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Victorian Milk Price Arbitration 1

Quote: "This legislative insistence on putting a fixed price tag on every form of lacteal secretion obtained from a cow has very serious implications for Victorian dairy farmers." So with masterful understatement says Mr. Justice James Robinson, Deputy President of the Australian Conciliation and Arbitration Commission.

There has been a marked lack of consensus about milk prices, particularly in Victoria. Because milk is priced politically price changes are big periodic and noticeable, rather than small and incremental. Mr. Cain, finding himself cast as Solomon, called in Mr. Justice Robinson, who, although he has clearly not been accepted as Solomon either, can at least get to Hell out.

On the nineteenth of last month Justice Robinson determined a three cent per litre rise in the price of Victorian shop milk - two cents of which went to the farmers. Since then, even more than before, some Victorian farmers have behaved like a militant branch of the Transport Workers Union, which has not got its own way. All this has been a bit distressing for grain, meat and wool growers who believe, with some justification, that TWU type behaviour is keeping them poor. It must also have been a bit distressing for Mr. Cain. In spite of his seemingly impeccable socialist credentials, he has just used the force of the law, to deny his dairy farmers the right to strike.

Any politician will tell you that the essence of success with any commission or enquiry is the right man with the right terms of reference. Justice Robinson had only two terms of reference: to determine a price and to advise on future processes. The consequent 'award' is a very interesting and sensible document which shows the utter futility of fixing the price of lacteal secretions and by implication other things.

The Victorian Dairy Authority sets no less than 331 separate prices of milk, milk products and milk processes from farm gate to housewife. Although the wooden spoon is usually awarded to the sugar industry, dairying might be Australia's most rigidly controlled industry. In general the controls have been instituted at the request of 'the industry' - not of the individual dairy farmers of course, but of those industry politicians who spoke for them.

At the farm gate milk is milk, but since the price rise Victorian dairy farmers sell 13% of their milk as market milk (drinking) for 31.7 cents per litre. The rest is sold for manufacturing for only 13 cents, a price which, low as it is, is subsidised up from the current export price of only 7 cents, by Commonwealth taxpayers and butter eaters. It is this low

price, paid for most of their produce, and not the market milk price, which is the Victorian dairy farmers' problem. But unable to do anything about that they wanted more, much more, from Melbourne housewives. If consumer demand for Victorian milk should have proved to be sufficiently price elastic, the even higher price the farmers wanted would have proved to be self-defeating, as housewives switched to powdered milk, orange juice, or interstate milk.

None the less the industry in Victoria (and Tasmania) by world standards is technically efficient. The EEC runs a massive foreign aid programme, at some appreciable cost to its own standard of living, selling subsidised dairy produce to other countries, most of which are so far still poorer than the EEC and some are communist. Before the latest international price drop manufacturing milk prices of only 18 cents per litre encouraged the Victorian industry, in the space of only about four years in the early 1980s, to increase their production by 14%. It seems that the supply of lacteal secretions is quite price elastic over a quite short time.

In spite of technical efficiency, in that the industry bids resources away from industries which could use them to make greater contributions to Australian welfare, the Australian dairy industry as a whole is economically inefficient at current world prices. The EEC 'foreign aid' is a fact of life just like a bumper season in Europe or margarine.

Dairy farmers in other States sell about half their milk as high priced whole milk and so achieve a much higher average price than the Victorians. So rigid and so perverse is dairy regulation that each State has a separate dairy industry. In spite of a Constitution which says that trade between the States 'shall be absolutely free' interstate trade barriers against relatively low cost Victorian milk have been even more effective than international trade barriers against low cost Japanese cars. Victorians have not been able to sell their milk interstate because of UNPROCLAIMED Commonwealth legislation which flies in the face of at least the spirit of section 92 of the Constitution. Federal politicians have used the threat of proclamation to protect their little mates back home from the more efficient Victorian industry. That legislation is to the Constitution what a Wet Sluytzkin (of bottom-of-the-harbour fame) was to the tax act - a contrivance. Federal Primary Industry minister, Kerin, has now announced its repeal. The grape vine says that the Democrats, in a burst of free enterprise fervour, will support the Government. Even if the Liberals were tempted to bow to Rural Socialist pressures, which this time I don't think they will, it looks as if the Australian dairy industry is about to be re-federated.

As things stand now NSW and South Australian producers will be able to sell whole milk in Victoria at less than the Victorian fixed price. Because it has crossed a State border, NSW milk will be beyond the reach of Victorian legislation. In the face

of competition from other milk I think Victorian milk will prove to be so price elastic that virtually none will be sold in Melbourne. However it will sell in Sydney, Canberra, Brisbane and Adelaide; maybe even in Perth. But those states, not having fixed prices, will match the Victorians price for price until many of the local dairymen give the more efficient Victorians best.

In the interest of living standards the Victorian industry should be providing most of our milk. The crazy irony is, that although the Victorians, with the Tasmanians, have very much the most efficient industry, having received much lower prices than farmers in other States for some time, Victoria's tight regulation, unless changed quickly, will place them in the worst position to cope with interstate competition.

Justice Robinson recommended almost complete deregulation of the Victorian market milk industry. When Mr Kerin, Parliament willing, repeals the unproclaimed levy act, and sets in train deregulation of manufacturing milk industry, then the prevailing price will be that of manufacturing milk. The ultimate aim is to set the domestic price for dairy products at export level plus 30%. That is 30% nominal protection. Motor and textile manufacturers please note.