# FLUID MILK QUOTAS : REJOINDER

R. M. PARISH

Neutze's initial contribution to this discussion was to point out that a year-round price equal to the average marginal costs of producing fluid milk throughout the year would be too low for a quota scheme to be workable. This conclusion is not surprising, since, with a quota scheme, we are imposing an artificial constraint on the operation of the market, *viz.*, that the price paid to the producer shall be constant throughout the year. Neutze's conclusion could be restated as follows: the average of the welfare optimal *prices*—when prices are allowed to fluctuate—is no longer the optimal *price* when a single, year-round price is paid.

My contribution, as I see it, was to show that, provided the quota scheme has certain characteristics, the minimum workable single price exceeds the average of the fluctuating marginal cost prices by only a small margin, *i.e.,* by the amount necessary to compensate farmers for having to wait for part of their returns. In other words, a properly designed quota scheme is a largely—but not a completely—effective means of converting a stable into a fluctuating price and hence of overcoming the constraint imposed upon the market's operation.

I cannot agree with Neutze's claim that I have defined "a workable, rather than a welfare optimal price", thus "avoiding" the problem of a seasonally negative price. *Given the constraint* of a non-fluctuating price, the price which I called *the* minimum price *is* the welfare optimum price, since it is the lowest workable price. Neutze's "optimal price" is not a welfare optimum price precisely because, given the constraint, it is not workable. As I suggested above, Neutze's optimal price is not "the", or even "a" welfare optimal *price*; it is an average of welfare optimal *prices,* defined for a situation in which price is allowed to fluctuate seasonally.

As a minor point, it is perhaps worth pointing out that to speak of "the problem of a seasonally negative price" is to speak metaphorically. The problem—of too low a price for milk—would manifest itself in a forfeiture of quota rights, for, so long as forfeiture is possible, no producer is going to pay another to take over his quota obligations.

Neutze states that "the lowest workable price is higher than the price at which the farmer can earn only normal profits". This is an erroneous inference. The lowest workable price exceeds the average of a fluctuating price by no more than is necessary to compensate the producer for having to wait for part of his returns. Hence the farmer cannot be said to be enjoying above-normal profits.