Wheat Marketing: A Case Study of Monopoly

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Wheat growers are a funny lot. They are price-takers in world markets; they have no chance of squeezing another dollar from foreign buyers by withholding supply; and they must pay for every inefficiency in the wheat delivery chain; yet they allow, nay ask, the government to monopolise wheat marketing. Farmers are normally suspicious of monopolies. They demand a choice of farm machinery, are scathing in their criticism of Telecom and have resisted mightily attempts to monopolise their fertiliser supply.

Wheatgrowers' inconsistency might be explained by the fertiliser generated by the Wheat Board and Bulk Handling Authorities' public relations departments---self-serving propaganda in glossy pamphlets which growers pay for.

A few years ago when, after a series of mergers and takeovers, there were only two major wool broking firms, a scream went up from woolgrowers. Accustomed to strong competition between several broking firms, they were suspicious that reduced competition would lead to reduced services, higher charges or both.

Of course the two remaining firms argued, just like the grain handling monopolies argue now, that increased size and throughput would allow economies of scale and consequent savings for growers. The woolgrowers felt that unless competition forced the brokers to pass the benefits on, whoever got the benefit of the economies, it would not be them. They felt that without competition the savings would go in bigger profits, higher salaries, excessive superannuation and inefficient work practices. In any case, how were woolgrowers to recognise a good deal if it became the only one on offer? How loudly would they have screamed if, instead of only two brokers, they had been offered only one?

In the event, woolgrowers encouraged the re-emergence of new, smaller wool-broking companies and some private buyers began broking. Competitive pressures re-emerged and the larger firms responded by reducing some charges and offering innovative payment options. In the 1970s woolgrowers nearly voted for total monopoly acquisition of the wool clip. They have experienced a marked change of heart---perhaps they noticed the way the Newcastle grain terminal works (when it is not on strike).

The wheat industry today remains one of Australia's most heavily regulated and monopolised. In contrast to beef and wool producers, wheatgrowers are compelled to market all their wheat through the Australian Wheat Board (AWB). The States cede to the AWB the right to sell and price wheat on the domestic market. The "deal" (stitch) is that in return for giving up their pricing powers over wheat the State Governments get monopoly rights for the State-based bulk-handling authorities (BHAs). The AWB is compelled by its legislation to use only "Authorised Receivers"---that is, the BHAs.

In most states wheatgrowers are also compelled to use another Government monopoly, the State Railways.

These monopolies behave like monopolies the world over: they charge higher prices and feather-bed inefficiencies. The Royal Commission into Grain Storage, Handling and Transport, (whose final report is due to be released on January 31) has estimated that the potential savings from more competition in handling and transport alone are at least $8 per tonne. (The average farm-gate price is only about $100.) The Bureau of Agricultural and Resource Economics has estimated $9 per tonne. However, as neither can calculate the greater effort and new ideas competition always produces, $8-9 dollars per tonne saving will be a gross under-estimate. Economists call the unmeasured economies "x efficiencies". When identified with hindsight they are usually bigger than the "allocative efficiencies" economists can estimate.

If marketing as well as handling were to be deregulated, the savings would be more again.

It is no wonder that the Australian farmer is not competing well in world markets. And, since nonsense of similar magnitude is common throughout the economy, our falling living standards and the balance of payments problem are of our own making. They can, however, be rectified.

In the case of wheat, to achieve cost savings and put them in the pockets of growers requires a simple change: remove the regulations which prevent new firms from offering competitive marketing services. Tinkering with the monopolies well never make them pass cost savings to the growers.

The competitive wool industry is healthy; the regulated wheat industry is not. The difference in the buoyancy of the two industries is mainly to be found in foreign markets, beyond the reach of Australian regulation. But it gives the lie to the idea that regulation is needed for a healthy industry or that regulation can guarantee a healthy industry. Regulation has little to do with the ups and downs of market prices; it takes a percentage off the top, before the grower gets his gross, this year, next year, and every year.

Some growers fear that if the Wheat Board no longer had a monopoly, wheat prices would return to levels of the 1930s. This is nonsense, if only because prices in inflation-adjusted terms are now at 1930's levels. The Wheat Board can do nothing about world prices, but it can affect Australian costs. Besides, no-one is advocating doing away with the AWB or the BHA's. All that is asked is that they face competition----that growers be given a choice.

Minister Kerin set up the Royal Commission into grain handling costs and the Industries Assistance Commission has also reported. He has evidence of inefficiency. What is more, the finding is the conventional one that monopolies don't work well. If the government does not now take so obvious an opportunity to improve the efficiency of the Australian economy by deregulation, then there is little hope for it or the economy.

Mr Kerin is an able minister but he is likely to hear only from the propaganda departments of statutory monopolies and may take their pleading for grower opinion. Growers who do not write to him asking for the choice to avoid the unnecessary costs deserve their poverty.

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