FLUID MILK QUOTAS : COMMENT

G. M. NEUTZE
Australian National University

Parish avoids the problem of a seasonally negative price by the assumption made when defining the minimum price. He defines a workable, rather than a welfare optimal price. Given the welfare optimal price (which he has also defined) a problem of negative quota prices will arise. Probably "minimum" prices in my sense are simply unattainable with a quota scheme and a somewhat higher price, namely Parish's "*the* minimum price" contains a margin, necessary to allow a quota scheme to work.

My own original argument was obviously not clearly expressed. It could be summarised (in Parish's terms) as follows. Given that the quota price is equal to the average marginal cost of supplying fluid milk throughout the year, then the marginal cost of acquiring a quota gallon will exceed the present value of the marginal revenue from holding a quota gallon at the beginning of the winter. Hence the price of quotas would be negative at this time of the year. Parish implicitly admits this when he defines his minimum price as being somewhat higher than P_y (the average marginal cost) because it is necessary to equate "the marginal cost of acquiring a quota gallon to the *present value* from holding a quota gallon. This is necessary because the quota pay off lags the quota pay out by six months . . . in fact the equilibrium price will be somewhat higher than P_y". I have argued that with a price of P_y insufficient quotas will be held through the winter to meet demand while Parish says that the price must be somewhat higher than P_y for sufficient quotas to be held throughout the year to satisfy demand. (In the above I have not enlarged on a further difference in analysis: namely that Parish did, but I did not, consider the influence of the price of manufacturing milk. However, this is not an essential difference).

Thus there appears to be no real disagreement but only a break-down of communication. I would accept that my assertion that non-negative quota prices imply "a price considerably above the optimum" exaggerates the influence of the discount factor.

The "farmers" who would not find it worthwhile to maintain quota production would be, as is implied by Parish's analysis, marginal farmers. More realistically many farmers would forfeit marginal quota gallons. Farmers can, profitably, decrease the number of quota gallons they hold at the margin, where no producer surplus is earned, even though it will pay them to take part in the scheme because of the producer surplus they earn on intra-marginal gallons. I am convinced by Parish's argument that my "penalty clause" proposals would not work and that a price somewhat higher than P_y is necessary for a workable quota scheme.

The important fact which emerges from this discussion is that the lowest workable price is higher than the price at which the farmer can earn only normal profits. As Parish pointed out there is also a gain in producer surplus. But this is at the expense of a loss in consumer surplus. Perhaps this is offset by the value to consumers of an assured and constant supply of milk at constant price. But if producers benefit and consumers suffer from a quota scheme this is a significant fact which should be taken into account in considering such schemes.