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Farmers' Woes

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Everything except a bad season seems to have fallen on Australian farmers at once:

- good harvests elsewhere and subsidised exports from the European Community and the United States have sharply reduced worldwide grain prices;

- lost markets and foolish speculation by the Australian Wool Corporation have insured glut and bad times for the wool industry for many years to come;

- inflation, and therefore cost increases, are about twice those of overseas competitors;

- interest rates (even after adjustment for high Australian inflation) are among the highest in OECD nations;

- the A$ seems to have behaved perversely when it rose against the currencies in competitor and customer nations; and

- trade unions and grower-controlled marketing monopolies deny Australian producers the efficiencies in transport, handling and marketing that many of their foreign competitors take for granted.

Some of these misfortunes are of long standing. The important distinction, however, is not between new and old misfortunes but between those that are amenable to Australian policy and those that are not. It is, for instance, no use railing against farm subsidies in the United States when Australian farmers do not vote for US Congressmen. What is more, given the Australian Wool Corporation's acceptance of a government guarantee, to do so would be hypocritical.

The European Community, Canada and the United States, which are big grain producers, have made the mistake of keeping the prices paid to their farmers above market-clearing levels. These nations have thus induced production that they now must quit. The story should sound familiar to Australians. In the late sixties, we did much the same with wheat and it is what we are doing now, on a grander scale, with wool.

The position of Australian grain and wool producers is, however, in one respect, quite different from that of farmers in the EC and US. The Australian industries are too big, relative to the rest of the Australian economy to be heavily subsidised. Most Australian farmers are, therefore, ultimately, on their own.

It is against this unforgiving background that the government must devise policy, and industry leaders---to the extent that they are not just grandstanding before grower constituencies---must make their demands. What, then, are the realistic options?

Providing its inflationary effects can be mitigated, a lower A$, brought about by further reductions in interest rates, would really help farmers. But, if devaluation results in even more inflation, the benefit will be short-lived. The issue thus becomes: how can the inevitable inflationary effects of devaluation be offset? One policy, that would also have long-term benefits, would be to reduce tariffs and raise quotas so as to offset the price-raising effect of devaluation upon imports.

Another would be to legislate to exclude the price effect of devaluation from industrial awards. There is, under present arrangements, however, no way the government can prevent monopoly unions from protecting the living standards and work practices of their members at the expense of weaker members of the community, other than to reduce union power itself. A government that was serious here might turn the Trade Practices Act against the anti-competitive practices of unions or it might amend current industrial law. If they were not themselves so wedded to monopolies, farmers might encourage the government to stand up to the ACTU on this. It would, of course, be inefficient and unjust to prevent individual---i.e. non-colluding---wage earners from getting the highest rewards the market will bear.

Next, growers---particularly those growers who criticise, say, wharf labourers---might admit that the Wheat Board, the Wool Corporation, the WA Lamb Marketing Board etc---are just as objectionable in principle as any trade union; and far more stupid in practice. Unlike trade unions, which at least have the potential to raise members' incomes at the expense of consumers, farmers' monopolies mostly raise farmers' costs at the expense of farmers. Although this situation is improving, farm produce is still, in many cases, handled by statutory monopolies. Big savings are possible between the farm gate and ultimate consumer. In short, some troubles are of farmers' own making and can be unmade.

Wool is the industry whose troubles are most obviously exacerbated by unwise intervention. In both the long and short run growers would be better off if the wool reserve price were abolished. Agricultural economist, Mr Geoff Edwards, of La Trobe University goes further to suggest destroying the current stockpile on the grounds that it will, ultimately, cost more to maintain and depress future wool prices by more than its current value. The interest bill, however, goes on whether the stockpile is destroyed or not. While it is easy to see now that not a bale of the stockpile should have been acquired, it is another matter to say how much, if any, should be destroyed.

The destruction of sheep is another matter. Assuming no government subsidies, the cheapest way to reduce the flock is to allow the wool market to find its own level. Only then will growers get rid of those sheep that produce 21-24 micron wool and that run on paddocks that have the best alternative uses. Only then will wool's competitive position against synthetics be improved.

There is no way that pain can be entirely avoided but there are better things to do than bury one's head in the sand.

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