

## The Davis Report

*John Hyde*

Mr Kerin's decision to implement the findings of the Davis Report will improve the efficiency of our rural industries, and a step in the right direction is worth the taking. The new arrangements will, nevertheless, be far from ideal in that the Statutory Marketing Authorities (SMAs) are to retain the power to tax producers. Thus the only escape for the individual producer who, for whatever reason, does not wish to participate in the various price fixing arrangements is to leave the industry.

The power to take money by force, that is to tax, is vested in the Government alone. It, therefore, seems to me that Mr Kerin cannot escape his responsibility for the use to which this power is put. Delegating his authority to other bodies such as the Wool Corporation does not let him off the hook. Mr Kerin states plainly enough that SMAs will have 'the right to fail'---that there will be no Government guarantees. There is no reason in efficiency or justice why, say, bus drivers should pay for, say, woolgrowers' bad investments. The principle is sound but is it 'for real', in the circumstance he proposes?

What does the Minister do when a body such as the Wool Corporation takes leave of its senses or cynically assumes that in a crunch general taxpayer support will be forthcoming? He is then faced with the knowledge that there is no reason in efficiency or justice why, say, the woolgrower who wanted no part of the price-meddling monopoly, but who was forced to participate by government legislation, should pay for the bad investments. What tax rate will he allow creditors to force, say, the Wool Corporation to levy to allow it to pay for its gambling debts---100%? A future Minister will be tempted to spread an injustice caused by government legislation as thinly as possibly. He will force the general taxpayer to bear some of it, just as Kerin did when he guaranteed the Wool Corporation's debts.

And the risk of future debacles is probably being increased by transferring authority to bodies of less

competence than his own department with Department of Finance oversight.

For as long as SMAs have the power to levy taxes, they are effective monopolies. They can use the taxing power to manipulate prices and disregard the law of supply and demand. Here are a few examples that ought to be familiar:

- | By taxing high-priced sales and cross-subsidising marginal production, dairy produce and Western Australian lamb have for many years been sold into export markets at a loss.
- | By endeavouring to keep prices up in periods of oversupply, costly wheat stockpiles were accumulated at the end of the 'sixties and wool now.
- | By keeping growers' prices down, significant market opportunities have been lost---for instance, wheat in the early 'fifties.
- | By compressing price differentials for differing qualities, market opportunities have been lost. This is the case of both fine and carpet wools now. I think it is also the case now with high protein and other specialty wheat. The price differential that the Wheat Board is charging flour mills for high protein wheat seems insufficient to offset the lower yield of high-protein varieties. The Board has an incentive to under-price such wheat because it thus prevents markets developing in opposition to itself.

All of these uneconomic practices are made easy by the power to tax. Mr Kerin justifies the power this way: "The compulsory nature of levy [i.e. tax] contributions ensures full participation of producers in funding activities that benefit the industry as a whole". He seems to be assuming that the activities of SMAs do always benefit industries as a whole. But given the recent performance of the Wool Corporation, he cannot really believe that that is the case. Perhaps, for political reasons, he is deliberately fudging the point. All we can be reasonably sure, is that SMAs will look after themselves.

There are, however, some activities---research and promotion, for instance---that are, if well-conducted, likely to benefit the industry as a whole. The Authorities are not, however, to be limited to these benign activities. Nor are they to be prevented from using their taxing power to print glossy pamphlets that misinform growers about the SMA's own worth.

Davis's and now Kerin's alternative to ending the taxing power is to make the Authorities' Boards subject to grower dismissal. This is better than nothing, but it is not much. The potential growers who are kept out of

the industry won't get a vote. The procedure is too slow and individual growers cannot afford the time to learn the intricacies of even most of the issues. It will be possible to vote only on packages of measures rather than individual items. It will probably, from time to time, pay a majority to stifle innovation that is in the interests of the economy as a whole. In short, political processes are, as always, poor substitutes for markets.

If the Minister really intends an efficient and just industry, individual growers must be able to opt out of SMAs, and SMAs, like other corporations, should be subject to the Trade Practices Act.

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