PRESS STATEMENT:

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September 26th, 1965

"ANSWERS TO RESERVE PRICE CRITICS"

Last week the debate on the Wool Industry Referendum concluded. It was an interesting debate. It demonstrated the overwhelming support of members of Parliament for the reserve price plan. Most members, it is true, said it was a matter for the woolgrowers to decide but, at the same time, they put their own arguments in support. Not one member voted against the Bill and, although Mr. Wentworth did move an amendment, only four members in the whole House supported his amendment. The debate, once more, demonstrated the weakness of arguments against the scheme. In this report I want to devote some time in answering arguments that have been put in opposition.

The Graziers’ Association of New South Wales has perhaps put a more coherent case against the scheme than any other group and, therefore, I will deal with their principal arguments and show where I think them to be wrong.

1. Their first argument is that the scheme would not reduce fluctuations to the degree necessary to benefit both growers and users. This is an interesting argument because it admits that it is necessary to reduce fluctuations; it produces no evidence to show why it will not reduce fluctuations sufficiently, but only offers an opinion. The importance of this argument is that it admits that fluctuations are harmful to the industry and it puts forward no alternative to the Board’s proposals. Evidence that has been made available has shown that fluctuations are less in New Zealand and South Africa, where a scheme has been operating, than in Australia.

2. The next argument said that the scheme would depress prices as a result of stockpiling, or as a result of the release of bought-in wool. This argument does not carry much strength, because in periods of depressed demand, stocks build up in the hands of merchants in the pipeline between the auction and the manufacturer. These stocks generally have to be cleared before the auction will again become buoyant, and I think it is nonsense to suggest that stocks held by an authority in Australia would have any worse effect than stocks held by merchants and other people. The only difference is the place at which stocks are held and I would have thought a sensible authority operating in an integrated manner would be able to hold stocks with less damage to the market than a host of individual merchants and speculators.

3. It is then said by the Graziers’ Association that the reserve price would become the ceiling price. This assumes that the buyers can manipulate the market at will, but let us look at the argument. It means that buyers can depress the market price merely because a reserve price is operating. This is nonsense. If buyers have the power to depress the price at the auction, they have that power now, and without a reserve price they can therefore depress it to any level they wish. I would, in fact, deny that the buyers have this power, but the Graziers’ Association of New South Wales apparently believes that they have. If they are correct in this belief, the scheme is needed more than ever before.

In this argument the Association has ignored what, in fact, happens once the market starts to fall. If there is a break in the market, one of two things happens. Buyers are either told to hold out of the market to see what will occur and this, in itself, causes a further fall in the market. Or, secondly, they are told to buy, but with reduced limits. The market falls under either circumstances, and there is no bottom to prevent the fall continuing. Under present circumstances if the market breaks the manufacturer who wants wool is fearful that his competitor might buy it six weeks later at 12d. per lb, cheaper. Therefore, if he can postpone buying, he does, or he may
turn to synthetics, as some manufacturers have. If there is a floor price or a reserve, when the market gets to 3d., 4d. or 6d. above the reserve, the manufacturer can say to himself: "If I buy now I know my competitor will not be able to buy at more than 6d. per lb. cheaper" and because of the additional confidence given by the reserve price, he would know that there is a good chance that the market would not fall to the reserve level. Thus it is probable he would buy in the market.

4. The Graziers' Association of New South Wales has said that the scheme would put research and promotion funds into jeopardy. The Board has denied this, but it has said that, by June 1967, funds for research will have to be reviewed. This will be so whether or not a reserve price scheme is introduced.

5. The Association has also said that the scheme will lead to undue Government influence. This is nonsense. The Government is guaranteeing funds for the buying in of wool and, as a result, the Government will be able to accept or reject the reserve price suggested by the Board. The Government will not be able to offer a higher price than the Board suggests, thus preventing, as the sceptics might say, any Government from attempting to buy votes by offering a higher price. This acceptance or rejection of the Board's reserve can hardly be called undue influence. Indeed, it would be possible to argue that if this scheme is rejected the resulting difficulties that may confront the industry may compel widespread Government intervention in the industry's affairs within 10 years. This would be a disaster for the industry, and it is a matter that should be borne in mind, because if the opponents of this ballot are successful I cannot see the industry getting another chance to make a decision on this matter within the foreseeable future.

6. The Graziers' Association of New South Wales also said that the scheme could not guarantee the profitability of wool. This is no argument against the scheme. Who can guarantee the profitability of any enterprise when we are not sure what the marketing conditions will be or what competitors will do, but this is no argument against a scheme designed to improve marketing methods and designed to increase our ability to promote sales and to improve our general competitive position.

7. One of their last arguments was that the scheme would result in a diversion of demand from wool to synthetics. This diversion is already taking place because of the violent fluctuations in the price of wool. It will continue until the fluctuations are reduced. This argument again falls to the ground on an examination of the facts.

I have read most of the literature put out by the opposition. These arguments would seem to be the strongest ones they can muster against the proposals. I do not believe any of them are valid, as I have tried to demonstrate. Their weakness should do much to demonstrate that the opposition has not got a case and that the Board's proposals represent a practical step towards the solution of the industry's problems.