

## Submission to the Agricultural Competitiveness Issues Paper

By James Ramsay

I am not an economics professor but I had a very intelligent father who could explain things in very understandable ways one being the relationship between supply and demand. He would say that you should never talk about supply and demand without including price as price is the fulcrum that balances one against the other and that supply and demand will always balance depending on the price.

Another thing that he taught me was that at any given price some producers will be profitable and others will not be profitable and that it is impossible to have all producers profitable all the time. Producers have very different capital bases from which they work, including the amount of land, the quality of that land, the distance from market, the amount of debt, etc. etc., so it is impossible to say that farmers need a particular price to be profitable.

He was very much against the reserve price scheme for wool when it was introduced in the 1970's and when it collapsed quoted "I knew it would happen, it just took longer than I thought", for he knew that you cannot stockpile product at someone else's expense forever.

One thing that a lot of farmers have trouble understanding is that they are not a homogenous group of people. They are in fact in serious competition with each other in the market place. The only common ground they have is in political constraints that add costs to their businesses in competition with other countries, or when some producers are advantaged or disadvantaged by subsidies or regulation to other producers.

Some farmers don't understand that when one is given an advantage it usually disadvantages others in that one is given a competitive advantage to the other.

The market now has moved from local to the world and farmers now are competing not only with local farmers who have to work under the same rules, but with farmers from many different countries all with different rules and costs to production. Where once transport costs made long distance trade uncompetitive to the local product, this is rapidly changing to where world markets can source product from anywhere in the world and have it delivered quick and cheap.

Governments are persistently trying to develop free trade agreements with as many countries as possible. It seems however that when we develop these agreements we forget that we do not remove the barriers to many of the costs of production the main ones being the cost of labour and services. If Australia could import these inputs from the same world market we are selling to, then it would truly be free trade. Farmers are not the same as a manufacturing business in that we cannot move our farms offshore to take advantage of cheaper costs in other countries.

I find it very hard to understand that Australians allow goods to be sold in Australia that are produced under conditions we would not tolerate here. It seems it is OK to buy things produced by slave labour in other countries so long as we don't have slave labour here.

Farmers in Australia have over the past 50 years been able to cope with depreciating terms of trade with increasing efficiency using bigger machinery, better weed control, better transport, doing the labour themselves, the list goes on. The general public however doesn't seem to appreciate that this increasing efficiency has not resulted in farmers becoming relatively richer, but the consumer has been supplied with cheaper product and higher wages. It appears that this increase in efficiency has slowed markedly in recent years.

I will never forget being told in the late 1960's by the experts that we would never be able to produce enough meat to satisfy the growing Japanese demand and that we should expand our production to meet this demand. Beef cattle producers did that, increasing the herd up to nearly 36 million head, there were abattoirs everywhere and life was exciting. Two things happened that squashed our business savagely and one was Gough Whitlam being elected doubling the public service pay and linking it to the CPI as reward for their vote, and the middle east doubling the price of oil, the Japanese realising that oil was more important to their economy than meat, cancelled all their contracts with Australia and cattle became almost worthless almost overnight. The cattle producers have never really recovered from that depression. There were a lot of young farmers about at that time, many battling on to make a living with maybe help from off farm income. Many of these farmers have encouraged their children to seek employment away from the farm obtaining incomes far in excess of that achieved farming. Many have survived by selling bits of the farm to hobby farmers. The result now is that we have a lot of farms being run by old people who should be retired with no family willing to take over for the pittance their fathers work for.

Farmers find that they now have to compete with these farmers who have high off farm income, who often produce a lot of product for little or no profit just to enjoy the lifestyle. These people can simply buy a farm and produce product without any qualifications and compete with genuine farmers, but farmers cannot simply buy a profession or job and compete with this group.

Large corporate businesses can run at a loss on borrowed or shareholder capital for much longer than the smaller farmer. This means that product can be produced below the cost of production of many small farmers who suffer while the bigger producers just carry on till things get better. Many small producers have heeded the cry "get big or get out" only to find that the cost of getting big especially when interest rates were high forced them to get out.

Another cry that is often heard is "you must increase efficiency to compete and that you need to be one of the top 10% to obtain a reasonable profit". At first this sounds reasonable but increasing efficiency usually involves producing more product which in turn reduces prices so the cycle goes on, and as far as I know you cannot have more than 10% in the top 10% thus when one improves efficiency to get into to top 10% then someone else has to move out. It seems we have got things back to front in that when prices are poor, farmers tend to increase production in an effort to remain profitable, this only reduces prices further. The proper economic response to low prices should be to reduce production thus increasing prices for a scarcer product.

Mining in Australia which is all exported has produced an economy that can support very high incomes to its participants. These participants pay very high taxes which support very high salaries in the public service. The demand for the minerals is so high that the Australian dollar is also in high demand thus at a very high historical price. This is great for those in the loop but primary producers who have traditionally produced the export dollars find they cannot compete with these high

salaries. This also applies to the manufacturing industries as well, but at least they can move off shore. Mining is a finite business and the government needs to be careful that mining does not eliminate all other businesses in Australia. One only has to look at Nauru to see what happens when the mining stops.

An economy that indexes salaries and wages to the Consumer Price index immediately disadvantages those that produce in a free market. When the price of goods rise giving the farmer a better return everyone else gets a CPI wages increase immediately negating any benefit the farmer may have received because of the increase in costs due to wage inflation. This wage inflation is probably the main contributor to CPI increases and the cycle goes on disadvantaging the farmers at each round. I looked at many jobs over the past 50 years, do I see a teacher teaching more students to a better standard each year, no, but their pay and conditions keep going up with the CPI+. Do taxis carry more people cheaper, no, they charge more and more every year. Where does this increase in living standards come from if not from their own efficiency increase?, from the farmers whose increasing efficiency is passed to consumers by lower prices.

Australian farmers have to also compete with large offshore owners of land who have their home markets monopolised, vertically integrating the supply chain, shifting profits to their home country or the lowest taxing country in the integrated chain.

Markets that have a large number of suppliers and very few purchasers are subject to manipulation by the powerful buyers. It appears that some of these buyers are saying to the market “we are only interested in purchasing from one supplier, which of you will supply to our standards at the lowest price”. This causes the reverse of an auction system where everyone is lowering the price to get a share of the market. Eventually one supplier gets the total contract then can dictate to the others the terms of getting a share in the supply chain.

It seems ridiculous that workers in Australia do not have a choice when the business they work for is having financial difficulties, they can only accept redundancy while others continue in work at full pay. Surely everyone would be better off if the business could negotiate a reduction in wages that was acceptable to most of their workers. If the negotiated salary was not acceptable to some let them be the ones looking for a new job.

I was staggered when reading the advertisement for applications for the new NSW Local Land Services boards. \$295,000 for the Chair of chairmen, \$60,000 for each chairman, and \$20,000 for each board member. For a livestock breeder to even gross \$295,000 he would have to run about 900 breeders on average country on the NSW north coast. These payments are way over what ordinary community people receive in income. A farm worker with all his skills and knowledge would be lucky to gross \$40,000 working full time. I contend that these positions could have been filled by very competent people for less than half these pay rates and the difference should be described as a subsidy. If it is OK to subsidies government jobs it should be OK to subsidies the rest of us. If all government positions were open for competitive tendering as we are subject to for our produce then the cost of government could be greatly reduced.

Conclusions:

1. Australia needs a competitive wage structure legislated that allows businesses to compete with other countries on this so called level playing field.
2. The public service salary structure needs to be overhauled so that their salaries are compared to the primary production sector and not each other.
3. A tax system that taxes the very high income earners very high income tax. Income tax is the only fair tax there is.
4. A tax system that doesn't allow someone with high incomes from other sources to produce product at a loss in competition with genuine producers.
5. A bill that stops anticompetitive bargaining.
6. The CPI should not be used as a reason for wage increases.
7. Vertically integrated supply chains should be banned.
8. Allow small business to build small abattoirs in small communities for local consumption.
9. That the Income deposit scheme be the only drought assistance available and that it be extended to allow small business to hold deposits before profit distribution to shareholders or partners.
10. That when prices for livestock are depressed because of Government actions ( e.g. the live cattle mess) producers are paid to destroy their livestock on farm.
11. That the Government does not encourage more production while profitability of present producers is so low.
12. Farming should be declared a profession with restricted entry governed by those already in the industry, as other professions do.
13. Salaries in excess of world market rates (including China & India and other countries we sell our product to) be described as "pay + subsidy".

I guess my submission can be summarised to "Many Australians are paid too much", we cannot compete with other countries unless we compete in the labour and services market, except in mining which produces huge turnovers with little labour.

James Ramsay

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