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General.

This is an everchanging world and the difficulties inherent in the marketing of primary products may possibly manifest themselves to a greater extent in the post-war period when competition in world markets is likely to be keener than ever after the settling-down process is complete. Thus, any move which producers can make in the direction of controlling the orderly marketing of their produce is worthwhile and the constitution of boards under the Marketing Act is worthy of consideration.

PLANS FOR THE WHEAT INDUSTRY.

BY

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Wheat is one of Australia's key primary products. There are over 50,000 wheat farms in Australia, and of 23.5 million acres of cultivated land in 1938-39, some 14.3 million acres, or well over half, were under wheat. Any plans which affect so large a sector of our national life—and which will inevitably be taken as a guide to what is likely to happen in other primary industries—must have a fairly solid economic foundation.

The Proposals.

The Commonwealth Government's proposals for stabilising the wheat industry, are as follow:—

(1) A guaranteed home consumption price of 5s. 2d. a bushel f.o.r. ports bagged for all wheat marketed in Australia. This includes the present arrangements for a home consumption price for wheat for local flour and covers also all wheat marketed in Australia, including stock feed.

(2) A guaranteed price to growers of 5s. 2d. a bushel f.o.r. ports bagged for all f.a.q. wheat exported during the five seasons 1945-46 to 1949-50. The intention is to provide a guaranteed price for five years, to review it within five years and, after any necessary adjustments are made, to decide whether the period will be extended and on what price basis.

For example, a review may be made after two years, and conditions decided for extending the plan for an additional three years or so after the expiration of the first five-year term.

(3) When export prices are in excess of the guaranteed price, a stabilisation quota by the industry of 60 per cent. of such excess is to be paid into a fund to assist in meeting the guarantee when export prices are below it.

(4) A central organisation to be established for marketing Australian wheat crops.

(5) Regulation of production to adjust supplies to the market available.

These proposals have already been endorsed in principle by the State Premiers and by the Australian Agricultural Council. The details of the proposals, however, are still being examined by the States and practicable steps for implementing them have yet to be agreed on, especially so far as the necessary legislation is concerned. No attempt will be made in what follows to prejudge the outcome of these efforts but it does seem necessary, for the sake of better understanding, to comment on one or two aspects of the proposals which have already been the subject of public discussion.

Price.

The Government's current undertaking is to pay a first advance on the 1945-46 crop at 4s. 3d. at grower's siding, an undertaking which will stand unless superseded by the new proposals. It must also be remembered that both the proposed 5s. 2d. f.o.r. ports and the present 4s. 3d. sidings are first advances; and if the ultimate total return to the grower is to be unaffected, a few pence either way in the exact level of the first advance would not seem to be a matter of great concern.

However, the new proposals envisage the 5s. 2d. per bushel not only as a first advance but also as a guaranteed minimum over a period of years. On this second score objections have been raised against the price along two main lines: first, that 5s. 2d. is unnecessarily low in the light of present world wheat prices; secondly, that it does not cover costs of production. Let us expand briefly on each of these points in turn.

A good deal of prominence is being given to the fact that some of Australia's recent exports of wheat have realised high prices, and further, that as high wheat prices ruled for some ten years after the first world war, prices are likely—so the argument runs—to be high for some time after this war. Arguments on historical grounds are dangerous. It might just as well be argued that as low prices ruled during the more recent 1930's, they will be low again when supply again overtakes demand. The only really sound approach to the future of world wheat prices is not the historical one, but one based on a critical appraisal of likely future circumstances, as far as they can be foreseen.

Some of these circumstances are already fairly clear but some are still highly problematical. For instance, the present world wheat famine is an unfortunate, but definite fact. The speed with which production can overtake the shortage depends heavily on seasonal conditions, but if acreages in the main exporting countries are restored to pre-war levels, the surplus conditions of the 1930's may very quickly return. The establishment of some form of control on an international scale seems reasonably certain, but the draft International Wheat Agreement's provision that prices will be fair to both producers and consumers, as well as reasonable in relation to other commodities, does not give promise that the present boom prices can be maintained. Furthermore, the whole framework of international trade generally, particularly as it concerns tariffs and preferences, is still very much in the melting pot. With all this in mind, the only reasonable course, at least until the future position becomes clearer, seems to be to adopt a conservative figure for the guaranteed price, to make provision for distributing any surplus which might accrue, and for revising the guaranteed price later should circumstances warrant a change. This is just what the present proposals do. The proposed guarantee of 5s. 2d. f.o.r. ports may seem low in relation to the reports that exports are currently obtaining 8s. to 9s. a bushel, and perhaps higher, and also low in comparison with the average of about 6s. during the 1920's; but it compares well with 3s. 4d. during the 1930's, and it is, in any case, only a first advance.

There has been very little criticism indeed of the provision that the home consumption price is to remain at 5s. 2d. f.o.r. ports. If any allowance had been made for the general increase in price levels during the war the home consumption price might well have been fixed at a higher figure. However, to make an adjustment of this order would do violence to the very necessary aim of continued internal price control to avoid inflation. As any increase in bread prices would necessarily have a snowball effect, first on the basic wage, then on costs generally, a good deal of the benefit to the wheatgrower might well be wiped out.

The suggestion that 5s. 2d. does not cover "costs of production" is just a repetition of a very old but very persistent fallacy. It cannot be too often repeated that costs of production of wheat, as of every other primary product, vary from very low to very high per bushel figures, not only from farmer to farmer but also from season to season. For the 50,000 wheat farms in Australia then, there are 50,000 different average cost figures each season. Quite apart from this difficulty, very few farmers are able to present cost figures worked out on a sound and satisfactory accounting basis. This makes it virtually impossible to determine a price on the basis of costs. Nor would it, in any case, be sound to fix a price purely on the basis of costs, because such a price would be the subject of constant argument by those producers whose costs were so high as to be beyond that price. It is much wiser to fix a price that pays close regard to the supply-demand situation.

Stabilisation.

The most significant feature of the Commonwealth's proposals is that provision is now to be made for stabilising the price over a period of years. One of the most serious troubles of the wheat industry over its history has been its constant instability due to the uncertainty of future prices. Even during the war, with controlled marketing, it was not possible for growers to look ahead further than one season at a time, but the present proposals envisage a price guarantee covering five years ahead. This recognition of the principle that stability in any major primary industry depends on farmers being able to plan their production programmes ahead with reasonable assurance on prices is a very satisfactory advance in Australian agricultural policy-making.

The alternatives to a stabilisation scheme are an equalisation scheme, or return to open-market conditions. The last alternative seems to be most unpopular now with the majority of wheat-growers and, indeed, fulfilment of our obligations under an International Wheat Agreement would be very difficult without some control of marketing. However, some mention should be made of equalisation.

In everyday discussion stabilisation and equalisation are often confused, but they are really quite distinct ideas. Stabilisation means eliminating year-to-year fluctuations in returns by the provision of a long-term price. Equalisation involves treating each crop separately, aggregating the proceeds from it on the various markets—home consumption, export, stock feed, and so on—and dividing them equally between growers on a per bushel basis. It has already become familiar in a number of Australia's export industries, notably dairying, and it is the system under which the Australian Wheat Board has operated during the war, setting up a separate pool for each year's crop. The advantages of equalisation in the disposal of a commodity are that each year's returns are more closely related to market conditions in that year, and that because no long-term financial risks are involved and the Treasury is not required to underwrite market conditions, it is feasible to leave control largely in the grower's own hands. It has the serious disadvantage, however, that the grower is still left quite at the mercy of year-to-year fluctuations in market prices, and it is precisely this danger which the wheat industry is anxious to avert, and which has led to the wide advocacy of some form of stabilisation.

Though there is general acceptance of the desirability of stabilisation, its exact form is, and is likely to remain, the subject of keen debate within the industry. Already two features of the recent proposals—the proportion of the surplus over the guaranteed export price which the Government will hold in reserve, and the five-year term of the guarantee—have been criticised. Perhaps the criticisms have been pressed unnecessarily strongly. The proportion of the surplus above 5s. 2d. which is being retained is very much in the nature of a premium for insurance which the Government is providing the farmer on the score of price. No insurance scheme can be operated except on a sound actuarial basis, and the soundness of the size of the premium can only be judged in the light of experience—future experience in this case. This links up with the other criticism, that the guarantee should be for more than five years, because the future is so uncertain that for the Government to involve public funds even in a five-years' guarantee would be about as far as it could go. It should be sufficient that the proposals contemplate periodical review of the terms of the guarantee, in the light of events. Even so, very few farmers are yet accustomed to planning their operations as far as five years ahead.

But these criticisms are only symptoms. Other points are bound to be raised, such as the desirability of linking guaranteed prices with an insistence on efficient farming, on measures for conserving soil and soil fertility, and with the withdrawal of "marginal" wheat farms. Again, the flexibility of the provisions for entry of new farmers into the industry is likely to be a matter for close debate. These are details of stabilisation which are now receiving attention by the Commonwealth and States.

Control of Production.

The natural corollory of stabilisation is that there should be control of production. No Government could be expected to provide an unlimited guarantee, and a stabilised price leads naturally to the fifth provision in the Prime Minister's plan; that is, that the Government will have to retain the right to limit entry into the industry as well as the level of plantings. The necessity for this seems to have been freely realised by the industry. It is, of course, also one of the main obligations which would be imposed by Australia's ratification of the International Wheat Agreement, and is thus a key item in the proposals. But it is also a difficult one, because it cannot legally be implemented without special legislation.

The remaining section of the proposals is that there should be a central organisation for marketing. While this also has now won fairly general acceptance in principle, the personnel of any Board set up to exercise this function, and the representation on it of the various interests concerned—growers, millers, merchants, consumers and Government—is never likely to be fixed to everybody's satisfaction. An equalisation scheme could have been left largely in the hands of the growers as the owners of the commodity for sale, but a stabilisation plan which, by fixing a forward price, anticipates the conditions of supply and demand, involves a variety of interested parties, each of which is interested in securing the dominant voice.

Though finality on details of the plan has yet to be reached, the wide agreement on principles is an important step forward, and it is encouraging that the widest opportunities have been afforded to all interested parties to voice their opinions and put forward ideas.