

GETTING CASSANDRAS

LISTENED TO :

A SISYPHEAN TASK?

By Charles Massy

(AARES 10<sup>th</sup> February 2011)

# The Linkage of Protection and Statutory Intervention

## 1928 British Economic Mission

- ‘...the combined operation of the tariff & of the Arbitration Acts has raised costs to a level which has laid an excessive & possibly even a dangerous load upon the unsheltered primary industries.’

L.F.Giblin, *Economic Record* 1928

‘It is not altogether healthy for any industry to be able to raise the price of its product as it desires, without any corresponding effort.’

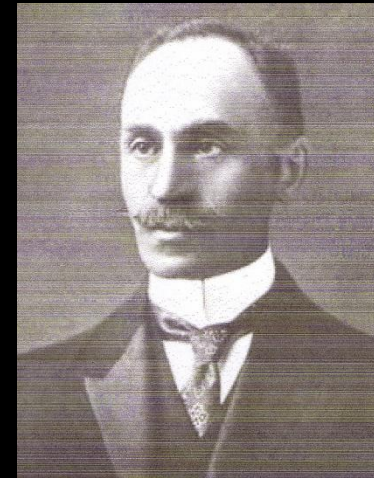


## BRITISH IMPERIALISM: THE SECOND KEY FACTOR

### First Australian-born Governor General, Isaac Isaacs

- opening the 3-day Empire Wool Conference, June 22 1931

That for those present 'their grand purpose was to regard Empire wool as an Empire product.'



### London High Commissioner (ex. P.M.) S.M. Bruce

- addressing a dinner in London in 1932

'Australian interests and Bradford interests were identical.'



Roland Wilson: 'The Export Trade and Imperial Preference' –  
In: 'An Economic Survey of Australia' (American Academy of  
Political and Social Science, November 1931)

'Preference is protection with a difference. The difference is that the protecting country pays the piper, while the preferred country calls the tune. The fact that it is protection remains, and that fact involves costs.'



J.B.Brigden, 'The Marketing of Wool' – in – Addendum to Commonwealth Wool Committee of Inquiry Report, Oct. 1932

- 'There are... other examples of failure to sustain prices... They all failed because of the pressure of stocks on a falling market. These stocks were the results of the efforts to protect prices.'



Treasury advice to Cabinet Wool Sub-Committee, Aug. 1950:

re. Proposed Reserve Price Scheme: 'Stabilisation of Wool Prices':

- such a scheme would 'find its principal role under the conditions of a falling wool market';
- that, for reasons of market confidence, reserve prices would have 'to be held at least throughout one selling season';
- that in a market slump a central RPS manager could be placed in the position of having 'to buy-in and hold quantities of wool equal to perhaps one full Australian clip';
- 'the United States particularly would be likely to resent the scheme and if tariffs were raised or other restrictive measures were taken by that country there might be a serious fall in our dollar earnings'.

## Jack Lewis, 1959: 'Are We Falling off the Sheep's Back?'

- there is 'a distinct possibility that wool prices have lost much of their previous resilience and may recover' previous high levels 'only in exceptionally favourable periods.'
- 'Price instability for wool is not a new phenomena but the availability of substitutes at stable prices is.'

(*Australian Quarterly* Dec. 1959

'The Present Position of Wool in Australia')

## Commonwealth Govt. Philp Report, 1962

'The risks of a reserve scheme are primarily with the grower and may be with the community. The risks are that:-

1. the authority may mistake a downward trend for a temporary slump;
2. large stocks may be accumulated;
3. stocks held by the authority may impair confidence in the market;
4. substitution of synthetics for wool may be induced by the authority holding wool;
5. the ultimate winding up of the scheme at a loss may be enforced....
6. ...this could permanently damage wool's position in the world economy.'

## THE REAL MOTIVES:

Prof. Jack Lewis, at Wool School, UNE 1962

'There is a distinct tendency for what is originally put forward under the innocent guise of stabilisation to be uncovered subsequently as the more ambitious objective of lifting prices as distinct from smoothing fluctuations... The industry should not launch a scheme to stabilise prices upwards unless it clearly understands and is prepared to accept the implications, viz. controls over supply.'

Jack Duloy, Ross Parish – 'An Appraisal of a Floor-Price Scheme for Wool' (UNE, 1964)

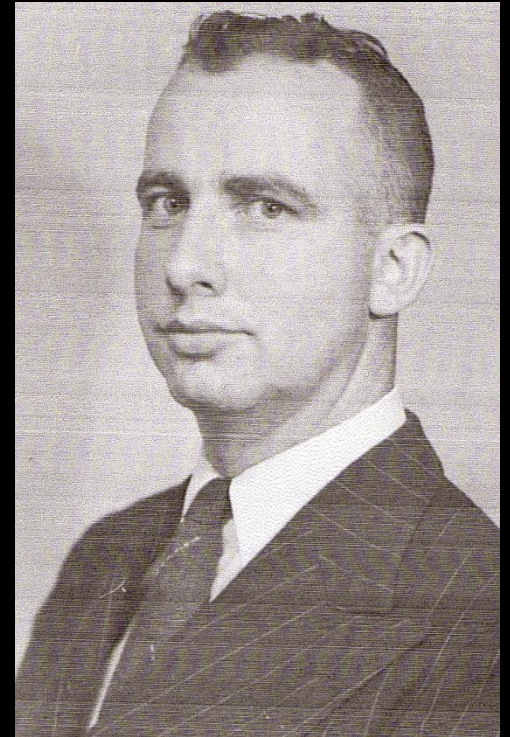
'There is ... the risk that because of errors of judgement on the part of the authority, or because of pressure from dissatisfied groups of growers, a conservative scheme would escalate into a radical one.'

## Treasury advice to inter-departmental committee, Feb. 1965

1. 'The principal risk of a reserve price scheme is that the reserve price might be set too high in relation to subsequent market trends.'
2. This in turn could lead to the accumulation of large stocks of wool; buyers could hold off, speculating on cheaper prices, and this could delay recovery;
3. Withholding stocks from the market could 'encourage wool users to turn to readily available substitute fibres, which might lead to the loss of markets for wool';
4. Errors could be made by 'the authority in its re-selling operations';
5. 'In a prolonged period of depressed prices with no prospect of recovery, the scheme might have to be wound up with considerable loss of capital.'

Prof. Keith Campbell, in Foreword to 'Wool! Modern Myths  
New Horizons' (by George LeCouteur, 1967)

- The greatest risk with preserve price schemes was 'human fallibility – the risk that the managers of the scheme will make the wrong decisions about buying and selling policies.'
- 'In my view, the most promising way to ensure the industry's survival in the face of such competition [synthetics] is through offering a product with superior qualities and producing it as efficiently as possible.'



## Bert Kelly – the *Modest Member* and *Modest Farmer*

- ‘Mavis pointed out that people who get on in politics are those who either pat sacred cows or milk them.’
- ‘Whenever you move a sacred cow you always find a lump of something you don’t like underneath.’

## THE VILLIFIED CUSTOMER:

Georges Pelzer, President IWTO – statement to press in Australia, 8<sup>th</sup> September 1970

- ‘If you don’t allow the uninhibited movement of wool to all consuming countries then you risk the very survival of wool as a universal textile fibre...because any arbitrary interference, or threats of interference...would (1) precipitate a world-wide crisis of confidence in wool among wool users; (2) inhibit investment of capital in the expansion of wool manufacturing capacity and restrict technological developments; (3) bring about a lessening in demand for wool fibre from manufacturers, who would turn increasingly to the use of alternative fibres...’
- ‘The implications of this situation seem not to be generally understood in Australia.’

John O'Connor, AWC Chief Economist – Discussion paper  
'Reserve Price Policy' given to AWC Board, 29 April 1988

- current high prices were counter-productive, encouraging over-production and fibre substitution;
- setting a high MRP would be disastrous;
- wool prices are not on a permanent new price plateau – but part of a commodity price spike;
- a considerable body of evidence reveals all buffer-stock schemes have eventually failed.
- 'The Wool Corporation's scheme was the only one so far not to fail, and the higher you set a MRP the quicker it would fail – but that, whatever you do, it will eventually fail.'

## REASONS IGNORED: 1. Immature Science and Lack of Standing of Economists

- There was 'nothing in Australia which even approximates the widespread intellectual reconsideration of traditional doctrine which occurred overseas'
- Re. the options put forward by Australian leaders to navigate the Depression:
  - 'Rational examination of these alternatives was, however, buried beneath a dense layer of prejudice, personal conflict, doctrinal rigidity and antediluvian economics.'

(C.B.Schedvin, *Australia & the Great Depression*, 1970)

## Reasons Ignored: 2. The Rise of Agricultural Economists in Washington – after Agricultural Adjustment Act 1933 (the AAA)

J.G. Crawford, 'Agricultural Reconstruction: The General Setting' (for the Economic Society of Aust. and New Zealand, 1945)

- The problems of agriculture can 'be readily corrected in an economy with a high level of industrial activity and employment', and that 'there is likely to be room for a varied set of measures designed to promote the efficiency of primary production and to provide greater stability and security of farm incomes' – including 'price stabilisation and security via orderly marketing, production and price control, subsidies, debt adjustment....'
- November 1947 JGC advised Woolgrowers Council to set up a post-JO type organisation that fixed forward reserve prices each season and be prepared to stockpile a year's wool supply.



## REASONS IGNORED: 3. The *idée fixe* – That a Reserve Price Scheme had been a proven success

Claude Renshaw, speech at Dubbo 1965, during RPS Referendum

That a RPS under the J.O.Scheme had delivered a million pound profit.

‘You have lived with it for 5 or 6 years already...there is nothing that you should be greatly afraid of...It is nothing even like getting married for the first time.’



The Legacy of Sir John Higgins, SM Bruce, RG Menzies, John McEwen, JG Crawford, Sir William Gunn et al

Sir John Higgins – arch imperialist

## REASONS IGNORED 4: Agri-Political disdain-antipathy for Economists and Academics

'In any part of the world, economists – like tax collectors – should, if they find themselves becoming popular, suspect that they are not fully effective in their job. Nevertheless the Australian society is perhaps more inimical to the economist than any in history, with the possible exception of Sukarno's Indonesia....This assault on economic rationality leaves the door open to pressure group politics which can make Australia much poorer, and, indeed, may well be doing so.'

(Prof. Jack Lewis, UNE

cited in Ron Anderson, *On The Sheep's Back*, 1966)

## REASONS IGNORED: 5. Path-Dependence

- To understand path dependence is 'to recognise that the institutions that have accumulated give rise to organisations whose survival depends on the perpetuation of those institutions and which hence will devote resources to preventing any alteration that threatens their survival'.
- 'Understanding the process of change entails confronting directly the nature of path dependence in order to determine the nature of the limits to change that it imposes in various settings.'

(Douglas North, *Institutions, Institutional Change, and Economic Performance*. 1990)

Douglas North, Winner Nobel Prize  
Economic Sciences, 1993



## Reasons Ignored – Path-Dependence (cont.)

CIE, *Wool Into the 21<sup>st</sup> Century* – November 1990

‘There is a danger that the political interferences involved in wool marketing will induce a scramble ostensibly to save the scheme, but actually to save the political structures and power the scheme has created. Such a scramble could lead to compromises that would not ensure the most efficient path of adjustment and so an efficient outcome.’

John Kerin, Minister for Primary Industry & Energy, in speech to Parliament 19 Feb. 1991, on *Wool Marketing (Temporary Amendment) Bill*

‘...the reserve price scheme is the centrepiece to the institutional framework of this industry. We would be absolutely stupid to scuttle the institutions of this industry now.’

## Adam Smith, *The Wealth of Nations*, 1776

‘This degradation both in the real and nominal value of wool, could never have happened in consequence of the natural course of things. It has accordingly been the effect of violence and artifice...’

