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Catchline: ON THE DRY SIDE 413

Rural Inconsistency

John Hyde

If disease were to kill a quarter of the Australian sheep flock, that would be recognised as a disaster. Yet people who should know better, for no better reason than to ramp the price of wool and resuscitate some hopelessly damaged reputations, want us to slaughter 60,000,000 sheep.

These sheep now have little value, but the additional resources sucked into wool production, by the promise that 870 cents would be the price of wool for ever, were valuable in other activities. That value has been destroyed. It is not as though the silly men who run our wool industry were not warned---their critics are not being wise only with hindsight. (My own credentials are well established in the 1987 AIPP publication, *Mandate to Govern*.)

Rural socialism is, as usual, defying party lines. Labor Senator, Peter Walsh, the ex-Minister for Finance, has said, "I can't imagine anything sillier than handing the management of the wool industry over to the people who stuffed it in the first place---the Wool Council and the Wool Corporation". Meanwhile the Liberal Member for Barker, Ian McLachlan, the ex-President of the National Farmer's Federation (NFF), is broadly supporting the Council's and Corporation's illiberal policies.

It is difficult to know what Liberals really think on this issue. This is because it is not in their interests to risk the Coalition by jeopardising unity or to do anything that might leave them accused of destroying an industry that has already done a good job on itself. They can't, however, claim to believe in the market for every industry except the wool industry.

Does the Member for Barker, for instance, not accept the liberal principle that wool growers have the right to dispose of the fruits of their own legitimate labour as they choose? His stand on wool is at variance with his stand on the labour

market, live-sheep exports, tariffs and micro-economic reform generally. A reputation for inconsistency makes leadership difficult.

To take another case: the campaign to reduce tariffs and non-tariff barriers was led by the NFF. Australian rural industries are economically efficient---that is, mining aside, their net protection is low when compared with other parts of the economy. But for many years farmers clung to a relatively trivial form of protection, the super bounty, thereby doing immense damage to their own credibility. Under the leadership of Ian McLachlan and David Trebeck, the NFF said it was prepared to give away the super bounty and since then more progress has been made with tariff reduction.

Another example: the NFF criticises centralised wage fixing and the monopoly power of trade unions. It has 'taken on' the Industrial Relations Club, but again the charge of hypocrisy was laid in their saddlebags. How could farmers criticise the monopoly power of trade unions and centralised wage fixing while supporting a monopoly Wheat Board which fixed the price of wheat? Recently, however, the NFF, in spite of internal dissension, has supported wheat-market deregulation and farmer credibility has benefited accordingly.

Now there is the wool issue. How can McLachlan, who believes in free trade, and indeed has fought effectively for it, support a price-fixing arrangement that is keeping three quarters of the Australian clip off the world's markets, and transferring considerable wealth from Australian wool growers to wool growers and synthetics manufacturers in other countries?

Recently, David Trebeck, now with the firm, ACIL, was commissioned by the Wool Corporation to prepare a paper analysing the current situation in the wool industry. In it, he states that there is no way that the 700 cent floor price could be further reduced without the whole (floor price) scheme becoming irretrievably compromised. Perhaps because that was his brief, he avoids asking whether the scheme is not already irretrievably compromised by AWC debts, the huge stockpile or the need for legislation to impose a tax that is, by any standard, Draconian.

If there is even the possibility that the 700 cents reserve is not sustainable, it is, on top of its other shortcomings, an appalling gamble. What, in the event of misjudgement, would be the additional cost of having to abandon the scheme later rather than sooner?

Wool is currently being sold for the reserve price of 700 cents at a rate equivalent to about 2 million bales per annum. It is probable that, as stocks in the pipeline from wool-grower to wool-wearer are used up, demand will improve. But will it more than double? Unless the reserve is removed or reduced to the point where it has no effect, buyers will continue to buy from other nations and, to the extent that the

market dictates, substitute synthetics for over-priced Australian wool.

Further, current demand is less than it would be if buyers believed that the reserve will not be lowered again and that the Australian dollar will not devalue---one event has the same effect upon them as the other. Those people who believe in pricing wool by political means are gambling. They hope that by chanting "We will maintain the reserve price" (in Australian dollars) buyers will come to believe it, and that buyers will not notice the exchange-rate risk. Pigs might fly!

Can the pipeline effect and mere repetition of a past promise increase demand to about 4.5 million bales per annum? Can sheep-slaughter schemes and quotas reduce supply from 6 million bales to 4.5 million? If demand does not match supply soon, then the Corporation will not be able to tax growers sufficient to cover its debts. Meanwhile, every foreigner and his dog is taking 'our' markets.

I accept that wool scourers and topmakers don't want a reduction of the reserve price that allows competitors to buy more cheaply than they have bought. However, that risk can be avoided only by abolishing the reserve price. Only then will the value of Australian wool be determined largely in foreign currencies and only then will the Australian-dollar exchange-rate risk largely disappear.

Finally, when certain self-professing economic rationalists and Liberals next complain about the injustice and stupidity of tariffs, of union-caused unemployment, or of the Arbitration Commission fixing the prices of employment, should we remind them of their attitude to wool? Or should we tell them now that they are wrong to make wool an exception to their principles?

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