. These three impacts were all to affect the regulations that existed on margarine production.

3. Margarine and dairy industry regulation in the 1940s

Margarine is the principal substitute for butter and was the subject of hostile government legislation in many countries. Because of its price advantage, governments in Australia were pressured by dairy interests to prevent its consumption (Australia, Parliament, Dairy Industry Committee of Enquiry 1960). Original legislation concerning margarine was passed through Australian colonial parliaments in the 1890s. This early legislation required margarine to be clearly labelled and not passed off as butter (*The Argus*, 30 August 1893).¹

Any attempt by a single state to limit production was undermined by the potential for interstate trade, which could not be impeded by state legislation because of section 92 of the Constitution. In order to effectively protect butter from margarine competition, cooperation between the six state and national governments was necessary. Demands for a national approach to margarine regulation became more intense during the 1930s.

Production quotas were introduced in all six states in 1940. The legislation was fairly uniform, although in some states artificial colouring was prohibited. The size of the quotas was established at a meeting of the Australian Agricultural Council and was based on production and consumption levels at the time (Lloyd 1951). The quotas only applied to table margarine (made from vegetable oils such as coconut oil, soybean oil, sunflower seed oil, cotton seed oil, peanut oil or rapeseed oil) and not cooking margarine (made from beef and mutton fats). Restrictions on imports were also imposed consisting of a moderate tariff as well as a requirement that imported margarine be coloured pink (Lloyd 1956, p. 6).

The moves to regulate the industry took place at the same time that the protective system of the dairy industry was strengthened. Milk produced for liquid consumption had been regulated for health reasons since the early years of the century, and in each state just before the Second World War, statutory marketing authorities were established to limit milk supplies entering markets in order to raise liquid milk prices. Following the 1923 entry into coalition government of the recently established Country Party, in 1924 the Australian Government established an export control board for butter and cheese for the purpose of supporting domestic prices by diverting

¹ A form of intervention based on the notion that consumers have insufficient knowledge of the quality of product without the enforcement of labelling information (information asymmetry).

supplies to export markets. This was never fully achieved for cheese, but was successful for a time for butter by requiring participating manufacturers to pay a 'voluntary' levy on the production of all butter, the returns from which were used to finance a 'voluntary' subsidy on exports. This arrangement effectively equalised returns that participating manufacturers received from sales in each market. The arrangement had a chequered history until the Second World War when, in 1942, the Australian Government commenced paying manufacturers of butter and cheese a bounty on condition that they took part in the voluntary price equalisation arrangements.

The margarine quotas were designed to supplement the support granted to the dairy industry. The purpose of the bounty, however, was equivocal, since it was paid in lieu of an increase in domestic consumer prices. Under wartime defence powers, the Australian Government was able to introduce both production and pricing controls, and at the same time, it rationed the domestic consumption of butter. During the war and immediate post-war years, the bounty could be considered a consumer subsidy, but the restrictions on margarine production were designed to prevent domestic competition from undermining dairy production and returns. The Australian Agricultural Council coordinated the implementation of state and federal agricultural policy in this regard, and in the post-war years, it retained this role. It is notable, however, that during the 1950s, the domestic pricing of butter and cheese moved to the control of the states and the bounty payments shifted from being a transfer to consumers to being a transfer to the industry. Most changes to state margarine quotas were also made unilaterally by state governments. This occurred because there was a degree of tension between the interests and policies of the various states.

Regulation of the dairy and margarine industries can be cited as an example of the success of private interest lobbying and rent-seeking behaviour. Regulation was the outcome of a government judging the benefits of intervening on behalf of a small, well organised group (who showed their appreciation through political support) exceeding the costs imposed on a much larger group (who were individually more slightly affected). The main influences on the development of dairy regulation were as follows: the political structure of Australia; the traumatic economic conditions of the 1930s, especially the distress levels of export prices; the need to underwrite the livelihoods of recently settled ex-servicemen, many of whom were dairy farmers; and the rising power of farm interest groups in the Country Party. No substantive market failure case was made for the regulation of margarine apart from information asymmetry arguments about labelling.

Special wartime powers to protect consumers, while continuing support for the dairy industry, were the justification given for introducing the dairy bounty, but the major benefits were quickly appropriated by dairy industry interests after the war. It was used as part of a complex set of price stabilisation arrangements that were to continue to transfer benefits from the government and domestic consumers to the industry until well into the 1970s.

4. Political and policy shifts in the 1950s and 1960s

The margarine quotas established in 1940 remained in place in the post-war years and gradually demand began to build up, leading to a crisis in their enforcement. During the Korean War inflation boom, butter prices skyrocketed and excessive amounts of exports led to a butter 'famine' (*Sydney Morning Herald*, 23 September 1951, p. 7). Rising costs of living created tension in the system of quotas and a clash of interest groups took place. The Labor Party was sympathetic to the concerns of pensioners, low income earners and migrants, all of whom favoured the lower priced margarine. As Australian average margarine consumption levels were lower than those of British and continental European immigrants, the large-scale migration of Europeans to Australia in the 1950s and 1960s helped to lead to growing costs to consumers (Lloyd 1956, p. 6; Australia, Parliament, Dairy Industry Committee of Enquiry 1960, p. 99).

Margarine was not exported in any significant quantities, and the issue of intervention in the industry centred on the redistribution of income. This helped to give the Labor Party a degree of clarity when it came to developing a view on the quotas. In contrast, the Liberal and Country parties, which shared political power at the federal level throughout the 1950s and 1960s, tended to be more sympathetic to the concerns of the dairy farmers. A few Liberal Party politicians opposed the quotas, but the conservative side of politics tended to favour them (*Sydney Morning Herald*, 19 September 1951, p. 3). This was despite the fact that a number of farmers had an interest in the growth of the margarine industry as it was a major user of some agricultural crops. In the context of private interest theory, it is worth recognising that the influence of the small, well organised group of dairy farmers only had influence through the Country Party and its Liberal allies. The Labor Party, which retained political power in several states during the early 1950s, was not influenced to the same degree, but rather was influenced by consumer groups.

The first post-war change came in January 1952 when the New South Wales Labor Government led by James McGirr increased that state's annual quota from 1,248 to 2,500 tonne per annum (*Sydney Morning Herald*, 5 December 1951, p. 4), going further in October 1955 when it increased the quota to 9,000 tonnes (*The Farmer and Settler*, 7 October 1955, p. 1). The latter increase was in excess of demand for margarine in New South Wales and was designed to enable sales of margarine into Victoria (*The Argus*, 9 July 1955, p. 5). The Victorian and Tasmanian Governments, with their larger dairy industries, kept the wartime quota levels in place until the 1970s (Table 1). At this stage, the Victorian Government at the Australian Agricultural Council sought the abolition of the manufacture of margarine in Australia, but this extreme measure was blocked by the New South Wales and Queensland Labor Governments.

Table 1 Margarine quotas in Australia, 1941 to 1975, tonnes

	1941	Jan- 1952	Aug- 1952	Sep- 1952	Nov- 1952	Oct- 1953	Jul- 1954	Oct- 1955	1960	Feb- 1973	Feb- 1975
NSW	1,248	2,500	2,500	2,500	2,500	2,500	2,500	9,000	9,000	10,800	16,460
VIC	1,196	1,196	1,196	1,196	1,196	1,196	1,196	1,196	1,196	3,400	3,400
QLD	625	625	2,200	2,200	2,200	6,860	4,236	4,236	4,236	5,100	10,180
SA	312	312	312	312	468	468	468	468	528	700	Na
WA	364	364	364	800	800	800	800	800	800	1,400	1,400
TAS	208	208	208	208	208	208	208	208	312	600	600
ACT	0	0	0	0	0	0	0	0	0	300	460
	3,953	5,205	6,780	7,216	7,372	12,032	9,408	15,908	16,072	22,000	32,500

Source: Australia, Parliament, Dairy Industry Committee of Enquiry (1960, p. 53), Morony (1970) and *Canberra Times*, 7 July 1973, p. 1.

At this time, the Queensland Government took the opposite view to that of Victoria and sought the unrestricted production of margarine (*Canberra Times*, 6 July 1955, p. 6). In addition to arguing this point at meetings of the Council, it also took unilateral action. In August 1952, the Queensland Government increased its quota from 685 to 2,200 tonnes a year (*Sunday Mail*, 24 August 1952, p. 3) and in October 1953 increased its quota to 6,860 tonnes, a figure far in excess of potential Queensland consumption (*Courier Mail*, 18 November 1953, p. 1). As Queensland was the major supplier of Australian grown raw materials used in table margarine production, such as peanut oil, sunflower seed oil and cotton seed oil, the aim of the Queensland Government was to export to other states.

These increases in quotas set off a great deal of conflict between the states and eventually a compromise was reached, which allowed for New South Wales to retain its increased quota of 9,000 tonnes and Queensland a quota of 4,236 tonnes (Table 1). The attitudes of the New South Wales and Queensland Labor Governments in the mid-1950s could have led to the collapse of the scheme, had it not been for the gradual growth in electoral support for the coalition parties in both states. One effect of the split of the Labor Party in the 1950s, which led to the breakaway DLP, was that it increased the frequency of coalition governments at the state level, which in turn led to an intensified enforcement of the margarine quotas. The Labor Party government split in Queensland in 1957, which led to a long period of Country Party dominated coalition governments in that state, had important implications for the manufacture of margarine. These governments refused to increase the quota in that state up until the early 1970s and so exports of margarine from Queensland to the other states declined over time. Despite a sizeable vegetable oils industry in Queensland, the Country Party supported the interests of the dairy farmers (Table 2).

In New South Wales, the Labor Party remained in office until 1965 and responded to the controversies over margarine production of the 1950s by not raising the quota, but instead refusing to prosecute, or delicense, the

Table 2 Relative prices, table margarine and butter, shillings and pence

	Margarine		Butter	
	s-shillings	d-pence	s-shillings	d-pence
1939		11.5	1	7
July 1951	2	1	2	2
July 1952	2	6	4	0.5
July 1956	2	10	4	7
July 1958	2	10	4	9
July 1959	3	2	4	9
July 1960	3	2	4	11

Source: Australia, Parliament, Dairy Industry Committee of Enquiry (1960, p. 55).

margarine companies when they overproduced (which they frequently did). This situation changed abruptly in 1965 when the Robert Askin led Liberal-Country Party government was elected to office in New South Wales and began to threaten those companies that produced above quota with the loss of their licences (*Canberra Times*, 1 October 1966, p. 14). Through most of the 1960s, the quotas remained unchanged across the country, but as the quota was increasingly enforced in New South Wales, production declined from 23,972 tonnes in 1965/1966 to 15,354 tonnes in 1968/1969 (Table 3). This meant that per capita consumption levels of margarine in Australia declined in the second half of the 1960s (Table 4). The efforts to tighten the controls on production led to a reaction in the form of the 'Mrs Jones' advertising campaign from 1966 onwards, financed by the margarine industry, and designed to put political pressure on supporters of the quotas (*Canberra Times*, 19 August 1966, p. 11, 30 March 1967, p. 1).

Until the mid-1960s, the Labor Party policy to ease restrictions on the industry was not based on economic efficiency production gains that might be achieved, but rather on welfare consumption gains to low income groups. But debate over the issue in the late 1960s and early 1970s took place against a shift in policy objectives within the dairy industry towards the welfare of its low income producers.

In the 1950s and early 1960s, trade policy was based, among other things, on the need to assist agriculture (of which dairying was a significant part) in order to provide an inflow of foreign funds in a regime of import controls and a regulated, stable exchange rate. What was good for all farmers, including dairy farmers, was generally conceded to be good for the Australian economy. But during the latter half of the 1960s, a significant low farm income problem had developed in pockets of Australian agriculture that needed to be addressed, and the dairy industry was in the van in this regard. Of 62,000 dairy farmers in the mid-1960s, some 55 per cent were receiving farm incomes of less than \$2,000 – incomes that were unacceptably low (McKay 1967).

The problem was not that milk prices were too low, but instead that there were too many farms and farmers that had no potential to grow within the

Table 3 Margarine and butter production in Australia, 1952 to 1982, tonnes

	Table margarine production Tonnes	Butter production Tonnes	Nontable margarine production Tonnes
1952	7,121	131,166	25,075
1953	7,079	163,589	22,025
1954	9,762	156,117	22,294
1955	9,809	188,010	21,951
1956	11,854	205,791	19,394
1957	17,126	189,841	19,900
1958	16,086	172,918	20,990
1959	16,071	190,923	23,678
1960	15,987	195,007	25,761
1961	16,124	179,209	27,530
1962	15,742	197,505	26,675
1963	15,939	184,802	27,891
1964	15,817	186,248	29,948
1965	22,571	186,851	28,312
1966	23,972	188,766	27,831
1967	21,588	200,566	31,215
1968	15,882	177,237	36,605
1969	15,354	180,069	39,781
1970	15,462	202,612	36,822
1971	15,983	183,678	45,469
1972	17,321	176,617	49,192
1973	22,694	166,380	49,195
1974	25,553	157,378	51,627
1975	31,083	145,766	50,052
1976	45,747	131,885	51,190
1977	68,797	104,931	45,629
1978	75,010	99,927	41,465
1979	88,041	88,272	39,651
1980	97,269	73,873	37,156

Source: *Official Year Book of the Commonwealth of Australia* (1952–1980).

industry or had limited opportunities to leave it. It was not a price problem that could be rectified by bounty payments or restrictions on margarine production, but was instead a resource adjustment and welfare problem. A major shift in dairy policy was the provision of funds to allow marginal dairy farms to be amalgamated and assist marginal dairy farmers to leave the industry (Australia, Department of Primary Industries 1971).

Furthermore, by the early 1970s, the justification for assisting the industry for balance of payments needs also evaporated as mineral exports had displaced agricultural produce as the major source of foreign earnings. Indeed, the 25 per cent across-the-board tariff cut of 1973 was a move to ease the impact of booming mineral exports on the value of the Australian dollar, as well as a move to reform the structure of protection of manufacturing industries.

These shifts in the justification for traditional assistance measures in the late 1960s and early 1970s increasingly allowed the deregulation of margarine quotas to be argued on grounds of economic efficiency. Increasingly in the

Table 4 Apparent per capita consumption of margarine and butter: 1961–1962 to 1980–1981 (kg per year)

Year ended July	Butter	Table margarine	Other margarine	Total margarine
1962	10.9	NA	2.7	NA
1963	10.8	NA	2.8	NA
1964	10.5	NA	3.0	NA
1965	10.2	2.0	2.8	4.8
1966	9.9	2.1	2.6	4.7
1967	9.9	1.9	2.9	4.8
1968	9.8	1.3	3.7	5.0
1969	9.6	1.4	3.8	5.2
1970	9.3	1.3	3.9	5.2
1971	9.3	1.3	3.8	5.1
1972	8.7	1.4	4.0	5.4
1973	8.3	1.6	4.1	5.7
1974	7.7	1.7	4.0	5.7
1975	7.2	2.2	3.8	6.0
1976	6.8	3.1	3.9	7.0
1977	5.8	4.7	3.5	8.2
1978	5.0	5.7	2.9	8.6
1979	4.2	5.9	2.9	8.8
1980	4.6	6.5	2.5	9.0
1981	4.3	6.7	2.5	9.2

Note: NA – not available.

Source: Commonwealth Bureau of Census and Statistics (1961–1971), Australian Bureau of Statistics (1972–1981) and Australia, Industries Assistance Commission (1981).

1970s, therefore, Labor Party politicians began to use economic arguments to press the case of deregulation, arguing that restrictions were leading to a stifling of innovation in the dairy industry as well as a misallocation of resources. At the time, professional economists tended to be critical of the restrictions. A group of agricultural economists, including Fred Gruen, Jack Lewis and Alan Lloyd, presented a submission to the Dairy Industry Committee of Enquiry in 1960 and advocated the abolition of the quotas (Australia, Dairy Industry Committee 1960, pp. 99, 124). Agricultural economists such as Jack Lewis and Ross Parish published works that were critical of the measures that protected the dairy industry (Lewis 1961; Parish 1963). Another source of criticism of the margarine regulations in the late 1960s came from the medical profession. In 1971, Ralph Blackett, Professor of Medicine at the University of New South Wales, publically attacked the quotas at the opening of National Heart Week, stating that the government by promoting butter over polyunsaturated margarine was effectively promoting heart disease. These sorts of arguments were adopted by Labor Party politicians with the Health and Welfare Committee of the Federal Parliamentary Labor Party recommending the abolition of the quota for the Australian Capital Territory on health grounds (*Canberra Times*, 27 September 1973, p. 10).

Although the regulation of margarine came about as a result of private interest lobbying, its continuance was always fragile. Dairy interests were well

organised and motivated but increasingly so too were the opponents of the regulation. As Becker (1983) argued, regulation can lead to a reaction from adversely affected groups. During the 1960s, the intensified application of the margarine quotas led to a growing reaction from affected groups. In addition, economic, technological and demographic changes affected the size of the costs and benefits to consumers and producers, which over time acted to undermine support for the regulatory regime (much as Dollery and Peltzman argued). In addition to demographic changes, oilseeds production in Australia became more important. In 1961-1962, only 43,000 hectares were used for the production of oilseeds (production 30 kilo tonnes). By 1971-1972, this had grown to 528,000 hectares and production of 371 kilo tonnes. From the late 1960s, Australia began to export significant amounts of oilseeds (Australia, Department of Agriculture, ABARES 2014).

Finally, Australia's federal system of government was a weakness as any state could act to dismantle the system by promoting sales of margarine to other states. The states did not have identical interests, some having relatively small dairy industries, and larger concentrations of vegetable oil producers and margarine manufacturers. This unilateral action occurred during the 1950s, and it was only because of the poor electoral performance of the Labor Party from the mid-1950s onwards (and success of the Country Party) that the regulation of margarine production lasted in Australia as long as it did. When political circumstances began to change in the 1970s, the system began to fall apart.

5. The Whitlam Government and margarine

When Whitlam became Prime Minister, the Australian Government was involved in the regulation of the supply of margarine in three ways. Firstly, the Australian Government Minister for Primary Industry was the Chair of the Australian Agricultural Council. Secondly, the Government was responsible for the import restrictions, and thirdly, it had responsibility for the control of production in the Australian Capital Territory. Whitlam himself had long been critical of the system, seeing it as being a burden on low income earners (Australia, House of Representatives 1965). At a Press Conference held on 29 May 1973, he made his personal opposition to the quotas clear:

I think it is quite absurd that a wholesome product in popular demand should be artificially denied to Australian consumers...I have no patience with those who want to restrict the product of proper foods from Australian produce. (*Canberra Times*, 30 May 1973, p. 14)

The Minister for Primary Industry in the Whitlam Government, Ken Wriedt, in chairing the meetings of the Australian Agricultural Council tended to press for increases in the quotas.

The first Minister for the Capital Territory in the Whitlam Government was Kep Enderby (member for the ACT), and he held this position until

October 1973. As Minister, he attended the meeting of the Australian Agricultural Council in February 1973, where he advocated that a quota be created for the ACT (*Canberra Times*, 3 August 1973, p. 7). The Council agreed to a 300 tonne quota, a move much criticised in Parliament at the time by Liberal and Country Party members, who accused the Labor Party, and Enderby, of having a corrupt relationship with the Marrickville Margarine Company (Australia, House of Representatives, 23 and 25 May 1973).

The Australian Agricultural Council responded by raising the quotas by 6,000 tonnes to 22,000 tonnes per annum in February 1973 (Table 1). Some of the states with large dairy industries, like Victoria and Tasmania, increased their quotas for the first time in many years, but states with smaller dairy industries, like South Australia, were not happy with the outcome and at meetings of the Council in August 1973 and February 1974 pressed for further increases. As no agreement on quota levels could be reached at these two Council meetings, the Australian and South Australian Governments decided to abolish their quotas separately from those of the other Council members (*Canberra Times*, 5 February 1974, p. 3).

The Federal Labor Party decided in Canberra on the 24 July 1974 to not support the continuation of the quota, and Wriedt announced that the Government intended abolishing the ACT quota two years later in July 1976 (*Canberra Times*, 25 July 1974, p. 6; Australia, Senate, 30 July 1974). This would mean that the Marrickville Margarine Company could increase its sales from its plant in Canberra. The South Australian Government on the 30 August 1974 followed by announcing that it would abolish that state's quota. This decision was announced at an Australian Agricultural Council meeting in Melbourne and took the other states by surprise (*Canberra Times*, 31 August 1974, p. 1). At the February 1975 meeting of the Australian Agricultural Council, an attempt was made by the states to recreate the agreement and quotas were increased (from 22,000 to 35,600 tonnes; *Canberra Times*, 28 February 1975, p. 3) in order to encourage the states to remain in the system. The South Australians refused to be mollified by this and maintained their position that they would not subject their industry to any quota.

It was at this time of collapsing agreement over margarine quotas that the Industries Assistance Commission reported on the 23 October 1975 on the state of the dairy industry in Australia (Australia, Industries Assistance Commission 1975). In their submissions to this enquiry, most dairy interests either ignored the margarine issue or requested that the South Australian and ACT moves be delayed, while the quotas were phased out over a longer period, conditional on quality and labelling regulations being enforced (Australia, Industries Assistance Commission 1974, Appendix 1.3).² The view

² The one exception was the Victorian Farmers' Union (Dairy Division) which opposed a phase out of the quotas without 'proper protection' of the industry (Australia, Industries Assistance Commission 1975, p. 128).

of the Commission was that the restrictions would not be effective after the removal of the South Australian quota in January 1976 (Australia, Industries Assistance Commission 1975, pp. 45, 71), and therefore, there was no reason for them to be retained. The Commission also argued that the quotas promoted economic inefficiencies and were socially unjust.

After the change in government at the national level late in 1975, the incoming Fraser Coalition Government seemed to lose all faith in the system of quotas. The Minister for the Capital Territory, Tony Staley, stated that in view of the South Australian decision, there was no point in the reintroduction of a quota in the ACT and that abolition would help the ACT's industrial expansion (*Canberra Times*, 23 August 1976, p. 6). At the Australian Agricultural Council meeting in Bundaberg in August 1976, it was decided that in light of the South Australian and Australian Government decisions, each state would henceforth set its own quota, and so, the national approach to controlling margarine production was ended (*Canberra Times*, 23 August 1976, p. 6). It was after this decision that the final blow to the system was dealt by the newly elected Premier of New South Wales, Neville Wran, who announced on the 14 September 1976 that legislation would be introduced in that state to abolish the quota.

The strength of the commitment to quota abolition on the part of the Australian and South Australian Governments took a lot of heart out of the supporters of the quotas. In early 1977, when the Wran Government introduced legislation to abolish the quota in that state, the coalition parties decided not to oppose it, the leader of the Country Party in New South Wales, Leon Punch, even stating that he 'offered no objection to the abolition of the quotas' (New South Wales, House of Assembly 1977). After their abolition in the ACT, South Australia and New South Wales the quotas lingered on in Victoria, Tasmania, Queensland and Western Australia until the late 1980s, but in the early 1990s, they were abolished in those states as well.

The year 1976 was to prove a turning point for the margarine industry. From that year on, production boomed, and by the end of the 1970s, table margarine production was some five times what it had been in the early 1970s (Table 3). Butter consumption on the other hand slumped – per capita consumption declining by some 50 per cent over the decade (Table 4).

6. Conclusion

Although it is possible to use private interest theory to explain the introduction of quota on margarine production, no single aspect of private interest theory explains the timing of the deregulation of the industry. Rather, a combination of factors influenced the process. The lack of a strong market failure to justify intervention played a part, but the opposition of affected groups was the strongest reason why reform took place when it did. The opposition to the regulations on the part of the Labor Party (on behalf of

pensioners, migrants and the margarine industry) and the changing economic, technological and demographic characteristics (that helped to raise the costs of regulation) combined to undermine support for the regulations.

The efficiency case for the removal of the margarine quotas was made on the grounds of first principles rather than as a result of any independent public enquiry into the detailed costs and benefits of the quotas or their removal. Recommendations for their removal by enquiry bodies came as an adjunct of enquiries into dairying (the Dairy Industry Committee of Enquiry of 1960 and the Industries Assistance Commission in 1975) or general principles of agricultural policy (the Green Paper of 1974).

The removal of the quotas, therefore, was the result of political divides and the interests they represented more than that of economic review, or even economywide pressures. Removal took place before public scrutiny procedures became a feature of policy reform. The benefits of the quotas to the dairy industry over time might have dissipated, at a time when the resentments from consumers and manufacturers were building up. The increased cost of living and increased European immigration to Australia in the middle to late 1960s boosted demand for margarine at a time when the quotas were increasingly enforced. The result was an intensified reaction against the quotas, first by the margarine companies and then by the Labor Party. This might then have involved the types of changes over time that Dollery and Peltzman discussed as causing the destabilisation of the measures.³ The Gregory argument of a deteriorating performance of the Australian economy was less important at creating pressures for reform, although the rising cost of living did have some influence.

These factors combined with the difficulty in the maintenance of quotas in a federal system of government that required the cooperation of all states, and a growing view that markets were the most efficient means through which resources should be allocated in the agricultural sector, joined together to bring about deregulation of the industry. The deregulation of the margarine industry was important for a range of reasons, not least being that it helped to raise the consumption standards of low income earners in Australia.

This combination of factors that brought about the deregulation margarine production meant that it became the first significant industry to be deregulated in the modern Australian economy. The deregulation of the margarine industry was the first step that the Australian Labor Party took (at both the federal and state levels) and other political parties later followed in putting into effect the principles of the 1974 Green Paper on Rural Policy, which in itself was a major landmark in the development of modern Australian microeconomic policy.

³ In the case of the Becker argument, it is unlikely that the benefits to dairy farmers grew substantially over time, but there was a perception that rising demand for margarine in the late 1960s meant rising costs.

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