

HISTORY OF THE NEW ZEALAND MILK BOARD

A STUDY OF THE CORPORATIST ALLIANCE BETWEEN THE STATE AND THE DOMESTIC MILK SECTOR

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PREFACE

The Agribusiness and Economics Research Unit has upheld a long involvement with the Town Milk Industry, commencing when the AERU began the annual survey of town milk producers in 1972. (An Economic Survey of NZ Town Milk Producers. AERU Research Reports.) This Research Report presents the history of the New Zealand Milk Board as a case study of statutory board systems that were typically devised by governments to manage the post-war agricultural economy.

Although the history of the Milk Board is documented in this Report from its conception as the Central Milk Council in 1944 until its dissolution in 1988, there has been no attempt at a definitive historical narrative. The primary concern of this Report has been to examine the nature of the relationship between the government and the Town Milk Industry that has structured the administration of the milk service. The theory of corporatism which has been utilised in the study of interest groups' political interaction with the government, has been of value in many case histories of milk industries. Thus corporatist theory has also informed this examination of the political context of the regulatory Milk Board regime's path through regulation and deregulation.

The history of the Town Milk Service is presented in this manner to increase understanding of both the nature of regulatory board structures and of government involvement in agricultural management. Further, it will be of value to administrators of emerging milk industries who may be exploring different organisational options that best serve the development of their liquid milk service.

The AERU has published other work on the Town Milk Industry that may be of interest to the reader. "Milk Purchasing: a Consumer Survey in Auckland and Christchurch." (Sheppard, Research Report No.195, July 1985) which emphasised consumer preferences in milk purchasing, packaging and the distribution service, and "A Review of the Deregulation of the NZ Town Milk Industry" (Moffitt and Sheppard, Discussion Paper 122, July 1988) which studied the initial impact of deregulation on the town milk supply sector.

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INTRODUCTION

The objective of this study is to provide a history of the New Zealand Milk Board from 1944 until its dissolution in 1988. The Central Milk Council was set up by government legislation as the first regulatory organisation of the milk supply. The Council and the subsequent Board of 1953 epitomised the strong alliance between government and key agricultural agents that was a characteristic form of economic organisation in many agricultural exporting nations over this period of history. Government sponsored protection of the domestic milk industry was to persist until the supportive and regulatory intervention of state in many national economies was discontinued in the eighties. The history of the Milk Board is thus situated within the context of national economic policies and structures of regulation and deregulation that also reflect a global historical background.

The discussion of the Milk Board's history, its structural evolution, regulatory role, policy agenda and the cause of the Board's eventual discontinuation, was facilitated by the employment of the corporatist model of the relations between the state and interest groups. The theoretical concept of corporatism has consistently informed the study of arrangements between producers and the state in the agricultural sector and was effectively used in the analysis of domestic milk industry organisation found in several Western agricultures. Statutory regimes have been constantly employed to structure the milk industries, licensing monopolistic representative associations to regulate producers behaviour and implement state agricultural policy. In historical studies of the milk industries of Britain, the US, and Europe many observers concur that the most appropriate response to the needs of the dairy and milk industries' specific environment had been the pursuance of corporatist arrangements. This political organisational model also facilitated a comparative understanding of the history of the New Zealand Milk Board.

Corporatism identifies the actors, structures and political processes involved in the establishment and maintenance of a regulatory economy. The agricultural corporatist structures were state sponsored collaborative arrangements with authorized private associations of producers and other key interests. Corporatism as a specific study of the alliances between the state and representative agents of important national economic sectors, locates statutory regulatory organisations such as the Milk Board in relationships that are of mutual and exclusive benefit to both the government and the participating industrial agents. The state extends exclusive public status and access to state resources to the corporatist partner. In exchange, the leadership of the participating industry is committed to instituting the government economic agenda through regulatory control over its associated members. Industrial management was thereby achieved under the guidance of statutory regulations through monopolistic producer associations which provided a mechanism for market stabilisation, sector restructuring, and economic problem solving.

The consistent incorporation of milk industries' agents into the policy making process suggests a unique set of conditions exist in the sector conducive to corporatist arrangements. That early milk marketing bodies were invariably corporatist organisations was attributed to the organisational demands of milk as a perishable product, the economic importance of milk to many societies, and the symbolic nature of the commodity. However that a specific political and economic climate was required for corporatist organisation also indicated the potential insecurity of these government sponsored arrangements. The exclusive alliance enjoyed by the corporatist partners was susceptible to changes in conditions external to its

relationship and to the instability contained within the structures. Deregulation which heralded the collapse of the New Zealand government's alliance with producers emphasised the dependence of the corporatist partner on a specific configuration of politico-economic factors to sustain its privileged access to the state. In this context corporatist theory offers a perspective from which to critically analyze state sponsored regulatory bodies. In presenting corporatist arrangements as an interaction between the state and its partner within a specific environment, it was possible to appreciate the political, ideological and economic requirements for regulatory economies and recognise the vulnerabilities of these structured relationships.

An interpretive history of the Milk Board is thus well served by the critical employment of the theoretical parameters of corporatism. To provide both a theoretical analysis and a comprehensive narrative history, this report distinguishes between the two purposes throughout its structure. The first two chapters provide the theoretical framework for the analytical discussion at the conclusion of the report while chapters three to six inclusive form the basis of the history of the Milk Board. Chapter one outlines the general corporatist arrangements found in the studies of domestic milk industries of Britain, the United States, Austria, Holland and Switzerland. Under discussion are the conditions conducive for corporatism, the motivation of the state and producer to enter regulatory economies, the structure of the corporatist relations, how these relations serve as a mechanism for sector restructuring, and the endurance of corporatism. The following chapter examines the development of corporatism as a theoretical construct. Chapter two concludes with a review of the issues derived from the corporatist model that will provide contextual understanding of the history of the Board from the study of the interaction of key parties in the establishment, maintenance and operation of state-licensed bodies.

The narrative sequence details the history of milk supply organisation in New Zealand from the early efforts of local municipal administrations to regulate the service. Each chapter explores the legislation that shaped the structure and activities of the milk administrations, details the tension between the state and corporatist partner over the price regime, and comments on the process of restructuring and development of the industry. Chapter three is concerned with the crucial report of the Milk Commission of 1944 which examined the state of the pre-regulation milk service and proposed a new organisational structure for the national industry. Chapters four to six are chronologically divided by the major changes in legislation : The Milk Act of 1944, the Milk Amendment of 1953 and the Milk Acts of 1967 and 1988. While chapter four is an overview of the early Central Milk Council administration, chapter five narrates the consolidation period of the Milk Board regime of 1953-1967, and Chapter six details the changes faced by administration from the 1967 legislation until the deregulation of the industry in 1988.

In the final chapter the study returns to the theoretical concerns addressed in the earlier sections. Corporatism is first applied to the structured relations of the regulated milk industry. Then a brief survey of the political and structural changes in the post-regulation industry provides a comparative basis for an understanding of the dynamics of corporatism in the New Zealand setting. A critical review of both the structured and deregulated milk economies allows an assessment of corporatism both as a model to analyze the Milk Board and as a form of organisation employed in the development of the industry. While the role of board administration is acknowledged as appropriate for a specific political and economic environment, the realignment of post-regulatory agents in the industry and the subsequent

effects on the industry do suggest a more equitable solution lies in a settlement between the two poles of regulation and deregulation. In the concluding section, corporatist structured industries are understood in the context of broader global economic trends of restructuring, institutional experimentation, and economic integration.

CHAPTER 1

CORPORATISM AND THE MILK INDUSTRY

1.1 Introduction

The theoretical concept of corporatism has consistently informed the study of arrangements between the producers and the state in the agricultural sector. While avoiding the extensive debates within the corporatist literature many observers of the milk and dairy industry concur that the most appropriate response to the needs of this specific environment has been the pursuance of corporatist arrangements.

Studies of dairy industries in advanced capitalist economies have documented the frequency which the milk sector has instituted corporatist systems of industrial self regulation to ensure market stability and provide an efficient and legitimate means of government involvement in the sector. Corporatism refers to a particular form of political organisation between the state and important economic actors, such as the agricultural producers, which is characterised by the state licensing monopoly producer associations to enable both the indirect government regulation of the producers behaviour and the implementation of the state's agricultural policy. This chapter will review the general arrangements of regulatory corporatist relationships found in analyses of the milk industry in the UK (Winter; Grant; Cox, Lowe, Winter), Austria (Traxler), Switzerland (Farago), Holland (van Waarden), and the US (Young). Through the comparison of these structured regulatory milk economies, this chapter will summarize conditions conducive to corporatist alliances in the milk industry, and outline the motivation of both the state and the producers to engage in regulatory economies, the structure of the corporatist relationship, how sector restructuring is facilitated by the corporatist alliance, and survey the endurance of such state licensed bodies. This discussion will initiate a broader examination of the corporatist theory contained in chapter two and thereby contribute to the development of a contextual framework from which to understand the dynamics of the establishment and operation of the New Zealand Milk Board.

1.2 Milk Industry: Conditions Favourable for Corporatism

The corporatization of the agricultural sector is often a unique experience in national economies that are characterized by other forms of relations between states and interest groups. In societies critical of state intervention, government involvement in the regulation of the agricultural economy, particularly milk production, is often acknowledged as a necessary exception. For instance, the corporatism of the American dairy industry is atypical of the more pluralist arrangements found in the US between the state and other organized economic interests (Young 1990:72). The prevalent liberal ideology in the UK has not encouraged private organizations to act as agents of public policy. With the exception of the milk industry, corporatist arrangements within British agricultural markets have not been successful (Grant 1985:186). Of great concern to producers, the state and the public alike has been the inherent instabilities of agricultural markets and it is the dairy industry that has been the most regulated sector in these national economies.

That milk marketing bodies are more consistently corporatist is recognised by most

commentators as attributable to the organizational demands of a perishable product, the economic importance of milk to many societies and the symbolic nature of the commodity.

The perishable nature of milk requires effective organization to transport, process and market the product quickly. Individual producers are denied the market power to demand higher prices for their product through the difficulties inherent in withholding the supply of a perishable commodity. Moreover any form of concerted market action typically requires the organization of a myriad of small producers who are widely dispersed and working under diverse conditions. In an unprotected agricultural market without state backing unorganized producers remain vulnerable in negotiations conducted with oligopolistic dairy companies over the price of milk. By the 1920s in Britain severe price variations reflected these uneven market relations. As the political controversy grew in milk price negotiations the parties formed the Permanent Joint Milk Committee (1922). For many producers who still received much less favourable prices, dependency on distributors' restraint remained an unsuccessful arrangement. Further state protection was sought by producer associations (Cox, Lowe, Winter 1990b:4-7).

The dairy industry's economic importance as exhibited by its increased contribution to the national income has encouraged state institutions to seek improved market conditions. In the UK the agricultural sector had been the focus of government programs in research, education and rural development. The milk industry in particular received much attention as it was perceived as an area with great growth potential that did not demand a long-term financial commitment from the government. By 1923 milk consumption had doubled in forty years. Consumption was to increase even during the economic slump of 1929-1931. Considered an important agricultural commodity, milk was subjected to a statutory marketing scheme in 1931 prior to a relationship being forged between the state and producers (Cox, Lowe, Winter 1990a:6-8). In Holland however, it was not its contribution to the national income as the milk industry's significance to the agrarian economy that led to the establishment of corporatist arrangements (van Waarden 1985:199).

Liquid milk is primarily produced for domestic consumption and bears a specific symbolic value. Local public health authorities campaigned for the improvement of national nutritional standards through the promotion of milk consumption and the quality of milk supplies. Public health campaigners sought statutory arrangements in the milk industry as a more centralized means of regulating commodity production. Their public lobby led to the politicization of the commodity. The activities of the National Milk Publicity Council (1920) of Britain created milk as a potent symbol in British food politics encouraging such laudatory statements to be made by politicians as "there is no finer investment for any community than putting milk into babies." (Churchill cited in Cox, Lowe, Winter 1990a:8). In Britain the fortunes of the milk industry came to symbolize the state of agricultural policy (Winter 1984:110). The health lobbyist's campaign for improved consumption levels and quality standards in milk supplies and the subsequent inclusion of milk in the agenda of food politics provided both a rationale for regulation of the industry and public support for state intervention (Cox, Lowe, Winter 1990b:7).

1.3 Corporatism: the Motivation of the State and Producers

Corporatist structures are established through governmental legislative measures. The specific requirements peculiar to the agricultural economy, particularly the milk industry,

persuaded reluctant governments to intervene in the sector. State institutions concerned with stabilizing the market, hygiene control and responding to the voting consumer's demand for a regular good quality milk supply, were sufficiently motivated to set up corporate structures. For example, in the US state intervention in the milk industry appeared necessary for the establishment of a satisfactory marketing scheme. Initial US governmental intervention had also sought to impose quality standards in order to safeguard a 'wholesome' product. However the state lacked the infrastructure to regulate producers' behaviour (Young 1990:77). The study of interventionist policies employed in different milk industries suggests that other governments were similarly concerned about market instability. The emergence of agricultural corporatism in Britain was not at the behest of producer associations who resisted government interventionist policies. Initiated by the state in 1933 the Milk Marketing Board (MMB) was a state response both to the market difficulties that plagued the voluntary Permanent Joint Milk Committee and to the high political profile of milk as a symbol of the nation's health. Later corporatist arrangements of the post-war era in Britain were part of a general bargain between the state and agriculture to meet the demand for increased production at a time of food scarcity (Cox, Lowe, Winter 1990a:7-8,32).

The inclusion of the producer associations in the milk processing regulation system, as in the Swiss example, demonstrated the cost effectiveness of the industry's self-regulation (Fargo 1985:178). Both the administrative expense and the political controversy of direct state intervention are avoided by providing the producer associations with a greater degree of organisational development. Moreover, structuring the corporatist relations through legislation provides the state with considerable opportunities to exert influence on the operation of the regulatory scheme including the use of the structure to implement changes in the industry. When the EEC approved of the introduction of milk quotas in 1984 the existing corporatist institutions in Britain enabled the state to implement drastic policy change.

As corporatist arrangements arise from a climate of conflict, there is a tendency for corporatist initiatives to internalise or marginalise future conflict (Young cited in Cox, Lowe, Winter 1990b:20). The British Milk Marketing Board (MMB) was able to internalise potentially damaging resistance to the restructuring of 1984. New levels of production under the quota regime were accepted by the large producers and the prevailing corporatist arrangements were not seriously challenged. Small producers, farm workers, manufacturing workers and consumers who were severely affected by the economic adjustments found their lack of incorporation in the policy process led to their interests to be marginalised (Cox, Lowe, Winter 1990a:11-14). Corporatist management enabled farming and landowning interests to preserve their privileged status within a closed agricultural policy community while the costs and crisis was diverted to other sectors or classes of the rural economy. The industry's self-regulatory mechanisms permitted state agricultural priorities to be instituted without the political dislocation expected by such a crisis.

Monopolistic producer associations typically pursued statutory regulations to secure farmers' incomes. The conflict between the producers and distributors in price negotiations that characterized the dairy industry of the US was eventually resolved in the producer's favour through a legislated relationship. In an effort to improve their market power American farmers had formed the National Milk Producer Federation (NMPF) in 1916 and sought exemption from the anti-trust act. They lobbied the state to legalize their monopolistic representative body but were opposed by the milk dealers associations. Strike action by

producers achieved higher milk prices for some but mobilized the protest of consumer groups. The state then acknowledged the need for an administrative settlement between parties. The Capper-Volstead Act of 1922 recognized the organisation of producers' bargaining institutions and delegated some public authority to the Federation. As there was no provision in the legislation for associations to secure members compliance to industrial agreements, insecurity and chaos continued. After extensive lobbying efforts by the producers a more effective statutory arrangement was developed in the 1930s which involved control of participants in marketing agreements and stabilization purchases of surplus produce by the state.

"The delegation of state power to cooperatives meant that the industry had the necessary enforcement mechanism to maintain orderly milk marketing conditions and secure member compliance within the specifically designated milk marketing orders." (Young 1990:76-79).

Corporatist management has provided protection for the dominant interests during rationalisation and restructuring of the domestic milk sector. Collective regulation through the milk quota regime in Britain of the 1980s was recognized as more advantageous to the individual large producer than the imposition of price cuts. The corporatist structures developed by the sector in the earlier expansionist agricultural context had provided both economic security and autonomy for the producer. In order to retain the power enjoyed by the dominant producer group, the new agricultural agenda of limited production output required the imposition of self-regulated restructuring and thereby "preserve the integrity of its own policy community." The MMB achieved this through adjustments in farm management techniques and the implementation of a market mechanism for quota transfers that granted established large milk producers a distinct advantage over less privileged producers, even allowing some farmers to expand production. The Board's involvement in implementing the quota system reflected the inherent bias towards a class group in the administration of the milk sector (Cox, Lowe, Winter 1990a:27-33).

1.4 Corporatist Relations in the Milk Sector

The agricultural corporatist structure is a state sponsored collaborative arrangement between the authorized private associations of the producers and other key interests, primarily dairy business firms and distributors or occasionally workers' unions. The development of this arrangement is evident in the example of the history of the American milk industry. Through the establishment of the National Milk Producer Federation (NMPF) in 1916 the US dairy producers had established an organisation that monopolistically represented their interests. With the distributors similarly organized, the dairy sector was arranged around associational structures representing the conflict in the industry. The agreement reached between US producers and dealers with the state in the 1930s resolved the industry's conflict through delegating the regulatory authority to these powerful private associations while excluding other interests from the policy making process.

The state delegated public authority to the associations when their organizational development ensured a more efficient ability to regulate than state intervention. The Swiss Central Association of Milk Producers was involved in the task of industry regulation due to its high degree of organisational development. It was:

"characterized by a comprehensive domain, high density ratios, differentiated organizational structures and considerable financial and personal resources." (Farago 1985:178).

Stability within the Swiss milk sector and the producer association's capacity to execute regulations were both derived from the association's high level of professionalism (Farago 1985:179-181). By providing the necessary enforcement mechanism, member compliance could be assured through restricting access to collective goods and thereby providing order to milk market conditions (Young 1990:78-9). While the Swiss milk producers exhibited a 'highly developed associational system' and were prominent in the regulatory structure, the milk processors, wholesalers and retailers all lacked a uniform representational system and were thus prevented from developing a regulatory corporatist structure.

The highly corporatized Austrian milk industry provides evidence that effective associations following state-responsive policies increase their organizational power through co-operation with other parties and a 'reciprocal transfer of resources' with the state (Traxler 1985:160-1). State power is transferred to the private interest government in the form of organisational resources, legal recognition of their regulatory capacity and guarantees of organisational security. The Austrian system of regulation is framed in law (MOG) in which the aims and means for regulation, the composition of the administrative Board (MWF) and the parameters of its concerns are specified. The effectiveness of regulatory control over the four participating interest associations was assured through legal endorsement of their compulsory membership (Traxler 1985:162). The Board can call on the organisational bases of the associations to regulate the system but it is also provided with the assistance of legally backed sanctions. Organisational security is provided through the exclusive right to participate in the policy making process by the four interest groups. While licensed by the state, the associations retain considerable autonomy in the development of regulatory policy (Traxler 1985:152-162).

The relationship between the association and its members is shaped by the regulatory attributes conferred on the association by the state's delegation of public authority. A crisis of legitimacy can arise in the tension between the association's roles of representation and regulation. The British MMB's successful history as a corporatist institution can be attributed to, in part, the emphasis placed on democratic procedures for the Board's administration. The Board is acknowledged as 'scrupulous' in its election arrangements; producers are able to vote for the majority of the Board members and hold the ultimate right to dissolve the Board. Producers have recognized that the MMB gave their members power they never had prior to its inception in 1933 and thus appreciate the Board's need to consider broader issues of state and market that may conflict with their interests. It is significant too that the assumption of public authority by associations has not been projected as the development of a quasi-political or quango institution. The MMB was able to avoid political controversy in its purchase of 16 privately owned creameries in 1979 as

"it is able to project itself simultaneously as one of the largest agricultural co-operatives in the world, and as a huge manufacturing organisation operating successfully in a highly competitive market." (Grant 1985:187-190).

1.5 Corporatism as a Mechanism for Market Stability, Sector Restructuring or Economic Problem Solving

The literature has suggested that

"corporatism may have a specific stabilizing effect on Western societies by ensuring a co-operative form of interest mediation and by integrating interest associations into the process of policy formation." (Traxler 1985:150).

Particular interests of the dairy industry have successfully sought protection through the stability of insulated corporatist arrangements. Through the adoption of public authority, associations were able to acquire legitimacy from the state that they were unable to generate themselves. Both the British National Farmers Union and the American National Milk Producer Federation had earlier attempted to control individual producer behaviour in a climate of instability and opportunism. The dairy industry was characterized by antagonistic relations between the farmers and the dealers or processors resulting in a market fraught with uncertainty and little producer power. The unions were unable to secure compliance of all producers to price agreements and thus continued to experience unfavourable market conditions which threatened farmers' incomes. In the Dutch industry, as elsewhere, it was found that most regulations were effective only under corporatist conditions of compulsion and monopoly (van Waarden 1985:218).

Dairy market stability is often an essential goal of state policy. Even when state ideology opposes state intervention, as was the case in Britain and the US, the special needs of this industry have encouraged statutory arrangements to be developed. Opposition to any direct state role also fostered support for private regulation. Once provided with enforcement mechanisms the associations have been able to secure orderly milk markets for decades, even in the face of consumer or retailer opposition to market price manipulation. The governance of the milk market by the dominant interests in the sector has guaranteed the protection of the domestic dairy industry, stabilized prices, farmers incomes and the quality and supply of milk. In Holland,

"corporatist self-regulation in the dairy industry has generally been successful. Quality control, market regulation and reduction of competition for raw materials all seem to have improved the industry's economic position...in relation to its competitors in other countries, due to its efficiency, large scale of production, high quality, tight organization and effective private market agreements." (van Waarden 1985:218).

When criticism to state intervention and market control becomes a significant feature in the political culture, these stabilizing arrangements may be reappraised but not necessarily cancelled. How the British quota case was managed through the corporatist structures in a climate of opposition to protectionism attests to the strength of this stabilizing mechanism. The recent sector restructuring was possible within the British milk market as the government was able to recruit the Board administration to rationalise and implement the quota system while insulating the state from any effective industrial resistance which could threaten market security. The required change in production behaviour was far more readily instituted by the intermediary organisation through the strength of its claim to legitimacy and its intimate

knowledge of members.

All dairy industries were initially faced with the task of implementing quality control of the product in response to the demands of the consumer and public health organisations. Corporatist statutory arrangements in the milk industry were found to be a more centralized means of regulating commodity production. Quality regulation is more efficient and economical when pursued by agents of the industry. The state in corporatized agricultural economies also expected the statutory bodies they have empowered to act as modernising agents in agriculture by promoting both the improvement of standards and the efficiency of production. In Britain the MMB

"has acted as a major promoter of new techniques - machine milking, artificial insemination, bulk collection, improved breeding, milk recording ... (and) the conversion from churn to bulk collection of milk ... provides one of the most significant examples of the "modernising" role of the MMB." (Winter 184:114).

Private self government has been credited with a positive problem solving capacity. Conflict management of the crisis between the producers and the dairy processors and dealers is a salient example of how the corporatist system is effective in resolving a key conflict facing the industry. All the statutory structures that govern the various milk industries generate a political consensus both within the industry and between the industry, the state and public. The potential for conflict over price fixing, industrial restructuring or quality control has been generally averted. Although individual union branches, such as the Farmer's Union of Wales may attempt to influence policy through political action, once they have been incorporated into the policy process even significant issues like the rapid imposition of the British quota system do not cause much internal dissent (Cox, Lowe, Winter 1990b:18-19). To concur with theorists who perceive corporatism as a means of controlling the working class, labour relations have been characterized by a significant absence of conflict. In Austria an "all-embracing and co-ordinated wage and price-policy" that has been negotiated within the corporatist system has met with labour compliance (Traxler 1985:163).

In the process of market stabilization, sector reconstruction, industry rationalization or modernization, the state relied on the delegated intermediary association to execute policy. As each milk industry implemented self regulatory measures they were successfully involved in problem solving tasks confirming the role of corporatism in achieving the economic agenda of the state.

"The MMB seems to be a classic case of an organization which is more flexible than state agencies, closer to the problems it attempts to resolve, and better able to win the co-operation and support of those directly affected." (Grant 1985:194).

Traxler notes that the capacity of private interest governments for problem solving varies according to the condition of the national economy and the nature of the association. In essence it is

"not the violation of member interests, but the violation of organizational interests which sets the limits to the problem-solving capacity of associations

involved in systems of private governance." (Traxler 1985:167).

From a review of the corporate structures in Austrian milk industry Traxler concludes that associations with 'comprehensive domains' can assist the process of modernization during times of economic expansion but during long term economic crises the association must expect to lose members and employment. While negotiations over wage and price policy require members to defer their interests for the maintenance of corporate interests, the more extensive demands of modernization threaten the organization's own interests (Traxler 1985:166-7). The system's problem solving capacity appears to subordinate members' interests and even the incorporated association's interests to the functional demands of the state economy. In times of acute crisis this invariably creates a difficult political dilemma for the private interest government.

1.6 The Continuance of Corporatist Arrangements

Studies of the milk industry's incorporation in the policy making process have suggested that a unique set of conditions exist in the sector which have permitted this mode of self regulatory governance by the private associations. That corporatism requires a specific environment to flourish questions the durability of such relations. Several aspects of the scheme suggest a vast potential for instability contained within the corporatist form of organization. External conditions may alter the fortunes of the corporatist milk sector, a threat evident in the European industries' experience during the wake of the EEC milk regime of 1984. Moreover the corporatist arrangements which had characterized the earlier American milk industry were undermined when this closed policy community became dominated by regional super-cooperatives in the 1960s (Young 1990:80-2).

Other causes of instability originate in the corporatist structures. The Austrian example suggests that associations who adopt a public mantle risk both destabilization and member defection (Olson 1965 cited in Traxler 1985:163). Thus the milk boards who seek to maintain their supply of resources and authority from the state need to maintain their distinction from state bodies or quango institutions to retain their internal legitimacy. In the regulation of the dairy sector a balance must be established between pursuance of the sector's concerns and consideration of the needs of the whole economy. The conflict between producers and processors also remains an underlying tension in the structured relationship which must be attended to.

In some societies corporatism is a prevalent form of policy making and is not questioned on ideological grounds. In Britain the corporatization of the milk sector is peculiar in a predominantly market based economy. While there is agreement that indirect state intervention is beneficial to the industry and the consumer, corporatist arrangements may persist. A change in the ideological climate will severely test the flexibility of the private interest government. Grant suspects that both the growing political concern of the acceptability of corporatist forms of regulation and changes in the economic conditions of the sector do not guarantee the continuance of the British milk marketing system (Grant 1985:191-5).

1.7 Conclusion

The unique properties of the liquid milk industry played a key role in the establishment of state licensed milk authorities in many national economies. As a perishable commodity of economic importance and symbolic significance, milk possessed particular organisational needs in its market. The industry remained acutely vulnerable outside government protection which hampered the delivery of a regular milk supply to the concerned public. While the producers sought a more secure income through the assurance of a government sponsored regulated milk industry, the state was motivated by economic concerns and consideration for the consumers' expectation for a better service through government intervention. In many of the case studies outlined, a collaborative arrangement was agreed upon between the state and the producer association to share in the management of the industry. In exchange for the supply of government assets and industrial protection, the producers were to regulate their milk industry in accordance with state agricultural policy. Thus corporatist arrangements became a vehicle for the advancement of market stability, sector restructuring and economic problem solving in the milk sector. Several aspects of the corporatist structure were also found to hint at an instability within these arrangements. The ideological climate, the tensions inherent in pursuing government policy, and changing economic conditions external to the corporatist structure may all serve to undermine the alliance enjoyed by the producer with the state. It is the purpose of the following chapter to expand upon the theoretical constructs of corporatism briefly encountered in the preceding discussion, with the objective of broadening the basis of understanding of this study of the interaction of key parties in statutory regulated economies.

CHAPTER 2

THE THEORY OF CORPORATISM

2.1 Introduction

Corporatism is an approach to the investigation of the power relations between organized interest groups and the state. Critical of the conventional or pluralist ethos of political arrangements in capitalist liberal democracies, corporatist writers have developed an alternative interpretation of the interaction between functional interest groups and public authorities. The negotiated relationship is presented by corporatists as exclusive, monopolistic, as a mechanism of social control or, for some, as a means of suppressing class conflict.

The first theoretical reference point of contemporary discussions on corporatism is Schmitter's definition of 1974. Earlier theorists had referred to the post war entrenchment of trade associations in the administration as a distinctive form of policy making (Beer 1956). Corporatism was the intimate involvement of the public bureaucracy and organised private interests in the formulation of economic policy. Schmitter's definition transforms corporatism from a process of policy making to a political form of the state. His departure was in identifying corporatism as an institutionally structured system that was neither competitive nor open, but was a "system of state-licensed monopoly" (Williamson 1989:11).

"Corporatism can be defined as a system of interest representation in which the constituent units are organised into a limited number of singular, compulsory, non-competitive, hierarchically ordered and functionally differentiated categories, recognised or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain control on their selection of leaders and articulation of demands and supports." (Schmitter 1974:13).

This initial conceptual statement was designed to overcome the wide variety of interpretations that theorists brought to the discussion of corporatism, located in their differing concerns within the wider political, socio-economic and organisational context (Singleton 1990:169). An ambitious agenda was set by the corporatists and drew criticism to the theory as being vague and ill-defined. Since Schmitter's reconstruction of corporatism, the focus of enquiry has altered and the definition expanded and contracted through several theoretical crises. In more recent work a broad consensus exists that corporatism is a shared approach to the analysis of organised interests and their relations with the state. Corporatism offers an alternative menu for investigation but does not aim to be a complete answer to theoretical issues.

In this chapter plotting the progress of corporatism as a theoretical construct from a historical ideology, a process of state policy making, a political form of the state, to an explanation of a particular form of state relations with interest groups lays the foundation for the following

discussion on the corporatist theoretical model. The key features of corporatist relationship between the state and participating producer associations are examined with reference to the earlier conception of corporatism derived from the study of the tripartite relationship between the state, the labour unions and capital, and the later theoretical formulations of meso corporatism and private interest governments. Some of the main criticisms of the theory of corporatism are then touched upon. Corporatist theory is finally assessed in its value to the study of the New Zealand milk industry and a set of discussion points are presented as a theoretical agenda through which a greater understanding of the New Zealand Milk Board history may be achieved.

2.2 Corporatist Ideology

Corporatism as the recent study of particular structured relations in organised interest group politics is derived from the corporatist ideology that arose in the late nineteenth and early twentieth century. Framed in a hierarchical and organic structured society, corporatism was an idealised vision of how relations between the state and the society might be ordered. In response to the changing social and economic order of the newly emergent industrial society, corporatist ideology provided the state with the role of moral guardian and charged it with the duty to intervene in economic and social affairs to ensure order, stability and self reliance. The functional interests of labour and capital were to be organised into co-operative regulatory bodies to oversee economic behaviour and maintain labour's subordinate position. These state licensed intermediary bodies, corporations, were the mechanisms for state intervention. Such arrangements encouraged the self regulation of producer's behaviour and a disciplined workforce that accepted the regulated relationship in exchange for the security and welfare provided by the corporation. Antagonistic class loyalties were replaced with functional or sectoral solidarity in the structured relations of the corporation. Restraints on representative democratic government were expected in obedience to the higher moral concern of national interest, justice and the natural hierarchical social order (Williamson 1989:21-34).

Corporatist ideology served to structure and legitimise political and economic arrangements of certain authoritarian regimes. A system of monopolistic producers' associations and labour syndicates was established in fascist Italy which allowed capitalist enterprises to emerge protected by state control of representative interests, the eradication of the producer's competition and regulated access to political decision making. Thus state licensing of private interest associations and appeals to the concept of functional representation has historically provided a means of state influence in production without recourse to direct state intervention (Williamson 1989:34-44). In non-authoritarian societies, corporatist structures which bring labour and capital together under state influence cannot rely on the support of repressive state mechanisms. However, in highlighting the historical corporatism, Schmitter surmised that these trends may relate to an undermining of liberal democratic and pluralist forms of political representation in advanced industrial societies (Schmitter and Lehmbruch 1979:28-30).

2.3 Corporatism and Theories of the State

Contemporary discussions about corporatism are derived from a critique of the conventional description of interest group politics. The pluralist ethos describes the decision making arena as a competitive market of pressure group interaction. The state institutions are said to provide a neutral context within which a plurality of elites from representative associations

of organised interests can influence policy. As a rejection of the pluralist form of the state, early corporatists set themselves an elaborate task of providing evidence that the forms of political representation in liberal democracies were changing wherein the state would be soon characterised by closed policy networks. Schmitter was predicting the development of a new political form to replace pluralist politics (Cox 1988:296). While this corporatist approach was found to lack predictive utility at the macro level of the state, theorists have continued to respond critically to the undifferentiated pluralist description of advanced industrial societies (Cox 1988:303). Radical materialist, elite and managerial literature have also informed the debate on state theory. Corporatists have been influenced by these concerns and have explored both the socio-economic and organisational level of analysis in the study of group-state interaction.

Corporatist structures are located in the production sphere (Williamson 1989:91-2). Thus many political theorists have used materialist theoretical constructs to explain corporatism (e.g., Jessop, Offe, Panitch, Westergaard) where it is defined in the context of advanced capitalism as a political structure integrating socio-economic groups through mechanisms of representation, elite co-operation and social control of the masses (Panitch 1980:3). These arrangements control class politics through a structured compromise of labour with the state and production agents of capital.

However, empirical evidence does not often support the Marxist presumption that the state serves the interests of the dominant faction of capital as corporatism has developed in differing historical and economic conditions (Schmitter and Lehmbruch 1979:38; Cox 1988:305). Most corporatists agree that there is an unequal distribution of political power based on social relations between capital and labour in the production process but they do not presume the organisation and processes of collective action are exclusively class based. In functional interest associations, sectoral or industrial interests shared between labour and capital are often the basis for action against other sectoral interests (Cawson 1988:201). Corporatist structures also divide those organised interests granted access to the state and those excluded from such arrangements.

While reference to the socio-economic system may allow appreciation of the dynamics in capital and labour organisation, it is not appropriate for the analyst to ignore other bases on which interests are organised. Investigation into organisational processes provides one alternative dimension in interest group study. Managerial literature furnishes the theorist with further explanatory variables that describe the institutional context for group-state interaction. Central to recent corporatist theory is the effect of organisational processes on interest formation and articulation. Theorists have also referred to the state and its institutional contingencies in explanatory models (Williamson 1989:131-2). Schmitter for instance, discusses the state's involvement in corporatist arrangements as guided by organisational contingencies (Schmitter 1985:41-3). It is these other bases on which interests are organised that are important for the understanding of corporatism.

2.4 The Development of Corporatism in Liberal Democracies

The historical development of corporatist structures in liberal democratic societies has been variously attributed to the increase in state activity in the post war era (Cawson 1983), the rise in national economic planning and incomes policy boards (Panitch 1988), or the state's response to a growing economic crisis where the state, drawn into greater economic

involvement, pursues corporatist arrangements as an alternative form of political economic organisation (Winkler 1976). As the bureaucratic state has increased its sphere of activity it seeks to delegate some of the burden to quasi-public associations. Although the state's interest may be served by direct intervention, foregoing an extensive regulated intervention allows the state to retain political legitimacy, avoid the costs involved and make use of the association's local knowledge and resources (Streeck and Schmitter 1985:22-45).

Corporatist theorists have assumed a role for the state that is often not clear. In claiming that to exercise control over economic actors the state establishes, enters into and maintains corporatist arrangements, there was no agreement on what it is that the state seeks to control. Theories of the state have referred to the general imperatives of the government sought in corporatist arrangements but have not successfully explained the specific interests served by this measure of influence the state gains over the behaviour of economic actors. Schmitter suggests the state's concerns lie in the maintenance of state legitimacy. Cawson and Saunders postulate that the chief interest is sustaining the hierarchical social order while Offe argues that it is the need to reconcile contradictory institutional demands that the state seeks through corporatist arrangements (Schmitter 1985:41-3; Offe 1981:153-5; Cawson & Saunders 1983:26; Cawson 1986:56). Williamson suggests the state's involvement is demanded by the need to maintain a social order while addressing the tensions inherent between the intervening state institutions and the production sector of the economy. By exploring how corporatist structures resolve the existent conflict it is possible to appreciate the state's effort to maintain "a social order against socio-economic pressures inimical to it" and provide a crucial focus for corporatist analysis (Williamson 1989:138-140).

Production associations enter into corporatist arrangements with the state to prevent direct state intervention, to retain some autonomy and to acquire a greater share of resources and status. The public status offered to the association includes access to state resources and authority, access to members it may represent and its involvement in policy planning and implementation (Offe 1981:136-7). However it is a perceived threat of state intervention that typically motivates the association to conform. In a liberal democracy compliance would be ensured through each association being individually vulnerable to the threat of the state acting authoritatively (Williamson 1989:109).

The association's power structure is appropriately hierarchical in the leadership's control over the members to ensure the implementation of policies formed through unrepresentative bargains struck with the state. To maintain its sovereignty over members the association must ensure they have no recourse to alternative representation and thus the association often becomes a monopolistic supplier of personal or productive services for members as an inducement for their collaboration (Olson 1965). Its authority is reinforced by some means of compulsory membership sustained by the state and the industry. When the association satisfactorily regulates behaviour it becomes redefined in the political arena as a state dependent regulatory body.

At the centre of Schmitter's definition of corporatism "is the idea of the state licensing organised interests, which affords some measure of influence over their behaviour, in return for publicly sanctioned monopoly." (Williamson 1989:89). Schmitter's earlier system of intermediation between the association and the state was extended by Cawson, and further encapsulated in the theory of private interest government theory, to include the role of enforcement of government policy (Cawson 1983:455). The state delegates a measure of its

authority to the association to exercise on its own behalf providing the association with the privilege of "the ability to rely on legitimate coercion." (Streeck & Schmitter, 1985:20). The regulatory role of the association does not refer to the application of typical internal regulations that members accept as necessary for the smooth functioning of the organisation but the imposition of external regulations on behalf of the state (Crouch 1983:458; Grant 1985a:20-1).

A further role played by the regulatory leadership is the structuring and distortion of members interests. Streeck and Schmitter describe an interactive relationship between social and organisational structures which shapes and constrains collective identity formation (Streeck & Schmitter 1985:19). Groups "no longer merely reflect or represent interests, but are a part of the process of forming them." (Cawson 1986:12). This function frees the leadership from accountability in its representative function. In a corporatist relationship, members accept the legitimacy of the association in its role as a regulatory and enforcing agency even when they do not support particular interventions (Streeck & Schmitter 1985:20).

Therefore for the association to act as a public regulator, certain organisational conditions are required. All producers that are the target for intervention must fall under the association's jurisdiction. This may be achieved through the licensing of individual producers or the imposition of a scheme of standards to be met by the producers. As the leadership needs to control and monitor the member-producers activities, and at times elicit their collaboration, there is the demand for careful use of sanctions and inducements, and a change in the form of the association to include its regulatory functions. While the full implications of the contradictory mantle of both regulator and representative requires further study, a potent area of tension exists within the corporatist structure. It is also evident that as the association takes on a greater role in implementing public policy the form of corporatist relations becomes more developed and the containment of this conflict becomes more crucial to the corporatist agent's future (Williamson 1989:110-112).

2.5 Meso Corporatism

Corporatism was initially defined in the literature as a tripartite relationship between the peak associations of state, capital and labour at the national level (Singleton 1990:165). Attention was primarily focused on national incomes policy agreements where the integration of organised interests into government decision making was most apparent. However, corporatism has not been a useful explanatory concept of entire political systems and many writers have realigned their inquiry to examine corporatism below the national or macro-level (Schmitter & Lehmbruch 1982:1-28; Grant 1985; Cawson 1985; Crouch 1983). With their primary focus as the specialised interest associations at the sectoral level, meso corporatism marks an explicit shift in analysis from the macro-focus describing a particular form of state to a concept concerned once again with the process of policy making.

Meso corporatist interest intermediation also suffers problems of definition. While Wassenberg attempts to distinguish meso from macro corporatism in terms of the institutional level of both the state and private actors involved (Wassenberg 1982:85), Lehmbruch's definition focuses on the relationship between the state and a single sector or branch of industry (in Young 1990:74). To avoid the rigidity contained in such definitions, Cawson preferred to focus on both the structural level of the interest association and the characteristic

issues each level is interested in (Cawson 1985:11-12). However, examples of cross-level corporatism persist to confuse even this distinction. Williamson suggests the solution lies in referring to the scope of issue as a base for separating the levels, pointing to the recognizable "distinction between broad national economic problems of intervention and more restricted problems of intervention into specific sectors." (Williamson 1989:159).

Rather than the tripartite relations familiar in macro corporatism, meso corporatism may often concern a bilateral arrangement between, for instance, the state and capital. The class dimension that is prominent at the macro level is undermined or absent in sectoral relations where capital and labour may share a common interest in seeking state assistance. Moreover, while in studies of corporatism involving peak associations at the national level political, organisational and social characteristics are crucial conditions for its establishment, it is the structure of the sectoral economy that is the predominant factor of meso corporatist arrangements. Certain products and industries seem more appropriate targets for meso corporatism. Some writers contend that the development of corporatist arrangements can be attributed to the needs of a specific environment, the agricultural sector is frequently cited as a prime example. The corporatization of the dairy industry in particular has been consistently referred to as evidence of the existence of certain policy areas that are best served through institutions of group self regulation (Keeler 1987; Metcalfe & McQuillan 1979).

2.6 Private Interest Government

Maintaining the focus on bipartite relations, Streeck and Schmitter describe a further theoretical refinement: the private interest government (PIG). By PIG they refer to

"arrangements under which an attempt is made to make associative, self-interested collective action contribute to the achievement of public policy objectives ... At its core is a distinctive principle of interaction and allocation among a privileged set of actors. The key actors are organisations defined by their common purpose of defending and promoting functionally-defined interest, i.e. class, sectoral and professional associations. The central principle is that of concertation, or negotiation within and among a limited and fixed set of interest organisations that mutually recognise each other's status and entitlements and are capable of reaching and implementing relatively stable compromises (pacts) in the pursuit of their interests." (Streeck & Schmitter 1985:10,17).

Pluralist pressure groups develop into PIG's through a typical political process which begins with disputes between state agencies and the interest association concerning the nature of authoritative state intervention into the association's members' behaviour. Incorporation and the acquisition of public authority by the association follow with association avoiding direct state control and the state solving efficiency, legitimacy and cost problems inherent in an exercise of direct intervention. The feature that distinguishes private interest government from other forms of intermediation is the extent of the delegation of public powers to the interest association by which it can regulate its members. As an intermediary between the state and individual members, the association assumes public powers, is involved in public

policy making and is extended public regulatory functions by the state. The granting of political status to the interest group is expressed by means of a special relationship with the state wherein the association participates in the processes of decision making and enforcement, sharing the state's authority (Streeck & Schmitter 1985:10-20).

2.7 Conclusion : The Validity of Corporatism in the Study of the Milk Industry

Criticism of corporatism was fielded from several fronts: Marxists decrying the lack of class analysis in the concept (e.g. Panitch 1980); empiricists criticising the validity of corporatism to describe contemporary state forms (e.g. Therborn 1987); and the pluralists who believe corporatism is contained within the pluralist model. The corporatists' response was to modify and redefine the concept. The current reorientation in corporatist studies to meso corporatism and private interest government may have provided the theorists with a useful analytical tool. Some have reiterated the criticism of the pluralist that such behaviour is still incorporated within current theoretical constructs and that "corporatism" is a superfluous theoretical statement. However what distinguishes the corporatist model from pluralism is the absence of voluntary associative behaviour. Associations under pluralism still remain dependent on members' support for any policing activities of the regulatory body. In the corporatist model the regulations must be accepted and complied with. Only the jurisdiction of the association is possibly subject to review not the legitimacy of a particular agreement (see Williamson 1989:Chapter 9).

Corporatism is a distinctive form of interest intermediation which permits indirect state intervention through the allocation of public status to regulatory producer associations. Several defining characteristics of corporatism have persisted throughout the permutations of theoretical development including the most advanced form presented by theorists, the private interest government. The state-licensed association ensures compliance with negotiated arrangements and, in the more developed form, acts as an enforcing agency by implementing imposed regulations on behalf of the state. As an explanatory concept the meso corporatist analysis of specialised interest associations at the sectoral level has offered a more valuable framework for empirical studies and is instructive in the study of the dairy industry.

In the preceding review of European and American milk industries, the needs of this specific sector appeared conducive to the development of corporatist arrangements between the sector and the state. Statutory regimes consistently structured the milk industries, licensing monopolistic representative associations to regulate producer behaviour and implement state agricultural policy. Through the delegation of public authority to the self regulatory private government, the state was able to secure market stability, contain industrial conflict and institute programs of restructuring and rationalization of the milk economy.

Several questions arise from this review that will serve to inform this current historical study of the New Zealand Milk Board. Initially it is important to ask that given the validity of corporatism as an explanatory model for the structuring of many milk industries in liberal democracies, does it apply to the organization of the milk marketing system of New Zealand and in what way does the New Zealand practice of corporatism differ from other documented cases? How does private interest governance affect the industry's capacity to perform? Are corporatist arrangements the most efficient means of organizing the sector? Does this system

protect the industry while safeguarding the needs of the producers (income security), of the consumers (supply and quality control), of the dairy companies (supply and price stability) and the state (implementation of policy and avoidance of both market conflict and political controversy)? Are certain economic actors of the sector marginalized by corporatist policies?

As an analytical tool, the meso corporatist model of private government offers much to the inquiry into the relations between the state and the interest groups. The literature review suggests further considerations of significance. Do corporatist structures allow stabilization of the market in the face of conflicting parties' demands in the sector? Is corporatism a means of conflict management for the milk industry? Does it constitute an appropriate mechanism by which the state can implement institutional changes demanded by the needs of the broader economic agenda such as restructuring, rationalization or modernization? Is the corporatization of the milk industry a means of providing the sector and the state with a genuinely positive problem solving capacity? Is this affected by external structural or economic conditions? Finally, how durable are corporate structures? Given the specific environment that is required for corporate structures to prevail, would specific changes to, for example the political climate, threaten the continuance of these structural arrangements? In the exploration of these concerns in the history of the New Zealand Milk Board it is hoped to offer a greater understanding of the interaction between key parties in the establishment, maintenance and operation of state licensed bodies.

CHAPTER 3

HISTORY OF THE NEW ZEALAND MILK BOARD

3.1 Introduction

Growing concern in the community over the inadequate milk service had been the catalyst for the reorganisation of the national milk supply. The poor response of the milk sector to early local initiatives served as a catalyst for a national inquiry into the liquid milk industry. The Milk Commission of 1944 was then set up by the government to report on the obstacles to a better milk service. This chapter explores the link established between the organisation of the milk industry and its ability to provide a quality service within the context of the Milk Commission's report. It outlines those early efforts to secure a constant high quality milk supply through structuring the industry, examines the problems of organisation and poor conditions of many local milk supplies featured in the report, and discusses the Commission's recommendations for industrial reorganisation that was to serve as the basis for the regulated milk industry. This chapter is largely derived from the Report of the Milk Commission (1944).

3.2 Early Organization of the Milk Industry

Regular practices had been established in all sectors of the industry prior to the first Milk Act of 1944. However the manner in which industrial organization of liquid milk processing had developed in many regions did not assure market stability nor a regular supply of quality milk for the consumer. Each area evolved a distinctive system in response to particular circumstances which was often determined by economic conditions or pressure from interested parties. Wellington and Auckland alone had effectively sought a directed organization of liquid milk supplies.

The earliest regulations concerning milk production enabled local health boards in 1881 to licence and inspect local dairy farms as a precaution against outbreaks of milk related diseases. Quality standards were formalized in legislation of 1883, superseded by the Food and Drugs Act 1908. Milk and Dairies Regulations of 1895 authorized some local authorities to control retail milk sales. In 1898 these regulations were replaced with the Dairy Industry Act administered by the Department of Agriculture.

The Wellington municipal authority had a virtual monopoly of the milk supplied in the city, controlling the industry since 1918 with the inception of the powerful producers' group the Wellington Dairy Farmers' Association and the City Council's Municipal Milk Department. The Council had received its authority through the local Milk Supply Act of 1910. As the quality of milk and conditions of its supply continued to decline, the complete reorganization of the milk supply in Wellington had become imperative. The collaboration of the producers and the Milk Department provided the city with an economical quality treatment and distribution service which guaranteed the producers a secure income. Their relationship with the Department ensured a higher price for the supplier and better quality milk for the consumer than could be found elsewhere in New Zealand. The pressure to secure the supply of high quality milk led to the Council's adoption of a system that controlled both supply levels and the standard butterfat content of milk. The scope of the Wellington organization,

its volume of business and standard of production make it conspicuous among other less successful ventures.

Auckland's metropolitan Milk Council arose from a severe price war between companies in the 1930s which was reducing returns to the milk supplier sufficiently to threaten their livelihood and the future city supply. The Council was created by 1933 Milk Council Statute to organize and protect the supply. It achieved control of the industry through the issue of licenses to milk producers, the adoption of a zoning scheme (1940) to rationalize the distribution of milk, the initiation of a system of quality testing and by placing selling agencies under the Council's jurisdiction. In response to the deleterious condition brought on by unrestricted competition, the Auckland authorities developed a unique system of "tight pools". Each tight pool consisted of groups of producers associated with a particular treating house who were licensed to supply that house rather than the city directly. Thus the Council was able to control the output of milk to some extent.

The irregularity and poor quality of the Dunedin liquid milk service had also led to the eventual organization of a producers' body. Prior to the formation of the Dairy Farmers' Co-operative Milk Supply Co Ltd, the industry was controlled by the vendors and producer-vendors under the Dunedin Milk Vendors' Association and reflected their commercial interests. The incorporation of the Milk Supply Co in 1942 led to the negotiation of industrial contracts between the two key actors and allowed producers to regain some control over their business. The Milk Commission (1944) suggested this reorganization would eventually allow the development of the milk supply to a more favourable condition.

Controlled by a local Milk Supply Act 1914, the Christchurch milk industry remained in a state of disorganization. Although not suffering from the substandard supply of other regions, it was characterized by strong hostility between sectors of the industry. The producers were organized according to their affiliation with the raw milk or pasteurized milk vendors, the parties to the conflict. Thus it was the vendors who dominated the industry and determined prices, contracted terms, supplies to be used and the method of seasonal adjustment. As conditions of supply in Christchurch had not provoked either the establishment of successful producer associations or better industrial organization there was no recourse to agreed policies for quality control or guaranteed supply.

In each centre the vendors' associations controlled the direction of the industry and their commercial considerations shaped the organization of productive activities. The demand for milk was made through the vendors and they determined all aspects of the supply: the quantity, the time, the conditions and the price. In the most pronounced case of commercial monopoly, Christchurch vendors controlled the level and standard of production through their commercial activities. They naturally sought to purchase milk produced at the lowest price which was to determine the quality and consistency of the milk supply.

Characteristic of the vendors' domination was the lack of standardized control over the whole process of milk production. Quality control had not been achieved through the commercial led organization of the industry. While natural conditions permitted the maintenance of a better supply than elsewhere, the weakened position of the Christchurch producers still threatened the security of the milk supplied for consumption in terms of quality and quantity. When supplies were inadequate to meet the winter demand all regions relied on suppliers from outside the regulated stock through the issue of temporary contracts, undermining the

efforts at improving the quality of milk offered. Responsibility for the condition of processing was divided between the Health Department, the Department of Agriculture and the City Council who were all guided by different regulations and administered through licensing. A multiplicity of licenses existed which did not ensure efficiency in their inspection system. It was also found that when farmers could not adequately secure a viable income through the production of liquid milk they sought the security of the guaranteed price programme in supplying the factory milk industry. Thus both the maintenance of the volume of milk output and higher hygiene standards demanded by the consumer remained in doubt with the uncertain economies of the industry.

The initiation of organization in liquid milk production was often prompted by the severe conflicts between producer and vendor interests which had prevented the industry from meeting the demand for high quality milk. The chaotic conditions of rationing, failed supply and poor quality milk, encouraged the members of the City Councils in Auckland and Wellington to organize and strengthen the producers in an effort to control commercial interests. While policy was determined by the vendors in Dunedin and Christchurch, even the organized systems instituted in Auckland and Wellington remained influenced by the dictates of commercial enterprise.

"...even in Wellington the Milk Department avows a policy of freedom to control the supplies and to shape its policy so as to receive profit from its undertakings as well as protect its capital rather than to ensure adequate supplies of milk of high standard." (Milk Commission Report 1944:7).

While producer organisation promised the cooperation of all suppliers, control of the output, and protection of producers' interests, a centralized authority was still required to overcome the persistent problems faced in the supply of milk for consumption.

3.3 Conditions of the Early Milk Industry

The attempts at restructuring had not overcome the many problems endemic to the industry. Each region was unable to meet the demand for a regular supply of high quality milk. Predicting the quantity of milk required by the consumer was complicated by fluctuations in demand and seasonal variation in production capacity. While a constant supply was required throughout the whole year, normal dairy farming practice was seasonal, falling off during winter months. Most vendor arrangements recognized the difficulty in procuring winter supplies and they had sought to overcome this problem through higher price rates offered in winter contracts. Prior to the regulation of the industry, the Second World War had also created a shortage of farm labour and fertilizer and a heavy and irregular demand for milk was generated by the American armed forces. A milk in schools scheme was inaugurated in March 1937 which also required a regular but broken supply. The growth in population, the increase in public purchasing power and the Health Department's campaign to increase milk consumption all served to augment the demand for milk beyond the industry's capacity. Thus the earlier supply of milk was characterized by periods of rationing, outside factory stocks, inadequate supplies and many schools did not receive milk throughout the winter months.

As records of consumption were not adequate, estimates of consumer demand remained unknown. The Commission of 1944 (p 5) estimated the total daily quantities of milk

consumed as :

City	Population (1941)	Sales (gallons)
Auckland	223,700	28,000
Wellington and Hutt Valley	160,500	20,000
Christchurch	135,500	13,000
Dunedin	82,200	8,800
Total	601,900	69,800

Average consumption: 0.12 gallons or 0.96 pints per person

The average stated in the New Zealand Official Year Book (1941) is 0.62 pints, the difference perhaps attributable to armed forces consumption. The desired level of consumption suggested by the health authorities was 1.75 pints per person. Even a modest consumption of 1.00 pint per day, in a growing population demanded a substantial increase in supply.

Population increases had not been met by growth in herd numbers; in most cases a decrease in both the dairies licensed for town milk production and the herd numbers was registered. Dunedin was the most affected with a steady decline of 2,063 cows on licensed dairies from 1938-1943. Tracts of former dairy land were being used for other more lucrative forms of production. Mixed farming practices allowed this transition to be both simple and attractive. Over ten years in Christchurch one sixth fewer farmers were supplying town milk.

In this climate all districts experienced shortages in their attempts to supply the needs of the public. While in Christchurch there was a rationing of school supplies during the winter months of 1938-1942, Aucklanders faced the suspension of the milk in schools scheme, restricted supplies for the armed forces, milk shops and milk bars, and severe rationing of household supplies by 1943. Moreover, the reduction in available producers had prevented the adoption of stringent quality standards. While the amount of dairies that met the standards for the issue of a license from the Department of Agriculture declined, temporary licenses were often employed. Officially recognized in 1939 by the Department seeking some control over this supply source, dairies issued with an emergency temporary license did not meet the strict hygiene requirements that were expected for a permanent license. Thus when the factory suppliers were employed in times of shortage, a further unsatisfactory supply was incorporated. A manufactured milk supplier, the NZ Cooperative Dairy Company, had provided 680,576 gallons of substandard milk in 1943 and yet there were still shortages in milk supply.

Most districts possessed favourable natural conditions for dairy production in terms of fertile land and capacity to produce winter feed (especially Christchurch and Auckland) which suggested that the policy of production was the significant variable in supply shortages. A continuous supply throughout the year, or "level supply", was the strategy sought by the authorities. While summer supplies could be assured, the restructuring of the production schedule and the demand for winter feed made winter production more demanding and

expensive. Higher price rates, already a feature of contracts for winter milk supply, had not prevented the severe shortages faced during the winter months. A more lucrative seasonal variation in prices was necessary to secure the winter suppliers' income and thus a level supply for the town milk needs. The Christchurch industry was the nearest approximation to the level supply standard, due in part to favourable natural conditions but largely attributed to the more advantageous terms of contracts between vendors and producers. However the Christchurch system created a surplus of milk produced in summer. The incorporation of this surplus into the dairy industry raised concern over the level supply of liquid milk.

Quality control was a primary feature of milk industry regulation and was already initiated in several aspects of production: health of the herds, composition of the milk, hygiene conditions in the milking stations and processing plants, methods of treatment and distribution and freshness of the milk sold. These regulations were contained in the Dairy Industry Act 1908, the Health Act 1920, the Sale of Food and Drugs Act 1908 and several local bylaws. Thus several different agents were responsible for quality control of liquid milk. The attendant poor standards demanded a better system of regulation.

The Health Department sampled the butterfat content of milk and found the average content as Wellington 4.6%, Auckland 4.31%, Christchurch 4.12% and Dunedin 3.85%. Prices for higher fat content in Wellington and in some of the supply pools in Auckland had encouraged farmers to select cattle that produced richer milk. The minimum butterfat content in Auckland had already been raised to 3.5%. The practice of payment by gallonage as applied in Christchurch and Dunedin encouraged the production of quantity rather than quality supplies. Many of the herds used in Christchurch and Dunedin were providing very poor quality milk and their minimum butterfat content remained at 3.25%.

The laboratory testing systems did not adequately monitor for the contamination of milk. All milk was checked for bacteria content in compliance with the provisions of the Food and Drugs Act. However the regular testing of milk samples was not a satisfactory method of control. Health Department checks found 13% of samples from the Auckland Milk Council exceeded the prescribed plate count of 100,000 bacteria. When supplies from outside the regulated area were analyzed their bacterial count was regularly excessive and condemned by the Health officials. In Christchurch and Dunedin the conditions at plants promoted poorer quality milk, often being more contaminated after treatment. The exceptional high standard achieved in Wellington was a consequence of the implementation of a very efficient testing regime. Payment was determined by the quality of supplies offered. A good laboratory service, extensive testing procedures and a financial incentive to produce high quality milk fostered the best standards.

Conditions in milking station, treatment plants and collection depots were substandard. Many facilities required rebuilding, re-equipping and modernizing. While the organization of the Wellington industry ensured fastidious conditions of milk processing, production in the other regions was characterized by defective quality control. The standard of cleanliness demanded for the industry was absent in many dairy farms. The equipment was outmoded, little improvement had been attempted and few farms contained refrigerators. The treatment plants needed extensive alterations, re-equipping and improved procedural hygiene methods. In these inadequate conditions, contamination of the milk is possible at every stage of the process. The Commission summary mentioned that

" a number of plants inspected by the Commission are out of date; little, if any, attempt is made to ensure that only clean, fresh milk is treated; and the conditions under which they are operated expose the milk to immediate recontamination." (Milk Commission Report 1944:9).

Pasteurization was encouraged by the authorities for the health of the consuming public. However the installation of the equipment was not sufficient to ensure the safety of milk. While the re-equipment of treatment facilities was a priority, the whole process from milking shed to household delivery required vigilance over hygiene standards for pasteurization to be effective. The Commission stated that many procedures in the treatment plants suggested that pasteurization was implemented only to "improve keeping-quality". The bottling of milk was also considered another means by which the risk of contamination could be reduced. Many efforts at treatment were undermined in delivery to households of milk by can and dipper (loose), risking contamination through increased human contact. The extensive quality control regime of the Wellington Milk Department did not permit the delivery of loose pasteurized milk or raw milk for retail.

The Commission estimated the following picture of milk supplies:

	Total*	Pasteurized Retail	Bottled Retail
Auckland	84%	70%	46%
Wellington	86%	77%	All
Christchurch	37%	15%	21%
Dunedin	50%	31%	22%

* Includes retail milk, wholesale milk and milk sold under a special contract (Milk Commission Report 1944:9).

Ineffective pasteurization methods encouraged suspicion over the laudatory claims for treated milk. The supply of raw milk was still demanded by many consumers. However the risks of a contaminated supply were high. Cattle were not initially subjected to extensive testing for TB or other bovine diseases. Raw milk supplied to a military camp by the Wellington Milk Department was expected to be drawn from TB tested herds. When first tested, a high 5.4% reaction was discovered which highlighted the need for all sources of raw milk to be tested for TB. This health risk was compounded by unacceptable practices in the transport and the distribution of milk. The time that elapsed before some milk stocks were collected for processing allowed quantities to become stale prior to arrival at the treatment plant. Milk produced the previous night was left out and picked up with the morning stock. During the delivery of processed milk conditions of cartage threatened contamination. Milk left at open depots, transported by uncovered vans and the practice of carrying loose milk were features of the early milk distribution that gave authorities cause for concern.

Distribution was not only hygienically inadequate, the transport and the delivery of milk suffered from wasteful, inefficient practices. Wartime Emergency Regulations issued in 1940 to control goods deliveries and conserve both petrol and tyres, had included milk delivery zoning. While these regulations were lifted after the war, they were replaced by special Milk

Delivery Regulations that retained the economic distribution encouraged in the zoning scheme. However in a survey of vendors rounds of Christchurch (56 vendors of 153 furnished an account of their round) many inefficiencies in the distribution sector remained apparent. The 2,442 gallons of milk these vendors carted daily could be transported in three truck loads. Yet 56 vehicles were in operation for this amount at a substantially higher cost. On average each driver carried 36.5 gallons daily, whereas the rationalized delivery system in Wellington enabled each distributor to deliver 120 gallons per day. Vendor margins to cover the costs of collection and distribution reflected the inefficiencies of most services. While not perceived as too exorbitant, margins did not encourage efficient practices nor improve conditions.

Both successful quality control and level supply seemed based on a system of regulated behaviour and financial inducements. The inadequate state of the town milk supply could be attributed to the failure to reflect the needs of the industry through a supportive price structure and regulatory system. Prices to producers did not generally indicate the need for a winter supply, the importance of quality control and butterfat content. Most regions were unable to meet the demand in winter months. While contractual agreements had supported a seasonally adjusted price rate, the higher production costs were not met by the rates. It was indicative of the lack of appeal of the income received by liquid milk production that both herd numbers in production and permanent licenses issued had been in steady decline. In Dunedin the prices paid to the producer were so low that they were regarded as decisive in the serious deterioration of milk supplies.

In Christchurch the shortages were not as pronounced. This was in part attributable to the terms of contracts vendors undertook with the supplying farmers, two different methods being used: the winter quota and the declared quantity. The producer under the winter quota system received the town milk supply price throughout the year for quantities equivalent to the amount produced in the winter and factory prices for the surplus. The declared quantity scheme bound the farmer to provide the pledged amount for which the town milk supply price was paid and the balance received the factory price. Both methods tended to "stimulate winter production and to induce an all-the-year-round level supply" (Milk Commission Report 1944:28). Moreover to ensure supply account had to be made of the guaranteed price for dairy factory supplies.

The system of payment on the basis of gallonage which was practised in the Christchurch and the Dunedin milk industries did not increase the butterfat content or the quality level of supplies. There was no incentive for the farmer to be responsible for the improvement of facilities or the adoption of non-contamination practices. The highest butterfat average was attained in Wellington where the farmer was penalized for low quality supplies. Offering second grade milk cost the producer 1 pence below the rate allowed. Lower quality milk was not paid for and the supplier was charged for cartage to the depot. Butterfat rates were calculated at 17.25 pence per pound of butterfat and in the winter months a further 85% was added. The Commission reported that "this system of testing, grading and payment has an immediate and direct affect on the quality of the supply" (Milk Commission Report 1944:25).

While the service remained inadequate it was perceived as harmful to the future growth in consumption. Greater efficiency was necessary in all aspects of production to prevent excessive costs becoming prohibitive of milk consumption. Consumers were offered milk at greatly varying prices in the four districts which were in no way responsive to the different

costs in production. Without standardized consumer prices, cheaper low quality milk remained competitive.

3.4 The Milk Commission's Recommendations

After extensive documentation of the condition of the milk industry, the Milk Commission of 1944 reported on the reorganization required to facilitate adequate supplies of high quality milk. The difficulties were recognized as problems of organization and price. The producer co-operative basis of the dairy industry organization was considered an appropriate model for the milk industry to emulate. To engage a form of organization already successfully operating in the New Zealand dairy sector suggested that it was the most relevant for the New Zealand context and provided justification for the Commission to prevent other interests taking precedent over co-operative control of producers.

The system proposed by the Commission would be controlled by a Central Authority which would act as an intermediary between the industry and the government. While acting as administrative authority of government policy and representing the industry to the government, it was the expressed concern of the Commission that the Central Authority remained independent particularly in terms of its responsibility to fix prices for the industry. Local authorities were to be set up and administer control over milk treatment and distribution as had been successfully applied in the Wellington borough. The Metropolitan Milk Councils were to improve standards and economy in all sectors of the industry. Strong producer associations were noted for their success in facilitating stability and organization of production. Hence the Commission recommended that Dairy Farmers' Co-operative Milk Supply Associations be supported. Supply Associations were to protect the interests of the producer, safeguard the vendor-producer relationship, and thus enable long term planning.

In calculating the price for producers, the Commission stated the need for reference to both the guaranteed price for butter and cheese and the relationship between economy, quality and price, and stability in the price regime. The uniform price was to be based on the guaranteed price with allowances for extra costs. In pursuance of the same principles, vendor margins were to encourage efficiency and public health in the distribution sector. They were to pay the full annual quota producer price to the Supply Association with the addition of collection costs and a Milk Council levy. Margins for processing and distribution were to be set by the Central Authority. Consumer prices were to be protected through the adoption of economic measures in the industry. All milk was to retail at one price.

There were several features of a new milk industry that the Commission wished to have introduced. The problem of securing an adequate level supply was met with the suggestion for Supply Associations to produce a surplus of 10% of expected demand at all times. With careful use of surpluses, producer interests could be safeguarded while the supply of milk was assured for the consumer. To improve the collection and distribution services, zoning was to be implemented. The distribution of raw milk and loose milk was condemned by the Commission who sought the eradication of these practices. The Central Authority was to institute stringent standards for the treatment and processing of milk. This would entail extensive reorganization and the provision of testing facilities by the Supply Association or the Milk Council in collaboration with the treatment plant.

3.5 Conclusion

The dissatisfactory conditions of the procuring and supplying of liquid milk to the domestic market was highlighted in the Milk Commission's report of 1944 and served as a strong argument for the restructuring of the milk sector. In the next chapter the Commission's pressure on the government is observed to shape a successful political lobby for the establishment of a highly regulated national milk scheme under the Milk Act of 1944.

CHAPTER 4

THE ORIGINS OF THE MILK BOARD

4.1 Introduction

The following chapter describes the new milk scheme that was established under the legislation of 1944. It outlines the new organisational structures introduced to the industry and the implementation of new practices in the production, processing, and distribution of town milk. A brief history of the development of regulatory agricultural economies in New Zealand is initially provided as a historical backdrop to the realisation of a regulatory system that was to shape the milk industry for four decades.

4.2 Marketing Boards in the New Zealand Context

In many countries marketing boards have been a statutory means of organizing a market to serve the interests of particular groups. They are readily associated with the stabilization of markets and prices, increased industrial efficiency and reduced market conflict. Marketing boards often command control over prices, quantities, entry to markets, and the distribution of costs and benefits. Sadan suggests that the primary objective of a board is to secure the bargaining position of the producer in a central organization sanctioned by the government authorities to manipulate the market in favour of these privileged participants (Sadan 1979:210,233).

Prior to the first world war, opposition to government interference in New Zealand markets prevailed. The government's need for various export commodities during the war led to the stabilization of prices under state control. When the lifting of controls in 1921 coincided with a slump in prices the producers demanded the reinstatement of control measures to check the market power of overseas processing firms, transport companies and importers. In this period statutory boards were created to regulate a range of activities ranging from town planning to export marketing (Condliffe 1959:12 cited in Veeman 1979:102). The first producer boards established in New Zealand in the 1920s were export marketing boards of meat (1922) and dairy products (1923).

The role of the early boards was confined to promotional activities, reduction of seasonal fluctuations in export produce and securing better freight and insurance charges. The boards were viewed with scepticism by the business community as a mechanism to protect vested interests at its expense. The Chamber of Commerce frequently voiced concern at the "encroachment of public control in business" (Stephens 1936: 783). The establishment of the Dairy Control Board had been opposed by proprietary factories and selling agents. An initial attempt by the Dairy Board to exercise absolute control over prices and sales in 1926-7 was unsuccessful but its policy of absolute control was seen as an attempt by the New Zealand Co-Operative Dairy Company, of Auckland, to dominate the industry. The Dairy Board's display of marketing inexperience enhanced the mercantile's case against the exercise of such widespread power. The composition of the Board after the next election reflected the discontent at the extension of such controls (Stephens 1936:770-9).

The new Labour government of 1935 abolished many of these early boards and took direct control of the activities of others. The Primary Products Marketing Act (1936) established a department that provided for direct government involvement in agricultural trade. To insulate producers from uncertain markets, produce was purchased at guaranteed price levels while the risks and the profits were absorbed by the Primary Produce Marketing Department. Dairy producers accepted this institutional control, whereas producers of meat and wool who opposed the new marketing regime remained outside the regulatory system of the government until the second world war (Veeman 1979:102).

After the war, producers lobbied for a return to greater participation in the market which led to the reinstatement of marketing boards by the time of the National government of 1949. The former marketing department was abolished in 1953. New boards were formed in the 1940s as government-producer agencies which were responsible for the pricing and export activities of the industry. National economic stabilization had become a priority to the government and was sought through the manipulation of the market, primarily by means of a central agency that regulated prices. A centralized marketing regime was often used as a means of stabilizing market conditions for producers, processors and consumers alike (Sadan 1979:233). Government policies of stability were frequently pursued in agrarian economies and indicated the ability for other nations to afford this degree of stabilization (Weststrate 1959:178). Both the export trading provisions and governmental concern for a stable economy during the war provided the primary produce industries in NZ with stabilization reserve funds from withheld sale proceeds. These funds were to become the financial basis of the new boards' price stabilization programs (Veeman 1979:103). The liquid milk sector, with pressure to improve its supply, was an early subject of governmental stabilization policy. On the recommendation of the Milk Commission of 1944 (Milk Commission Report 1944: Part II) a regulatory regime for the milk industry was to be organized.

4.3 The Milk Act 1944

A Central Milk Council was established under the Act of 1944 to direct and regulate the industry. It met in Wellington under the Chair of the Minister of Health and consisted of one person from the NZ Municipal Association, two representatives of the milk producers, one from each island, and two people recommended by the Minister of Health, one being a woman representative for women and children's interests. It set up a Milk Marketing Division in the Primary Products Marketing Department to arrange the pricing system. The Director of Milk Marketing also sat on the Council. The general objectives that determined the role of the Council were:

- "(a) The provision of an adequate supply of milk of good quality for human consumption:
- (b) The organization of the production, treatment, and distribution of milk on an economic basis having regard to the need for an adequate supply of milk as foresaid." (Milk Act 1944 Part 8:100).

The Council was primarily an advisory agency with few regulatory powers at its disposal. Its principal functions included research and promotion of methods in the production, treatment, collection, distribution, preservation and storage of milk. The powers the Council did hold included the right to direct a local Milk Authority to procure a pasteurization plant, to fix the maximum payable for the goodwill of a milk vendor's business, and to arbitrate

in disputes between Milk Authorities, supply or vendor associations.

The Act encouraged the reorganization of the industry at all levels. Every milk district was to be administered by a Milk Authority, possibly a board or a borough council, designed to control the supply and distribution of milk within their area. The members of local Milk Authorities were elected by the local council or borough from among their own constituents. Subject to the fluctuations of political changes, the continuity of the Milk Authority's supervision of the industry was dependent on its administrative staff, marketing officials and government representatives (Bell 1954:3). Each Milk Authority's administrative expenses were covered by a levy imposed on milk sold in the district, limited to 0.125 pence a gallon (Milk Act 1944:37).

The duties expected of the Milk Authority were wide ranging and included the power to conduct the business of the milk industry, devise and promote improvements in production, processing and distribution, to license and administer the sale, treatment and delivery of milk, and to inspect facilities. However the indifference of the industry in many regions did not initially encourage the widespread formation of milk authorities. Boards that were established were concerned primarily with the licensing and zoning of vendors and were not involved with the production or treatment sectors (Henderson 1978:3,8).

Milk producer organizations were also fostered and when approved were authorized to license and supply the milk required in the region. The Milk Marketing Division entered into contracts with the Supply Associations wherein the Association guaranteed the milk supply and the Division ensured the price to the producer. Under contract with the Division, the Supply Associations were to fulfil the quota estimated (nominated quantities) by producers and outside supplies were to be brought in by the Milk Authority to meet any further requirements for a sufficient supply of milk. Producers and their associations who failed to supply their nominated quantity were subject to a penalty. The price of certain quantities of surplus production, above the nominated quantity, was assured by the government under the surplus milk scheme. An agreement was forged with the government to pay the Supply Associations the producer price for both the nominated quantity and a seasonal percentage of production over the nominated quantity, calculated at 17% from September to January and 10% in autumn and winter. While milk surplus to town and school requirements was distributed to the manufacturing sector, the government was not responsible for the disposal and payment of quantities beyond the nominated quantity plus seasonal percentage (Veeman 1972:228-9). Both the guaranteed prices and the surplus milk scheme encouraged the producers to participate and was to influence the development of supplier organization. Most town milk markets had Supply Associations within a year of the Act's adoption and the system soon eliminated the threat of supply shortage (Henderson 1978:2-4).

Financial organization through the Milk Marketing Division dominated the early milk regulatory system, possibly not envisaged by the legislators, and key decisions were made by the Economic Stabilization Commission which decided on subsidy policy. The Division was incorporated into the government's Marketing Department and functioned as the advisory and secretarial service for the Central Milk Council. It also pursued the promotion of the new organization and implementation of Council and government policy. While the Minister of Health chaired the Council, the Division, an important decision making body, was accountable to the Minister of Marketing, an awkward division of responsibility.

Market security was sought in the milk sector through price controls and government subsidy. In the manner typical of the government's national economic stabilization policy the Minister of Agriculture fixed the price of milk for the producer, the level of additional allowances, the margins for treatment and distribution, and the consumer price. A subsidy provided the producer with the difference between the set price plus margins and the consumer price (Veeman 1972:223).

"It is generally accepted that while the Government subsidizes the scheme it should reserve this power (to fix prices)." (Veeman 1972:226).

Consequently, the New Zealand consumer received their supply of milk at a cost below that of other countries including the US and Britain (Bell 1954:5).

While the producer price was linked to factory milk prices, the town milk producers received a higher rate to correspond with the variation in cost of producing milk for the two sectors. The seasonality of production for dairy factories could not cater for the demand by the liquid milk market for a constant supply and so allowances served to compensate for the necessary implementation of different management practices. In the milk season of 1944/5 the average price for milk supplied to the dairy factories was 8.45 cents per imperial gallon while the standard national town milk producer price was 11.87 cents per gallon (Veeman 1972:231-2).

Payment outside Wellington remained determined by gallonage, encouraging the disparity between the quality provided by the two islands (Bell 1954:14). In the first year after the legislation, quality milk was offered a higher price with a distinction between North and South Island price rates that originally reflecting the lower fat content in the southern supplies (Henderson 1978:4). However winter feed allowances were soon given to the South Island farmers in acknowledgement of the greater hardship undergone to maintain a level supply.

Crucial in the agenda of the new administrative structures was the encouragement of rationalization, technological advancement and improved quality control of the industry. The Central Milk Council was charged with conceiving and promoting methods to improve the efficiency and the hygienic conditions in all sectors of the production of milk for consumption. The duties of the Milk Authorities extended to the purchase or construction of pasteurizing plants and other facilities when appropriate; the inspection of premises, vehicles and plant; and the issuing of local by-laws that may determine the method of operation in the industry, standards to which milk must comply, and administrative requirements under the new regime (Milk Act 1944:26,35,40).

A Sub-Committee on Quality Standards was set up in the Council. The Health Department appointee for women and children Dr Muriel Bell chaired the committee. Its initial recommendation was to designate an officer within the Dairy Division of the Department of Agriculture, Tom Twomey, to supervise the renovation of the milk treatment stations (Bell 1954:4). Machinery was difficult to obtain while a post war backlog of orders persisted, exacerbated by a stainless steel shortage that stockpiling had caused. On the advice of Twomey the purchase of machinery, the layout of the plant and general improvements were eventually implemented. The new plant that was installed, the High Temperature Short Time plant, was cheaper to buy and operate, faster and more able to provide for recording and safeguard requirements. The legalisation of the High Temperature Short Time pasteurising method was effected through the 1946 Milk Pasteurising Plant Regulations (Bell 1954:8).

Twomey proposed public ownership as the best means to control the refurbishing process. Facilities were initially bought by the government and placed under the administration of the Milk Marketing Division until the newly established Milk Treatment Corporation could take over. The corporations were run by the local authority and producer cooperatives with the government carrying the responsibility for capital investment and any losses. Assistance was provided to the corporate owners through the State Advances Corporation and bank loan accommodation. Changes in administration were slow and before the instalment of the National government in 1949, Christchurch was the only centre with producer companies and Milk Authorities sharing responsibility for the treatment corporations. Henderson of the Milk Marketing Division recalls the means by which this policy was adopted:

"To those of us beyond the policy-making arena the movement towards public treatment appeared to proceed by a peculiar mixture of coercion, persuasion and carrot dangling, and in some instances by pressure from private owners wanting to sell." (Henderson 1978:5).

Some did not submit to the government's overtures. The powerful NZ Coop Dairy Company resisted government control. Three plants had been bought in the region yet the largest plant, Amburys, owned by the Dairy Company was not made available for government purchase. Eventually an agreement was reached which allowed the company to retain half of the processing trade in Auckland while the government formed Auckland Milk Treatment Corporation was responsible for the other half of trade. This arrangement persisted throughout the history of the regulated industry (Henderson 1978:6).

The government continued to purchase stations, the last bought being in 1949 at Rotorua. The common procedure was to concentrate processing at a central plant, close older stations and upgrade the target plant. While cost and expediency encouraged this approach, the construction of new plants would have served the industry better (Henderson 1978:6). Typical of the arrangements made was in the case of Hawkes Bay. The attempt to provide for the region uncovered a strong intercity rivalry. Facilities were not available in Hastings but a plant had been bought in Napier. Several "investigations, negotiations and committees of enquiry later", an old abattoir site in Hastings was eventually designated the treatment station for the two cities and the existing building was developed by 1949. Although still in use in the 1970s, this initial refurbishing was to make further extensions impossible (Henderson 1978:7).

The Milk Commission had raised concern over the procedures that threatened the hygiene of liquid milk supplies. The national integration of the industry allowed the officers of the Department of Agriculture and the Council greater access to all participants in liquid milk production. This encouraged better education in the industry, more satisfactory testing of milk supplies and the general improvement of the service. The Sub-Committee on Quality Standards also promoted many key measures for the industry to adopt including pasteurization, the correct use of new equipment, the reduction of human contact with milk, to encourage cleanliness, TB and reductase testing, to prevent the effect on milk of light and warm weather, to improve cartage and packaging (foil caps and bottles) and to adopt a pricing system that would penalize producers offering poorer quality milk (Bell 1954:4-8,15).

4.4 Conclusion

The organisation of the milk industry, the introduction of a new price regime and the implementation of an agenda for rationalisation, technological advancement and improved quality control were the key features of the duties invested in the new administration. When the Central Milk Council was replaced by the New Zealand Milk Board in 1953, the industry was preoccupied in its task of consolidating its early achievements. However, many of the issues that arose in these formative years of the construction of the regulatory town milk scheme were to shape the debates held within the industry and in public in the years to come.

CHAPTER 5

CONSOLIDATION OF THE MILK INDUSTRY : 1953 - 1967

5.1 Introduction

The major achievements of the Milk Board administration were initiated after the 1953 legislation reconstructed the industry's management in the form of a more responsible statutory Milk Board. The following chapter details the developments in the crucial price negotiations between the government and the industry, the reorganisation of the liquid milk industry participants in structured relationships of exclusive monopoly, the extensive developments in quality control and modernisation made throughout the milk sector, and the Board's sponsorship of programs to increase milk consumption. Moreover, the characteristics of the future post regulation milk industry were already evident in this early phase of industrial reform and advancement.

5.2 The Establishment of the New Zealand Milk Board

The amendment to the Milk Act of 1951 laid the foundation for the establishment of a statutory milk board. It began to reconstitute the Central Milk Council, now a body corporate, and provide the advisory agency with further powers to direct and supervise the industry. The government still staffed the Council with officers from the Public Service Commission and controlled the key economic decisions of price, allowance and margin fixing. The Marketing Division activities in the Department of Agriculture were now transferred to all statutory boards. Under the Milk Amendment Act of 1953 the government assigned new responsibilities to the New Zealand Milk Board (Henderson 1978:11-12).

The Board incorporated the Council and consisted of the Chair, W B Tennant, MP; three members representing the producers, C J McFadden from the South Island and H D Lambie and P T Jamieson for Auckland province and the rest of the North Island; one member nominated by the vendors, L E August; a nominee from the Municipal Association, P Dowse; a member representing the interests of women and children appointed by the Ministry of Welfare, Dr M E Bell; and a representative of the government, the deputy chair R B Tennant from the Department of Agriculture. This represented a continuation of the former Council's composition. Three associate members were permitted to attend from the Departments of Agriculture, L G Purser and T P J Twomey, and Health, Dr F S Maclean. The General Manager, D J Henderson, the Marketing Manager and the Board's Administration Officer also attended meetings. The Milk Board was administered from its Wellington head office, technical assistance was provided by government officers, with regional officers stationed at its branches in Auckland, Palmerston North, Christchurch and Dunedin. An additional office was opened in Hamilton to cover the Waikato and Bay of Plenty areas in 1956 (NZMB Annual Report 1:5-9; 4:4).

The Board managed its own affairs, financed by a levy set initially at 0.35 pence per gallon, and appointed its own staff. The National Milk Scheme was now under the jurisdiction of the Board. The Board was responsible for guaranteeing the town milk supply, the producer price and service margins. It entered into contracts, paying the necessary government

subsidy, administered all government owned treatment stations, supervised surplus milk disposal and the "milk in schools" scheme and assisted producer groups in obtaining additional supplies when a shortage was experienced. While the Board was given the power to operate the scheme, the government retained the right to set the producer price through negotiations with the Town Milk Producers' Federation. The Board still made recommendations to the government on margins and allowances after conducting its own cost surveys and audits to ensure that subsidy claims were correct and prices and margins were adequate (NZMB Annual Report 1:6-8; 4:4).

No further structural change was made over the period other than alterations required to better facilitate the Board's new role. Milk Amendment Acts were enacted in 1955, 1956 and 1962 to serve this purpose, while other features were covered in Milk Marketing Orders and Milk Regulations; sections of the Local Authorities Acts of 1954 (7), 1956 (134) and 1957; the Municipal Corporations Act (413) 1954 and the Co-operative Companies Act 1956 (12).

There was a regular demand for the consolidation of the Milk Act to improve certain aspects of legislative administration. By 1959 the Board was circulating a draft of proposed revisions to the Act which sought a change to the unsatisfactory condition of the Milk Authorities. Several national bodies also submitted proposals for the governmental committee's appraisal in 1961. By 1963 the Minister of Agriculture agreed to help implement particular changes asked by the industry. The resistance by the Milk Authorities to the proposals was eventually overcome in meetings between the Authorities, vendors and the Board who submitted the outcome to the government in the following year. A Milk Bill was introduced in the next parliamentary session which was designed to abolish the Milk Authorities and transfer their functions to the Milk Board and the municipal local authorities. Submissions were presented by the Board to the Lands and Agricultural Committee whose deliberations were not completed before the Bill lapsed. However in 1967 the new Milk Act was passed which incorporated the designs of the earlier proposed Bill (NZMB Annual Reports 1-14).

5.3 Prices, Allowances, Margins, Subsidies

The principal conflict between the producers' Board and the government lay in the unremitting struggle over control of producer price determination. At the beginning of the Board's first milk year, September 1953 to August 1954, the price agreement was reached for the following three years based as before on the guaranteed price system for the suppliers to the milk factories. Once the dairy produce price was fixed and the general wage order of the Court of Arbitration included, the town milk producer price was finalized at 28.37 pence per gallon on 15 September 1953. Surplus milk when sold for dairy manufacture received (in pence per gallon) 15.75 for cheese and 14.75 for butter throughout most of the year. The producer price was paid out according to seasonal differentials. For instance in the 1953-4 milk year the differentials were fixed as:

Pence per Gallon

North Island:

September	23.648
October to January	24.25
February to April	29.00
May to August	33.8757

South Island:

September	28.398
October to February	24.25
March and April	29.00
May to August	33.8757

(NZMB Annual Report 1:10)

The Milk Amendment Act of 1956 provided legal authority for the common procedure of retrospective increases in producer prices and margins (NZMB Annual Report 3:17-18).

The producer price structure was negotiated according to the terms of the Act between the Town Milk Producers' Federation and the government. No specific guidance was sought from the Board although general reports were requested by the government without obligation to pursue their recommendations. The Board and the Federation undertook regular cost surveys to report to the government on the adequacy of the producers returns. The Producers Federation and the Board were dissatisfied at this arrangement and they regularly petitioned the government for a change in the formula used to calculate the price since the Milk Commission of 1944. The price structure was reassessed after changes were made in the Dairy Products Marketing Commission's guaranteed price system in 1954-5. Variations in the formula included an increase in the labour allowance to reflect the extra work of liquid milk production, additional allowances in districts not adequately served by the allowance system which were to be paid by consumer price increases, provision for a scheme of payment for keeping quality of milk, and adjustment of the price for surplus milk (Henderson 1978:15-16; NZMB Annual Report 2:5).

However the periodic variation in the dairy guaranteed price continued and made it difficult to secure a stable town milk producer price. A troublesome supply situation and the desire of both the Board and the producers to have the price fixed prior to the commencement of the new milk year led to further successful negotiations with the government over the price setting formula. By 1956 the government abandoned its reliance on the earlier formula, and matched adjustments to those made in the guaranteed price for milk in the manufacture of the finest grade cheese. Future changes in the price were to be calculated according to the ratio of 1 pence per pound butterfat to 0.6 pence per gallon of milk. Both quality payments and special allowances were included in the new price regime (Henderson 1978:16; NZMB Annual Report 3:4-5).

The price structure still failed to include any reference to the changes in costs met by the

liquid milk producers. Producers continued to petition the government for a price formula that represented the internal costs of the industry rather than a response to the fluctuations of overseas realisations. In the Board's report of 1958 information was presented on the producers' costs and incomes from the first joint survey by the Board and the Federation to convey to the government the importance of cost considerations in the producer price structure. The 1957 survey found the average cost to the producers was (in pounds) £2668, average revenue £4150 and thus the average labour return to the town milk farmer was assessed at £1482. The Department of Statistics also published a survey of town producers costs and incomes. However with its reliance on information from the Inland Revenue Department the Department's survey was considered inadequate in its scope by the Board and Federation. With the provision of data from the annual joint survey of the Board and Federation in 1960, it was hoped that the Department's survey could accommodate the additional information. The joint survey of 1961 was to be the last (NZMB Annual Report 4:5; 5:4,6,44-45; 8:8; 9:7).

The town milk producer price for the year 1958-59, a reduction of 2.4167 pence per gallon, was rejected by the producers. Moreover, in spite of the procedure set out in the legislation, the practice had arisen where the Federation proposed price submissions to the Board who would then refer its considerations to the government. Under the direction of the Town Milk Producers' Federation, producer associations refused to sign supply contracts, one centre briefly withheld supplies and the Hawkes Bay Raw Milk Producers Co-operative Company took a case against the government decision to the Supreme Court on behalf of the Federation. The action taken by the Hawkes Bay Association to test the validity of the government's price fixation was later successful in the Court of Appeal. Consequently, a different procedure was required to be adopted formally. With the Board as mediator, the immediate conflict was resolved through some modification in the government's price fixing method whereby the procedure outlined under the Act was more closely adhered to. However protracted negotiations with the government remained ineffective. While the producer price for the following year had increased, based on an improving cheese marketing position, the Federation expressed its continued reluctance to accept prices based on the fluctuations of the overseas realisations for dairy produce. The government had begun to acknowledge supply problems could occur from price instability and advised a committee would be formed to report on the pragmatism of a new price setting formula. The Board's recommendations to improve the long term fixation of the producer price was before the government for some time. A inter-departmental review committee was established to assess the organisation of the industry which would include amendment to the price fixing system under the Milk Marketing Order of 1955. The government advised the Board in 1964 that a Town Milk Price Authority was to be established to set the annual national milk price. The Authority proposed was to comprise of two representatives from the government and two from the Producers Federation with a fifth member as chair appointed by the Minister of Agriculture with both parties approval. However negotiations with the Federation led the government to shelve this proposed Price Authority (NZMB Annual Report 6:4-6; 7:4; 8:7; 11:7; 12:6).

The linking of quality control with graduated price structures was an important feature under the new administration. The producer price in Wellington was the earliest inclusion of a partial payment for the composition of the milk. The seasonal differentials over the year of 1953-4 for Wellington producers were calculated as follows :

September	17.75d per lb butterfat + 14.933d per gallon
October to February, August 16-31	17.75d per lb. butterfat + 15.535 per gallon
February to April 15	17.75d per lb. butterfat + 21.0777d per gallon
April 16 to August 15	32.83d per lb butterfat + 25.5509d per gallon

(NZMB Annual Report 1:10).

By the milk year 1955/6 the Board had established a national scheme of payment for quality milk. The grading of milk and price differentials were based on the reductase test and butterfat content. First grade milk indicated quantities that passed the 6 hour reductase test and generally contained 4.3% to 3.5% butterfat. Standard grade referred to milk failing the 6 hour but passing the 4 hour reductase test and containing between 3.25% and 3.5% butterfat. Second grade milk was that which failed both the 4 hour test and the minimum requirement of 3.25% butterfat. For the year 1955/6 the national town milk price for first grade milk was 29.2661 pence per gallon, standard milk earned 28.7661 and second grade received 24.7661. The gap between prices for first and standard grades was increased in following years (NZMB Annual Report 3:6; 4:4).

Quality control was encouraged through other financial inducements. While the farm chilling margins did not differentiate producers who supplied additional cool storage there was little incentive for farmers to risk investment in new facilities. To encourage farm use of refrigeration in 1958 the government increased margins and introduced an extra payment for storage to provide security from the possible introduction of bulk collection by tanker in the producer's district. The response was initially limited as farmers preferred to wait for the impact of tanker pickups on their storage needs before they considered refrigeration. As the changeover to tanker collection made transport less costly, a reduction in cartage allowance was possible but the government chose to maintain the levels of allowance to assist farmers through costs incurred in the transition. These incentives were soon adopted and by 1964, 80% of town milk was collected in bulk (NZMB Annual Report 5:8-9; 6:7; 8:9; 11:8).

Other special allowances were granted. Regular compensation of about 2 pence per gallon was provided over the five winter months for special feed requirements especially in the South Island. Local circumstances such as special cartage needs were covered by the Board's allowances. To encourage the smaller outlying centres to provide bottled pasteurized milk the Board gave special allowances for the establishment costs or extra expenditure for transport. A fund to cover unforeseen and disastrous losses by producers was also sought by the Board and the Federation. In 1958 the government agreed that the end of year balance of the special production allowance be allocated for this purpose and a committee was set up to administer this Trust Fund. Due to the difficulties in assessing the merits of each claim, the Federation requested in 1961 that the funds be distributed to the Associations to administer. The Board opposed this suggestion. After a review of the Trust's administration in 1963, the circumstances for which the funds were available were clarified, the Trust was reduced to one representative each from the Board and the Federation, and the

Fund was limited to [pounds] £10,000, the surplus used for research by the Federation (Henderson 1978:14,17; NZMB Annual Report 2:11; 5:5-6; 8:7; 11:15).

Some of the costs of these incentive schemes were met through a local consumer price increase, often seasonal, rather than a rise in government subsidy. Thus consumer prices reflected the variability in local costs, some determined on a gallonage basis and others on a mileage basis which prompted the Board to seek a greater degree of uniformity in local price changes. In 1955 the government had agreed to proposals that streamlined local increases. However consumer prices remained determined by the Price Tribunal under the Control of Prices Act. In 1962 the authority for consumer price fixing was transferred to the jurisdiction of the Milk Act and thus the additional administrative step was eliminated. The government then set all national prices with the Board fixing special prices when required (NZMB Annual Report 1:12; 2:8; 9:8).

Allowance systems were also adopted as an inducement for industrial reform in other sectors of the town milk service. Treatment station margins were allotted for stations according to the volume treated each day. The demarcation and zoning of milk districts that restricted the entry of new firms and competition between participating firms was the rationale for the allocation of variable margins (Veeman 1972:239). Stations pasteurising more than 10,000 gallons per day in 1954/5 received 3 pence per gallon and those treating up to 10,000 collected 3.125 pence. In the following year the difficulties incurred by the smaller stations were recognized and an additional allowance of 0.5 pence per gallon was provided for stations producing under 1000 gallons per day. Stations treating a smaller gallonage also found it more difficult to absorb costs which larger plants could accommodate through increased efficiency. However the rise in margins in 1960 for stations with a throughput of less than 2500 gallons per day was criticized as penalty against efficiency measures. Stations which chilled and treated the milk adequately without pasteurization received 1 pence per gallon less than the above rates. Bottling treated milk earned the station a further 3.25 pence per gallon. Adjustments to margins were based on recommendations of the Board arising from their annual survey of station costs. Appeals for margin increases were often made in response to changes in labour costs. A review of the capital input required for plant expansion was also undertaken by the Board in 1963/4 in response to stations expressing concern that their revenue was to be used for this purpose. It sought an assessment of the provision of profit which should be allowed for when calculating treatment allowances (NZMB Annual Report 1:11; 2:7; 5:10; 7:7; 8:9; 11:9; 12:8).

The Dominion Federation of Milk Vendors based its applications for allowance reviews on the occasional surveys by the Board of their situation. A survey conducted during 1964/5 milk year examined the validity of adopting a standard round that would allow assessment of national delivery margin rates. Margins received by the vendor's Federation were often queried and the Board suggested an extensive study of their case was required. In response to the Board's reports, the government in 1955 had increased the fixed margins by 0.375 pence per gallon for normal household deliveries and a greater increase was allotted for delivery to shops. In 1955 the Milk Marketing Order provided the legal basis for the payment of the subsidy and margins by the Board (NZMB Annual Report 2:20). In 1959 the Board accompanied its survey with a circular to the vendors containing a more detailed guidance of services for which margins were offered to clarify the points made in the Milk Marketing Order of 1955. As the cost of milk varied according to the services performed there was no uniform payment of subsidy.

The Board was involved in the management of the vendor sector over other issues. Early disputes between the treatment stations and the vendors arose in 1953/4 over the amount of credit available to the vendor. The Board made a successful intercession in the conflict and resolved their disagreements. In order to prevent vendors capitalizing on their allocation of special vending allowances when assessing their goodwill in a sale, the Board made allowances out to the applicant vendor. In 1963 it further required recipients to enter into a deed which committed the vendor on sale of the round, to refund allowances obtained (NZMB Annual Report 1:12,24; 2:7; 6:8; 10:9; 12:9).

5.4 Organization in the Milk Industry Under the Board's Administration

In the inaugural years of Board administration the relationship between the Board and producer associations was of concern to both parties. The Board and the Town Milk Producers Federation cooperated over the administration of several issues in the industry. They persistently lobbied the government over the formula used to calculate the producer price. This concern had led both parties to undertake joint surveys of producers costs and incomes. The disaster relief fund had also been set up at the instigation of the Board and Federation. The system of assessing and fixing quotas by producer companies came under the scrutiny of the Board in 1963, resulting in the joint issue of a recommended code of practice from the Board and the Federation (NZMB Annual Report 5:14; 11:6).

Their affiliation matured over the years with the Board's Production Officer travelling extensively through the districts to provide the associations with information on the technical facilities available to improve production methods. The Board's responsiveness to the producers concerns was a common feature of their relationship. An instance of potential conflict had arisen over the small producer associations in uneconomical locations whose future was threatened by producers closer to the treatment stations and whose concern prompted the Federation to ask for reassurance that the existing town milk producers would be treated fairly. After discussions held in 1958, the Board advised the Federation that it would protect producers interests while transferring quota rights to the more suitably located association when a producer sold the farm or ceased town milk production.

The Board constantly regulated the affairs of the producers. It encouraged efforts towards amalgamation of smaller producer associations particularly when more than one association supplied a treatment station. Milk producer associations were directed to organise a committee of supply under the Act in centres served by more than one association. The Milk Regulations 1956 required that the rules of such committees be approved by the Board before exercising their authority. Considerable success was achieved particularly in the difficult case of Wellington where, after an extensive enquiry and much labour, all producers in the Wellington and Hutt area united under the Wellington Dairy Farmers' Co-op Association. However the fractured Christchurch industry prevented any cohesion developing between its producer groups (NZMB Annual Report 3:17; 5:12-14; Henderson 1978:15).

The Board's contract with the producers' Supply Associations translated into quota rights issued by the Associations to their members. For other producers to enter the liquid milk market they required a quota which some felt they were at a disadvantage to obtain. An appeal committee was established between the Board and the Federation consisting of the Chair of the Board, the President of the Federation and an independent who heard producers' discontent with decisions made over their application to supply town milk. However the

limited opportunity to negotiate over the quota rights did enhance land prices for town supply farms suggesting inequities existed between farming for the liquid milk and dairy produce markets (Veeman 1979:106; NZMB 10:5).

An administration levy existed to cover costs incurred by the town milk producer associations. Revision of the rates in 1955 continued to differentiate between the size of associations' nominated quantities. When the guaranteed amount exceeds 7500 gallons of milk per day, the association received 0.2 pence per gallon on all milk supplied. Smaller quantities received 0.3 pence per gallon. Milk sold directly to the vendors by the association secured an additional 0.2 pence levy (NZMB Annual Report 2:6).

The Board was involved in the adjudication of various sectoral disputes. Conflict had surfaced over the terms of trade of the vendors with the treatment stations, the amount of goodwill demanded when selling a vending round and the relationship between the Milk Authorities and the vendors. The treatment stations disputes with vendors were successfully mediated by the Board. What became a regular source of conflict with new entrants to the vending sector was the manner in which the benefits of the quota rights system, administered margins and restricted entry into the market were capitalized by the vendors in terms of "goodwill" claimed in the sale of a business. However it was the relationship between the vendors and the Authorities that disturbed the industry (Henderson 1978:18,20; Veeman 1979:106; NZMB Annual Report 3: 18-19; 12:14).

Milk Authorities were acknowledged as a crucial link between the industry and the consumer. Members were chosen by municipal councils from among their own associates. While susceptible to the changes in local politics, the involvement of the governmental bureaucracy guaranteed some continuity in administration. To improve the Authorities' procedures initially required a more uniform approach to the enactment of the Milk Act and greater liaison with the Board. The suggestion of amalgamating some Authorities, 18 existent in the inaugural year of the Board's administration, was first mooted by the Council in 1953 but was opposed. An unofficial organization of Milk Authorities then approached the Board for recognition as the Authorities' representative body. It was decided that subject to its inclusion of at least 75% of Milk Authorities in districts selling an average of 500 or more gallons per day, the New Zealand Milk Authorities' Association would receive official status. It was approved by the Minister in 1958 enabling the Authorities' Association to receive payments from individual Milk Authorities. Improved relations between the Board and Milk Authorities was evident by 1962 as most Authorities had granted Board District Managers the right to attend their meetings in an advisory capacity. However the Board retained significant control over the Authorities. Before their projected levies were accepted, the needs of Milk Authorities were first examined by the former Council and later the Board. The Milk Regulations of 1956 broadened the scope of the Board's jurisdiction to include areas without organized Milk Authorities. The regulations made the Board responsible for licensing of producers and vendors and milk delivery zoning outside district Milk Authorities (Bell 1954:3; NZMB Annual Report 1:27; 2:18; 3:17; 5:19; 9:15).

The Authorities were primarily concerned with the zoning and licensing of vendors. While some performed their duties effectively, other Authorities were the subject of much criticism from the vendors. With the operation of specified gallonage limitations provided for in the Amendment Act 1951 milk rounds could be held at fixed gallonages with the benefits of increased trade collected by the Milk Authority rather than the owner-vendor. Vendors

claimed the adoption of this policy denied them the opportunity to expand. In 1956 the Board issued a code of practice for the operation of the disputed section. Growth or loss of trade due to vendor initiative was to accrue to the vendor whereas the change in goodwill through housing development or destruction was to be amassed by the Milk Authorities. However, Authorities who bought the ownership of their local milk trade often leased it to the vendors at excessive rates. Still other Authorities took little interest in their responsibilities. The growing concern in the industry of these issues provoked the Board to review the powers granted to the Milk Authorities under the Act and to submit a proposal for a more circumscribed role. The government's Bill of 1965 carried the proposal further and abolished the Authorities. Even when the future of the Authorities was uncertain, prior to the changes in the 1967 legislation, a productive liaison was maintained (Henderson 1978:18,20; Veeman 1979:106; NZMB Annual Report 3: 18-19; 12:14).

Another significant actor in the milk industry was created through the government's support of the producer monopoly. After rebuilding or re-equipping milk treatment stations the government returned many to local ownership through a combination of consumer and producer association shareholders or the formation of producer companies, often with the government as an initial shareholder. During this period more producer companies were formed who purchased and operated stations. In many instances government finance was involved through the State Advances Corporation and bank loan accommodation in the producers companies' acquisition of milk stations. In Auckland and Hamilton the local milk producers companies formed a subsidiary to administer the acquired milk station. In Hamilton, Wellington, Christchurch and some of the secondary centres the milk producers companies built new stations (Henderson 1978:13-14; NZMB:12).

The liquid milk industry was characterised by monopoly structures of producers, processors and vendors. Supply Associations were established as monopolistic agencies for producers. Quota allocation by Associations was not governed by the legislation and the code of conduct designed by the Board and Producers' Federation to prevent undue discrimination against new entrants remained recommendatory. Capitalization of quota benefits was attached to the land, expressed in terms of higher land prices in a town supply farm sale. Moreover the application for quota rights by an increasing number of producers who supply the dairy produce market indicated significant

"elements of discriminatory pricing between those dairy farmers who produce for the relatively small town market and those who produce for the much larger export manufacturing market." (Veeman 1972:242-5).

The entrance of the new producer companies into the processing sector served to further consolidate the producers' monopoly within the industry.

The benefits of the quota rights system, administered margins and restricted entry into the market were also capitalized in terms of "goodwill" claimed in the sale of a vending business. The burden of competition was eased for the established vendors by the limit of milk distributors through zoning and by the payment of fixed margins based on costs. With the demand that a vendor first offers a business for sale to the Board, in practice the Board's attempt to fix the maximum price for goodwill merely established the level for the minimum price for goodwill (Veeman 1972:243).

These organisations retained privileged access to the industry and to the assets provided by the government in this restructured regulated economy.

5.5 Quality Control and Modernization

A principle reason for the regulation of the milk industry was the improvement in the quality of the milk supply. This involved extensive development of facilities and behaviour of milk handlers from production to distribution. The Board was charged with the overall responsibility to provide a high quality supply but the inspection services remained the domain of the Departments of Health and Agriculture. While the Agricultural officers conducted the control of conditions on farms, the Health Department supervised milk sampling, its delivery and in conjunction with the Agricultural Department, conditions at the milk treatment stations. The relationship between the producer associations, stations and the farm dairy instructors in the pursuance of high quality milk was developed in this period (NZMB Annual Report 1:17).

Criticism had been levelled at the industry for poor quality supplies when the Board began its management of the milk supply. In striving for quality regulation the payment on quality scheme was advanced by many interested in the industry. Initially the Board was not a strong advocate for the schemes proposed:

"In the sense of quality as meaning the cleanliness and general hygienic standards of the milk, the standards are already high and it is doubtful if any system which would be administratively feasible would result in any appreciable improvement." (NZMB Annual Report 1:18).

Improvement in the composition of milk was another issue in the quality payment agenda. Testing, grading and differential price systems were requested for both the butterfat and the solids-not-fat (SNF) content in milk. The Board had also expressed reservations on the establishment of a grading scheme citing both the practical difficulties of comprehensive and reliable testing and the effect of such a scheme on the problematic supply of the early industry. The reliability of milk standards was further complicated by the composition of milk differing according to the breed of cattle. Bell offered the following analysis:

	Jersey	Shorthorn	Ayrshire	Friesian
Fat g/100g	5.43	3.91	4.09	3.63
SNF g/100g	9.59	8.94	9.05	8.48
Riboflavin mg/100g	0.255	-	-	0.194
Thiamin mg/100g	0.048	-	-	0.0414

(Bell 1954:10)

However criticism levelled at the seasonal problem of low SNF content in the South Island supply encouraged the Board to pursue particularly troublesome producer companies. A substandard milk second grading scheme was introduced by the Board in 1955 which required certification of treatment station graders, testing procedures to be adopted and penalty rates

for substandard supplies. Targeted by the new scheme were quantities with a butterfat content below 3.25%, supplies testing less than 4 hours on a reductase test (keeping quality), and milk with excessive sediment or added water. The payment lost by the producers was retained by Supplier Associations for quality improvement. Lower grade milk was to be rejected or diverted. Milk that did not pass through the treatment stations was assumed to be first grade. As the allowances for high grade milk increased, the quality of the town milk supply vastly improved (NZMB Annual Report 1:19; 2:12).

The smaller treatment stations performed some routine testing. In the larger stations laboratories were attached that tested for keeping quality (reductase test), butterfat and SNF content, efficient pasteurization (phosphotase tests), and tests of bacteria and sediment. Procedural differences existed in each station's tests and some were not sufficiently reliable for comparison as would be required in a comprehensive payment for quality system. However the substandard milk second grade scheme was incorporated into a limited payment on quality system the following year. While inadequate testing standards persisted the emphasis remained on keeping quality and the payments for different graded milk was left to the discretion of Supplier Associations.

In particular, no test for SNF was considered reliable enough to include the SNF content in the grading scheme. While the increase in first grade milk indicated the general improvement of milk quality, the SNF content remained an issue particularly in the South. The problem was compounded by the need to maintain an economic supply throughout all seasons. A conference was called over the SNF question in 1960 with representatives of the Health and Agricultural Departments, the Department of Scientific and Industrial Research, the Dairy Research Institute and Massey and Lincoln Colleges. The presence of supplies with a deficiency in SNF was not an easy obstacle to overcome. While feeding and breeding programs that ensured an improvement in the SNF content would demand a disproportionate increase in the cost of production, the addition of dry solids to deficient supplies was another possibility. The addition of dry solids was permitted under an amendment to the Food and Drugs Regulations in 1965. However this still implied the acceptance of milk from producers that contained less than the legal minimum of 8.5% and would be at best an interim measure. The Board sought the assistance of the Federation to encourage individual producer companies to employ internal SNF improvement schemes from April 1965 prior to the adoption of its more extensive payment for quality scheme in 1966. The schemes introduced by the majority of companies included differential payments and companies without an SNF improvement program became the target for the Board's inclusion of SNF content in the new payment for quality scheme (NZMB Annual Report 1:17-18; 3:12-13; 7:11; 9:12; 11:12; 12:11-12).

Quality control was sought through financial inducement in other areas of milk production. The extension of chilling allowances to all producers provided further incentive to upgrade production conditions. The Board's concern over farm storage led to the establishment of a farm chilling committee with the Dairy Division and Dairy Research Institute. The committee also examined the problems associated with the conversion to bulk pick-up, initiating a revision of the qualifications for chilling margins in 1958 and the adoption of the UK Milk Marketing Boards standards of performance for tanks. In 1960 standards were established by the Board for the different chilling schemes under operation to best maintain the quality of milk and the Board issued a bulletin detailing the information on farm chilling. The improvement in keeping quality was attributed to the widespread conversion to tanker

bulk collection. Bylaws were also sought to demand the refrigeration of milk storage in shop dairies (NZMB Annual Report 4:10; 5:9; 7:5-7,13; 10:11).

TB testing of cattle was performed under the Animal Industry Division of the Department of Agriculture and was extended to most herds by 1953. The Board was satisfied to observe the progress of the scheme. A committee of enquiry was formed in 1954 by the government to set up a system of compensation for slaughtered animals under the scheme. Raw milk could also carry the disease brucellosis and the Board called for the vaccination of calves against it. A pilot brucellosis eradication scheme using periodic ring testing of bulk milk and whey tests on individual cow supplies was adopted on the initiative of the Christchurch producers. With a bonus provided for milk of cleared herds and compensation for animals destroyed, the program proved successful. The Board and government held discussions on expanding the Christchurch voluntary test to other districts. However the elimination of TB had to take precedence. Concern from an overseas experience of discovering penicillin residual in the milk of animals treated for mastitis also highlighted the need for producers to refrain from immediate use of supplies from treated cows. The disc assay test of the American Public Health Association was initially adopted to detect the presence of penicillin at the stations. The Brom-Cresol Purple test developed by the Dairy Research Institute was also used by stations. Producers found with antibiotic residues in their supplies forfeited the full producer price for their milk and had to demonstrate clear milk before re-entry into the town supply. The producers' Federation suggested researching alternative methods to control mastitis without the use of antibiotics (NZMB Annual Report 1:20; 7:12; 8:11; 9:11; 10:12; Henderson 1978:19).

The Board adopted the former Council's policy of encouraging the pasteurization of the milk supply by means of educating the industry and consumers. Bell recalled that

"in the days when Dunedin had a milk treatment plant that permitted flies to land on the pasteurized milk before it was bottled, there was no particular point in doing away with the billy." (Bell 1954:7).

By the first year of the Board's administration, sales of pasteurized milk accounted for 85% of all town sales. Treatment stations were also being discouraged by the Board from supplying raw milk to avoid contamination with the pasteurized product. In 1955 the Board set out conditions under which the safety of raw milk could be more assured including testing, bottling, supply isolation and appropriate labelling. The government supported these proposals on the proviso that they would not affect the availability of raw milk when demanded. In Christchurch agitation for the continued supply of raw milk had resulted in a Supreme Court action. Although some changeover to pasteurized supplies occurred in centers formerly supplied with raw milk, by 1956 further conversions were inhibited by the distance of remaining raw milk supply districts from treatment stations.

Bottled milk for retail delivery had increased by 1954 to 81% of all town sales through the National Milk Scheme. The 1956 Milk Regulations authorized the Minister of Agriculture to specify districts where milk was to be distributed in sealed containers. While the policy of the Board was to recommend this when the condition of a full bottled supply had been achieved, to safeguard bottled supply the Minister did apply the regulation in 1958 to certain districts. Bulk purchasers were also encouraged to receive milk in sealed containers (NZMB Annual Report 1:20; 2:14; 3:15; 5:20; 6:13; Henderson 1978:19).

Improving conditions in the distribution of milk was initially met with vendor resistance. Covered vehicles were considered expensive and an impediment to rapid delivery. Negotiations with the Board allowed uncovered deliveries to continue for early morning dispatches but the Health Department enforced the regulation with other vendors. Expansion in business led to some early conversion of transport fleets. Enclosed articulated vehicles were employed in 1955 at Hamilton and Hastings with a capacity to carry in excess of 10 tons. By 1959 the Board was considering the incorporation of covered deliveries regulations in the payment of margins. However in response to vendor concern over the effect on delivery costs, the government remained unwilling to regulate vehicle covering in the Food Hygiene Regulations of 1961. After joint recommendations from the vendors, milk authorities and Board were accepted by the government in 1963 the standard for the type of vehicle canopy was set under an amendment. The government did not permit compensation for the instalment of new canopies but authorized an increase in the vending margin for additional operating costs incurred from the general adoption of the standard canopy. A code of practice was negotiated between the parties in conjunction with the amendment. The condition of depots from which vendors pick up supplies also became subject to Board scrutiny in 1961 with a set of standards being implemented concerning their construction and operation. The local manufacture of plastic milk crates as used overseas was also mooted in 1963 (NZMB Annual Report 1:21; 2:16; 6:13; 8:14; 10:14-15).

New technologies and products were gradually introduced into the industry. Milk treatment stations owned by the government were passed to the Board's administration in 1953. Four stations were then placed under the direct management of the Board while the progress of four more which were the joint responsibility of the government and local milk treatment corporations was supervised by the Board. Government owned stations operating on a deed of management basis ceased to exist after the sale of the Invercargill plant in 1957. Sale of government owned plants and the erection of new stations continued. The last plant operated by the Board on behalf of the government, at Hastings, was sold in 1964. The steady increase of milk consumption encouraged plant expansion. Where the construction of new facilities was not feasible, the Board promoted the extensive alteration and re-equipping of existing plants. The development of facilities owned by milk producer companies, corporations and co-ops was also in progress. By 1957 the Board could report that "the establishment stage of milk treatment facilities has been completed". The focus of the Board then became the provision of treatment facilities for smaller centres particularly districts where the incidence of TB remained high. The promotion of new plant included bottle filling and aluminium capping machinery. At the 1956 Waikato Winter Show the display of a decrater/recrater indicated the possible impact on the milk industry of the global trend towards greater mechanization. Three stations installed the new plant in 1957. Forklift trucks were also employed. In 1965 the first high capacity bottling plant was installed by the Hutt Valley Milk Treatment Corporation. Other stations soon followed (NZMB Annual Report 1:24-7; 2:16; 3:15; 4:12; 11:13; 12:13).

Standardized baby milk was a new product introduced in Auckland by the Board with the Plunket Society, the Dairy Division and the Auckland Milk Treatment Corporation in 1953/4. It was designed to limit the varying fat content in milk for infants. Homogenized milk was also introduced in some districts to provide for the needs of babies and for the school milk supply. Homogenisers were present in some stations, yet the Board wanted further studies carried out on the effects of existing delivery conditions to homogenised milk before promoting its production. A study was made in 1957 by the Board on consumer reaction to

homogenised milk before its introduction in Palmerston North. The test proved favourable and its consumption rose steadily, although still accounting for a negligible 2.5 % of all sales in 1958 (NZMB Annual Report 1:28; 4:13; 5:18; 8:16).

Paper or cardboard packaging, a contentious issue for later administrations, was first investigated in 1956 by the Board. While the Swedish Tetra-Pak cartons were considered the most appropriate option for New Zealand conditions, the cost of importing the paper would demand an unsupportable increase in consumer price. With later renewed interest in cartoned milk the Board decided that to protect the existing market for bottled pasteurized milk additional costs associated with the packaging be included in the price of cartoned milk. The demand for carton milk fluctuated but was popular with holidaying consumers. Interest was also shown at that time in polythene plastic bag containers as used in France. Flavoured milk was offered to consumers in cartons, through the vending machines and Wright's Metropolitan Milk Co of Christchurch supplied bottled flavoured milk through household deliveries. Its popularity was pronounced at fairs, shows and sports events yet Christchurch remained the only centre that seriously marketed flavoured milk. Manual operated milk vending machines were trialed in 1959 and a bulk milk dispenser was in use in 1961. The overseas development of high temperature pasteurization and aseptic filling into cartons as a new means of reducing refrigeration costs was first discussed in 1965 (NZMB Annual Report 3:16; 5:18; 6:15; 7:15; 8:16; 12:14).

The quality of reconstituted milk was also investigated by the Board in response to public interest in its supply. The introduction of milk powders was suggested as an alternative to the high costs of supplying milk quantities out of season. However as the regular supply of high quality milk to the public was perceived by the Board as a hard won achievement of twenty years, it did not favour the risks involved in supporting a cheaper product. Nor did it feel that the consumer would generally accept reconstituted milk. Three committees were set up by the Board for a full investigation into the matter (NZMB Annual Report 10:14; 11:14).

5.6 Sponsoring Consumption. Milk in Schools Scheme, Publicity, Trends in Consumption

The school milk supply scheme was initiated in 1937 under the Health Department. In response to complaints against a high fat content school milk was the focus of an early standardized milk scheme in 1953. As the key nutritional elements in milk were identified as the protein and SNF content, butterfat was not to exceed 3.3% further reduced to 3% in 1957. While the Food and Drug Regulations demanded that milk sold should have no additives or its content tampered with, school milk as a non-commercial distribution permitted standardization and this policy was gradually implemented in all treatment plants. In the effort to enhance the appeal of milk and thus its consumption by children, experiments in homogenization of school supplies was initiated the following year at Auckland. Plants gradually implemented standardizing and homogenizing procedures for the school milk supply. By 1960 67.6% was standardized and 50.3% homogenized, the level that was maintained until the conclusion of the scheme in 1967. The producers provided the whole school supply with 75% of the school milk scheme budgeted for through nominated quantities. The control of school milk quality and its appeal to students required care in avoiding undue exposure to sunlight. Improved milk stands and covered delivery vehicles were encouraged. The Board also sought improvement in the administration of the scheme

through greater liaison with the schools. Four milk liaison officers were appointed in 1964 to assist the officer first employed in 1961. (Bell 1954:11; NZMB Annual Report 1:15; 2:11; 3:11; 7:13; 11:13).

The scheme became the subject of considerable criticism raised before the Commission of Education in 1961. Opinions on the continuance of the milk in schools scheme were first advanced at the Education Boards Conference of 1960. Milk distribution was seen to interfere with the school day, the amount of milk wastage was criticized and the taxpayers burden was also queried. School committees in Invercargill had not implemented the scheme. After the conference the Hawkes Bay Education Board ceased all milk supplies to schools in its district (Bell 1954:12). While the government assured the Milk Board of its support for the scheme, the Board expressed its concern through submissions to the Education Commission detailing the value of milk supplied to schools and on its intention to encourage improved conditions, especially refrigeration. In particular the Board saw the opposition as based on

"motives as whether it is desirable that milk should be supplied to school children at public expense when parents should be in a position to provide for all the requirements of their children...[However] it does not seem satisfactory to the Board that when a supply of milk is made available for school children at the cost of the general taxpayer an individual education board should be free of its own initiative to deny the benefits of the scheme to children within the area under its jurisdiction." (NZMB Annual Report 8:13).

The Board sought to improve industrial and public knowledge about the value and care of liquid milk in many forms, the earliest being the publication of "Town Milk" which was a quarterly journal distributed to producers, stations, vendors, authorities and other parties from 1953. During 1956 the Board and Massey supported a course for treatment station employees on milk testing procedures. Its success encouraged the course's continuance as an annual fixture. The Market Milk Week, initiated as an annual meeting organized by Massey College for retraining of station personnel, soon developed into a wider forum on issues and developments in the industry. By 1963 the conference was attended by over 100 people. In its educational drive the Board sponsored market milk bursaries for the study of the Diploma in Dairying at Massey College, initially at the rate of two to three per year and proving more popular in later years. Overseas visits by Board members had also provided the opportunity to observe new procedures and developments in the milk industry (NZMB Annual Report 1:29; 2:19; 3:21).

The lack of awareness of the advancement made by the town milk suppliers motivated the industry to set up a joint body in 1955, the Milk Publicity Council under the general supervision of the Board. Although some interest in promoting milk sales provided the Council with advertising work, it was mainly involved in public relations. The Producers' Federation was keen on direct sales advertising to meet the competition from other products and enhance milk consumption. Radio and a limited amount of magazine advertising was used stressing the importance of milk in the diet.

The Board remained concerned with enhancing public confidence in the industry through promotions and information on product care. The main focus of the Council's public relations campaign was its publicity literature. Publications initially concentrated on

informing school children of the value of milk consumption and included pamphlets, bulletins and teaching aids. A film strip on the industry was made in conjunction with the Education Department and a working model of a treatment station proved very popular in schools. A colour documentary film entitled "Every Morning", completed in 1959, was shown on the main film circuit and in schools to an "excellent reception" for several years. A new 16mm film was in production in the early sixties for use in schools. Public tours of treatment stations were encouraged and displays were set up at local Winter Shows. Later campaigns and publications promoted the use of bottled milk and care of the product by consumers. Slogans were often screen printed on the bottles. In 1966 the Council also participated in a market research survey of consumers preferred drinks.

All such activities were financed by contributions from the Board, the Producers' Federation and Treatment Stations' Federation. By 1958 the Board sought a greater financial contribution from the industry for direct sales campaigns. As former Board manager Henderson comments

"The Board did not feel that it was its responsibility to spend large sums of semi-public funds on sales promotion, and the producers were at times lukewarm when the natural increase in population tended to engender as much increase in demand as they could provide." (Henderson 1978:18).

Two years later the cost and value of an extensive direct sales campaign was investigated by the Council's advertising consultants. A milk advertising catalogue was first issued in 1963 which provided the industry with information on a variety of publicity material that it could purchase. The following year the Council joined with other national advertisers in a screen campaign prior to and during the Olympic games (NZMB Annual Report 2:19; 3:20; 4:13; 5:20; 6:17; 7:16; 8:17; 12:18).

5.7 Conclusion

The Board's agenda, prescribed by legislation, had defined much of the Board's activities in this initial stage. Many successes in industrial reform, sector rationalisation, and overall quality of the service were grounded in the efforts of this first administration. With the advent of the 1967 Milk Act, the Board steadily increased its administrative responsibilities and advanced the progress achieved at this juncture of the Board's history.

CHAPTER 6

1967 TO 1987 : THE PATH TO DEREGULATION

6.1 Introduction

This final segment of the narrative history of the Milk Board traces the change in administration of the 1967 legislation that afforded the Board greater powers to manage the industry and pursue a constant high quality milk supply in a rationalised and modernised liquid milk economy. During this period the Board also faced pressure to deregulate the industry which was effected by the Milk Act of 1988. The chapter thus explores both the material progress made by the industry and the concurrent movement towards the Board's dissolution in the statutory relationship of legislation and government appointed committees, in the price negotiations, through the institution of quality control, modernisation, and promotional activities, and with reference to a change in domestic milk consumption patterns.

6.2 The 1967 Legislation

The consolidation of the milk legislation was finally realized through the Milk Act of 1967. Crucial changes to the Board's administration occurred with the abolition of the local Milk Authorities, greater local body representation and the establishment of a special Milk Prices Authority. The Board was given further responsibility in zoning and distribution, more involvement along with representatives from the industry in the price fixing regime, and greater consumer input in its administration. In particular the Board was assigned wider powers in the distribution sector.

The legislation defined the objectives of the Board as before:

"a) The provision of an adequate supply of milk of good quality for human consumption; b) the organisation of the town milk industry on an economic basis." (Milk Act 1967, Part I:10).

The administration of the industry by the Board was to be guided by the demand for efficiency, economy and quality. Its functions included the promotion of improved technologies, encouragement of consumption, patronage of research, involvement in the price fixing regime and coordination with government and other relevant public bodies. The Board's powers to adjudicate in industrial disputes was also extended, including the management of consumer complaints against individual vendors. The Board was funded by a levy imposed on milk and cream sales of which its rate and collection practice were both determined by the government. New members were added to the Board's structure from the Municipal and the Counties Associations to represent the consumer. Under the 1967 legislation the Board consisted of ten members appointed on the recommendation of the Minister of Agriculture. Along with three members of the Town Milk Producers' Federation, one member from the Federation of Vendors, the member appointed for the welfare of women and children and the government representative, there were four members nominated by the Municipal and Counties Associations. Overall though, the structure of the town milk scheme had remained unchanged since its inception in 1944 (Milk Act 1967, Part

In its submissions to the Lands and Agricultural Committee over the new Bill, the Board cited several deficiencies related to the Milk Authorities' administration. Some milk distributors experience with the Authorities' management of the vendor sector was restrictive and expensive. The specific gallonage zoning scheme, the amount of trade held by Authorities, inconsistencies and duplication of administration had all prevented both expansion or improvement in the vendors business. The financial hold over vendors by the Authorities could be quite extensive and deleterious to the vendor. Lease fees to finance the Milk Authorities were at times excessive and charged only to some rounds, an accumulation of funds by some Authorities was not channelled back into the industry and the Authorities role in determining the maximum goodwill possible in the sale of business was also criticized. The Board avoided proposals concerning its own membership or making any statement "strongly in favour of or against the Bill... [although] the Board supported the Bill in principle". The Act came into operation on 1 September 1968 (NZMB Annual Report 14:18).

By 1967 separate ad hoc local authorities conducting independent policies had become irrelevant to the industry and an impediment to effective administration. Provincial authorities retained some local inspection and hygiene controls while other standards of local control were placed under the Food and Drug Regulations or the Food Hygiene Regulations. The responsibility for vendors' distribution zoning policy, vendors' registration, and milk rounds formerly owned by the Authorities was transferred to the Board and the specified gallonage system of zoning was phased out over the following three years. All milk rounds for sale were to be offered first to the Board for purchase. The Board's power to buy and resell the vendors' business was used as a means to control excessive goodwills, to allow the "most suitable applicants" to obtain rounds or for the purpose of rezoning. This legislative obligation to set the maximum permitted for the amount of goodwill in a vendor business sale seemed to be an attempt to limit the operation of milk vending monopolies. However the Act did not limit the formation or activity of the Milk Supply Associations. Approval of a producer association as the Supply Association for a district validated that Association's monopoly of the town milk supply service (NZMB Annual Report 15:13; 16:12; 17:15; Veeman 1972:227-8).

The reorganisation of the distribution sector preoccupied the Board over the next two years. Conditions for milk vendors' approvals and temporary approvals had to be devised, plans made to evaluate and purchase business owned by Milk Authorities, safeguards designed against leasing, the specified gallonage system had to be replaced and the Board was also concerned with developing its supervisory role over the vendor service. With the staff of the former Milk Authorities offered employment by the Board and many existing zoning schemes initially retained, the transition was easily implemented. The Board had six district offices to administer its new task, local committees were appointed and delegated with the power of approval of vendors. The surplus of funds accrued to the Board from its various financial activities was placed in a General Distribution Reserve and used to meet the indebtedness of local Authorities after the transfer of trade. This process was to be completed by August 1973 under the legislation (NZMB Annual Report 15:14; 16:12; 19:14; 25:17).

The new Milk Prices Authority was a result of the long standing industrial agitation over the mechanisms for price fixing. Treatment and distribution allowances under the 1967

legislation were now determined by equal representation from the industry (stations or vendors) and the government under an independent chair, the Board supplied administration services and information and made recommendations to the Authority when necessary. The first Chair was R C Bradshaw a public accountant. The producer price and allowances and consumer price were still fixed by the government in accordance with recommendations from the Board while the setting of special prices remained under the Board's jurisdiction (NZMB Annual Report 15:13; Henderson 1978:21).

6.3 Government Legislation, Committees of Inquiry and Commissions Prior to the Repeal of the Milk Act

Legislation was later brought down to correct omissions in the Milk Act of 1967. The Amendment Act of 1971 strengthened control by the Board over contractual arrangements with the vendors, increased the Board's levy, clarified the position of Supply Associations, the leasing prohibition, treatment consents and temporary approvals, and the Board's regulatory power over the milk token scheme. The replacement of the Milk Regulations of 1956 was also required by the changes in the industry and enacted in 1973. The Food and Drug, Milk Production and Supply and Stabilisation of Prices Regulations were modified in 1973. All legislation was affected by the conversion to the metric system on 1 March 1974 (NZMB Annual Report 17:17; 18:17; 19:15; 20:15; 21:14).

Arising from the deliberations of a Government Caucus Committee on Town Milk in 1979 new legislation was introduced the following year that changed the administration of the regulated milk industry. The Board's membership was altered to one that was more reflective of the industry's interests. The Chair was no longer appointed by the government although government retained direct influence through the consumer representative from the Social Welfare, a director of the NZ Dairy Board and the Director General of Agriculture who also remained members. The three consumer representatives formerly appointed by local authorities were reduced to one nomination from the Municipal and Counties Associations. From within the industry, the producers retained a membership of three, the vendors nominated two members and the NZ Federation of Milk Stations Inc held one seat on the Board. Both the Chair and Deputy were elected by the Board from the six industry representatives.

The Milk Prices Authority was also abolished in the Amendment with the exercise of its functions transferred to the Department of Trade and Industry. Other administrative changes adopted in the 1980 legislation included an increase in the Board's levy, a substantive rise in the maximum penalty for an offence against the Milk Act, from \$200 to \$1,000 and the appointment of the Board to control capital expenditure by milk stations. The Caucus Committee had also conferred over the role of alternative forms of milk and packaging in the industry. While it endorsed the industry's preference for glass bottled milk over alternative forms of packaging and found no support for reconstituted or recombined milk, the Committee did acknowledged the important development in UHT products (NZMB Annual Report 28:24; 29:21; 34:17; NZMB:13).

Another significant amendment arose from the difficult relationship between the Board and the vendors. In 1972 the Board established a Vendor Review Committee for the adjudication of cases previously under the jurisdiction of the local authorities which considered the revocation of a vendor's approval. The Committee initially heard about 4,500 complaints

but the volume of cases declined as consumers were encouraged to pass their concerns directly to their vendor. Another Amendment Act was introduced in 1978 that established a Milk Appeal Authority to hear complaints made against the Board. It was comprised of three members, two chosen for their knowledge of the industry and a barrister as the Chair. In effect the new Authority took over responsibilities formerly vested in the Magistrates Court. The amendment provided the Board with the power to discipline members of the industry who fail to fulfil their duty by reducing or withholding appropriate prices and allowances. The Authority dealt with about six cases on average each year.

One significant dispute handled by the Vendor Review Committee in 1978 concerned the action of ten Wellington vendors who had introduced an unauthorized six day delivery service. The vendors had first requested a change in their service in 1972 which the Board had responded with permission for the adoption of a trial period of a shorter delivery week over certain rounds. In response to other disputes of vendors in Wellington and Dunedin, Committees of Inquiry were set up in 1977 to examine the terms of trade between vendors and stations. Their decisions were subject to continued debate and legal action and eventually sent the adjudication process to the courts system. A Committee was set up in 1981 to examine the Auckland area in terms of its distribution structure. Another Committee of Inquiry was also established to investigate milk vendor approval holders who were not involved with the physical delivery on the round and thus contravened Board policy. In accepting the Committee's report the Board was thus able to strengthen its concept of the owner operator milk vendor and demanded their direct personal involvement in the round. In the climate of uncertainty and higher costs prior to deregulation, more vendor businesses were offered for sale forcing the Board to rezone more rounds than was practical. The Board responded with improved procedures for selecting vendors that emphasized vendor's selling skills, first under trial in Auckland in 1984, and the adoption of new marketing techniques directed at the vendor service (NZMB Annual Report 19:14; 25:17; 26:20; 28:22; 30:20; 31:11).

The final Milk Board administrations were preoccupied with the discussion over deregulation of the industry. Extensive negotiations were undertaken between the Board, the industry and the government, and were mediated through the Industries Development Commission. In the 1984 Budget the government had begun the process of deregulating the industry through terminating the consumer subsidy on milk. The Board's Chair B Kimpton expressed the hope that

"the removal of the Government subsidy, while it has in the short-term resulted in a price rise, should in the long term set the industry on a path of self determination, self regulation and control." (NZMB Annual Report 31:2).

The industry submitted a joint proposal to the government advocating a variable licensing system of processors that was designed to serve as a vehicle for progressive deregulation. Upon receipt of the industry's strategy for the reorganization of the service, the government established an Industries Development Commission to review the milk industry. The Commission was to investigate the efficiency and economy of the current structure in its use of resources and was requested to advise on the relationship between the town milk and manufacturing dairy sector in the domestic market, the pricing, marketing and regulation mechanisms as well as assess the future role of the Board and any legislative changes required. This review of the industry coincided with an ongoing investigation into alternative

packaging for milk.

From the 70 submissions the Commission received, a draft report was presented in May 1985. The Commission indicated that the public interest would be best served by a deregulated milk industry and recommended several changes were required : the removal of all price and margin controls; a reliance on market forces to dictate zoning systems and milk distribution; the lifting of regulations that impede the introduction of alternative packaging; a division of responsibility over the milk production process between the Ministry of Agriculture and Fisheries and the Health Department; and the establishment of a transitional authority to supervise the industry's conversion. The milk home delivery service was to be protected through a system of licensing milk processors and control of prices over the transition period. The public hearing of the Commission was held in July 1985. Minor amendments were made to its final report, with Commissioner Troot submitting a minority report that opposed many of the measures proposed. The Minister of Trade and Industry called for further submissions and a Caucus Committee and Officials Committee were established to consider the recommendations of the Commission. Meanwhile the Chair of the Milk Board expressed his disbelief that this prolonged process of institutional restructuring was serving the public interest:

"...the constant changes of direction are eroding the service. "The wind goeth towards the south and turneth about onto the north, it turneth about continually in its course." This is not a commentary on wind conditions off Fremantle at the time of the America's Cup races, but rather a cynical observation from the Book of Ecclesiastes, which appears to fit the irresolution of the milk industry at the present time." (NZMB Annual Report 33:2).

The government's plan announced on 30 May 1986 proposed the deregulation of production, the introduction of cartoned milk, the licensing of stations by the Board and the application of a maximum-minimum price scheme on milk. The Board and industry had acknowledged the developments in both market distribution and consumer requirements and were prepared to accept this government plan. In August further changes were to be enacted which went some way toward maintaining the Board's home delivery, in particular a fixed milk price designed to prevent supermarket undercutting (NZMB Annual Report 32:13-14; 33:11-13).

The industry was less receptive to the restructured regime that was gradually revealed by the government over the subsequent months. It was announced that by September 1987 both contracts and prices would no longer be fixed, milk stations were to compete for contracts and the setting of margins and allowances by government would cease. Changes to the vendor service were also disclosed which included the loss of their exclusive rights in both round ownership and in the service of wholesale or retail outlets. With the introduction of cartoned milk and the authorization of supermarkets to operate as milk outlets, the vendors position in the industry became more precarious. However the government did propose to reconsider the vendor sector in consultation with the industry when the deregulation of production and introduction of alternative packaging was implemented. Seeking protection for a viable home delivery service, the Board and the three industry Federations again offered their joint proposal. The government remained dissatisfied with the proposal's projected degree of regulation. In February government announced that the deregulation of the production sector was to proceed from September 1987 with a temporary subsidy to assist vendors over the transition period. All sectors of the industry rejected this latest

communique as a threat to the future of the home delivery system. A revised joint plan for the deregulation of the industry submitted by the Milk Board and the Dairy Board was eventually accepted by the government in March 1987. It proposed that the deregulated regime would include provisions to licence milk processors, to provide supermarkets with broader sales zones, to prevent predatory pricing and the fixation of maximum price differentials between supermarket and home delivery, for the transfer of the control of vendors and the rights to purchase of available vendor business to milk processors, and for a three person licensing authority to administer the system. The government was to provide an exit package for those vendors wishing to leave the industry during deregulation (NZMB Annual Report 32:13-14; 33:11-13; 34:17).

While negotiations over details continued an effort was made to implement the new policy within the existing legislative framework. Retail prices were recommended by the processors and formally fixed by the Board and licences were issued in accordance with the new requirements. However the negotiations over distribution contracts between the vendor associations and the stations remained protracted and difficult. Stations with approved contracts were soon granted vending responsibilities by the Board but in most regions conflict over these contracts was to persist. Some vendors expressed their dissatisfaction of their loss of livelihood and the inadequacy of compensation they were offered. While processors now made their own arrangements for the supply of milk, most retained their link with their regular producer associations (NZMB Annual Report 34:4,18).

The Board expressed concern that new legislation ought to be introduced which maintained a viable home delivery service without authorizing either excessive regulation or unlimited private monopoly. The new Milk Act was passed on 24 March 1988 and implemented on 1 April, although deregulation had effectively occurred prior to its introduction. All previous legislation and regulations were repealed. The New Zealand Milk Board was abolished and replaced with a three member New Zealand Milk Authority to supervise the home delivery, the retail price differential between shops and supermarkets, and the licensing of milk processors. The new system grants sole rights to the licensed processor on condition of a guaranteed home delivery service with a compensation package offered to vendors leaving the scheme (NZMB Annual Report 34:3).

As the final Board executive supervised the transition to a deregulated administration, the Chair B F Kimpton permitted himself a final quotation to express the end of an era in the industry :

"Last season's fruit is eaten and the full fed beast shall kick the empty pail for the last year's words belong to last year's language and next year's words await another voice." T S Eliot (NZMB Annual Report 34:5).

6.4 Prices, Allowances, Margins : From 1967 to Deregulation

6.4.1 Town Milk Producer Prices

After the 1967 legislation, the town milk producer price was still calculated by the government in consultation with the Board on the basis of the milk price for cheese manufacture. The town milk producer price actually reflected the payment fluctuations over

the spectrum of dairy factory supply.

"The estimated payout for cheese milk takes the form of an advance price adjusted at the end of the manufacturing season to a price which should equate with estimated payouts for butter plus casein and butter plus skim milk powder manufacture." (NZMB Annual Report 15:5).

The town producer price was similarly paid out by means of a low advance price and a further payout at the end of the season. Lower rates of payment were still a source of concern to the producers who petitioned the government for an improvement. A differential price regime remained to reflect seasonal, regional and quality schedules.

In 1970 the government expressed its interest in a price fixing authority that still acknowledged the relationship between the producer price and the payment for cheese manufacture. An Interdepartmental Committee was set up to examine the proposal in 1973. The report released the following year recommended changes in the conversion factor used in the calculation of the price, an increase in the consumer price to reduce the subsidy, and replacing the "all-the-year-round" basis of the quota system. As these suggestions raised some controversy, a Review Committee was appointed by the government to study the recommendations. The Committee commissioned a working party to investigate alternative systems of town milk contracts and pricing. The working party concluded that savings arising from alternative systems did not warrant changes in the current town milk scheme without threatening the regular milk supply. With the government's acceptance of the Review Committee's report, the issue was closed. In view of the changes of the payment to manufacturing suppliers, a reassessment of the producer price formula was asked for again in 1979. The recommendation was made for town milk prices to be set in relation to the farm gate values paid to the factory producers (NZMB Annual Report 14:6; 15:5; 17:7; 21:6; 22:6; 23:7).

Town milk prices were particularly susceptible to the effects of inflation. However the government's strategy to contain inflation in the 1970s also disturbed the industry's returns. The government began to limit payouts in the dairy and town milk industries in 1972. Payments were restricted to 50 cents per pound of milk fat and the remaining funds were frozen until government authorization was given, the effect being that the final payout was delayed until the following year. The national price freeze of the 1970s also affected the producers' returns and in 1976 the Federation was lobbying for a price increase to regain relativity with the seasonal manufacturing suppliers. Increases in production costs were usually covered by expanding output and boosting quotas. However with consumer price increases reducing liquid milk sales and a freeze on nominated quantities, the producers no longer received their former level of returns. It was keenly felt that profitability of town supply farming had been severely affected by

"the gradual decline, during the last decade, in the proportion of total production from each farm being sold at the town milk price." (NZMB Annual Report 33:4).

(NZMB Annual Report 19:6; 24:6).

The general Price and Wage Freeze Regulations limited the producer price for those servicing the domestic market in the 1982/3 season to the price calculated for the previous year and was carried over into the 1983/4 term. Town milk suppliers protested over the exemption from the freeze of the manufacturing industry suppliers whose production was partially destined for local use. The link of the producer price to the manufacturing sector was restored after the price freeze was lifted in 1984. However the town milk producers price was caught again under the post Budget price freeze during 1984. Prior to the deregulation of the industry, the town milk producer price was further affected by the substantial reduction in manufacturing prices. The traditional link between town milk prices and manufacturing prices was then discontinued in anticipation of the restructured industry. After deregulation the price and quantity requirements were to be determined by negotiations with the local milk processing companies. The Minister of Agriculture set a minimum price of 15.14 cents per litre for the 1987/8 milk year to facilitate the new pricing regime. However as one commentator attests

"This was not as dramatic as it reads insofar as the great majority of milk processing companies, certainly those in Auckland, had substantial producer ownership. " (A.Brown Draft 29:14)
(NZMB Annual Report 29:5; 30:5; 33:5; 34:11).

The quota system had also undergone a significant change. After provision for school milk was phased out in 1971, the level of nominated quantities became solely determined by milk sales. During the initial years contracted quantities for supply remained static but an increase in sales during 1970 permitted a rise in some nominated quantities. In response to nominated quantities being in excess to the needs of a declining market, attributed to regular consumer price increases, the nominated quantities for 1976 were set at the same level offered in the previous year. This stayed in effect until 1981. After negotiations between the government, the producers Federation and the Board the frozen level of nominated quantities was reduced by 4% in 1979 and a further 8% the next year and a new formula was introduced in 1981/2 that calculated the nominated quantities with reference to the average daily demand. As deregulation of production approached with its attendant reduction in producer price, many producers felt unable to meet quotas for 1987 (NZMB Annual Report 14:4; 17:5; 18:5; 26:5).

Demands for the increase in special production allowances were also made in response to the continuing high levels of inflation. Concern had been expressed at the inadequacy of current rates to ensure stability of the South Island supply. In 1978 the application by the South Island Town Milk Producer Organisations for an increase in their additional payment was rejected and the Board was then questioned over its uncritical distinction in pricing between the two islands. It was suggested that the special allowance system ought to be replaced by allowances paid on a regional basis. One proposal recommended fixing the producer price on a three tiered regional basis. (NZMB Annual Report 26:6.) Changes were made in the farm cost survey conducted by Lincoln College to ascertain which districts faced higher costs that would warrant allocation of special allowances. In 1980 the government merged the South Island allowance with the general special production allowance fund. Although the Board had suggested at least \$2.1 million was required to offset the effect of inflation, the fund was set at an annual \$1 million for the next three years. In order to administer the fund, the Board now made a detailed review of production costs and needs in all the South Island areas formerly served by the blanket allowance. (An Economic Survey of NZ Town

Milk Producers. AERU Research Reports.) Providing the Board with a greater degree of flexibility, the new allowance regime was allocated on the basis that no area received an allowance greater than the cost of transporting milk from an adjacent source of supply. At the end of this period a grant was made by the Minister of Agriculture of a further \$1 million for the special production allowances of the final 1986/7 milk year (NZMB Annual Report 25:5-6; 26:6; 27:7; 33:6).

6.4.2 Treatment and Distribution Allowances

Most allowances governed by the 1967 legislation were regularly under review in response to the loss of the milk in school scheme, award wage rate increases, and the escalation in costs. Applications for a rise in allowances for pasteurisation, chilling, bottling, standardisation, storage and homogenisation granted to the treatment stations were often awarded on a regular basis. To encourage improved refrigeration and storage facilities in the retail sector wholesale and dairy retailers were also eligible for certain grants. Aside from the regular provision of margins for the vendors, the Board had adopted a national schedule of cartage rates, approved by the Secretary of Transport, to compensate for the substantial increases in vehicle operating costs. Wholesale and shop dairy handling allowances were also available to the vendor.

The Dominion Federation of Milk Vendors made its first application for margin increases after the 1967 legislation in a climate of vendor unease, particularly manifest in the Wellington dispute between the Milk Corporation and contractors. While the Federation was praised for its adoption of a "most restraining and responsible attitude" in the conflict, the increases granted fell short of what the vendors had requested. In the Federation's regular applications for margin increases, their claims were substantiated with the Board's reports on the vendors cost structure. In 1969 the first vendor allowance increase from the Milk Prices Authority was significant enough to require amendments in the consumer prices. The following year the Federation applied for a rise in maximum goodwill rates, unchanged for 18 years (NZMB Annual Report 14:6-8; 16:6; 17:9,17).

In 1975 a milk treatment allowance was fixed to cover the combined services of pasteurization and bottling. Special rates of allowances allocated by the Milk Price Authority were fixed on an individual basis for smaller milk stations and for vendors with difficult rounds. While in the past rural rounds alone were the subject of special vending allowances, other rounds were also recognised as disadvantaged and were under examination by the Authority from 1976. Inflation had affected the capital costs involved in the improvement of milk station facilities and so an additional allowance was provided in 1977 by the Board under its obligation "to ensure the continued viability of the undertaking." A new allowance was also granted that year for the supply of non-fat milk. Separate allowances existed for returned and unissued service milk for 2% of the net issues. Extra finance was also allocated for the operation of two central token banks (NZMB Annual Report 22:9; 23:10; 24:11; 25:10; 26:12).

The 1980 amendment to the Milk Act abolished the Milk Prices Authority and transferred the responsibility of setting standard processing and vending allowances to the Secretary of Trade and Industry. The difficulties that ensued prompted the Board to request greater consultation between the Minister, the Department of Trade and Industry and the Board in the fixation of prices. Moreover all allowances and margins were subject to criteria used in

the Price and Wage Freeze Regulations during 1982/4 seasons. Treatment stations allowances were restructured in 1985 to replace flat rate increases with a more flexible allowance system. This new regime was designed to promote efficiency, greater responsibility for local town milk interests and a true evaluation of station costs. A new system of milk station area prices came into effect after the government subsidy was cut, reducing the number of pricing areas from 196 to 37. In May 1986 the Commerce Commission replaced the Secretary of Trade and Industry in its obligation to fix the standard treatment, vending and shop dairy handling allowances. In December 1987 the Commission announced that under deregulation the standard rates relating to the treatment of milk would be revoked. The allowance scheme provided by the Board for the disposal of milk returns was discontinued due to excess cost by 1987. Discussions initiated over a new allowance scheme were marred by the uncertainty of the extent of deregulation including the possible lifting of price controls (NZMB Annual Report 28:13-5; 29:12; 30:7; 31:8; 32:9; 33:7-8; 34:13).

6.4.3 Consumer Prices

Decimal currency introduced on 10 July 1967 led to the complete revision of price schedules contained in the 1967 Price Orders. The small increase in consumer price was balanced against the subsidy and little other effect was observed. The standard retail price for milk was set at 4c per pint and cream cost 8c per quarter pint. All margins and allowances were also adjusted. Plans were made for the introduction of the metric system in the industry in 1972. With the new metric bottle containing more milk, price changes per unit of retail milk were to be expected. Over the twenty month transition period allowed by the administration the two types of bottles remained on the market at the same price. Financial adjustments to the affected sectors were made by the government. The full change to the metric system was completed by 1 March 1974 (NZMB Annual Report 14:12; 18:16; 20:14).

Increases in special allowances were met by higher consumer prices for that particular supply area. In a review of the special price fixing procedure in 1976, the government continued to recover excess costs through consumer charges but used altered rates. The earlier system charged the consumer 0.5 cents per 600ml for each 0.83 cents per litre of excess costs. This was modified to a charge of 1 cent per 600ml for each 1.66 cents per litre in excess. Many areas faced an increase in consumer price subsequent to the introduction of the new procedure however the government had frozen all retail prices at that time which delayed the imposition of the new rates. Proposals were offered in 1981 to simplify the consumer pricing system still grouped in over 200 different price zones throughout the country with the Board reiterating their preference for a uniform retail price. In recognition of the many bulk users turning to alternative products to save costs, the Board also presented proposals to the government that would reduce prices for bulk deliveries. However, discussions remained at a stalemate for some time (NZMB Annual Report 23:12; 28:17).

The subsidy payout for the milk industry had reached \$40 million by 1974 which provoked a wave of government sponsored reviews of the National Milk Scheme. When the government announced that the milk subsidy was to be removed from the November Budget following the 1983/4 season, the Board increased the consumer price to cover the costs of an unprotected industry. The final termination of the subsidy by the government took effect on 31 March 1985. This led to a substantial increase in the consumer price and acknowledgement that future rises in costs would be met directly by the consumer. The Board borrowed finances to cover any shortfall during an interim period of six months while

the price increase was implemented gradually. The government deferred approval of the Board's application for a final price increase, prolonging the Board's dependence on bank loans. Bulk users were also provided with a discounted rate. A further price increase was made to allow for the introduction of the new goods and services tax in 1986. New price arrangements were also required with the supply of cartons and plastic containers of milk to the market. However as milk stations were now able to determine their own retail prices, after deregulation the retail price of a 600ml bottle of milk ranged from 48 to 60 cents over the country (NZMB Annual Report 29:14; 30:9; 32:9; 33:10).

6.5 Quality Control and Modernization

6.5.1 Alternative Packaging

In 1972 D J Henderson, General Manager of the Board, investigated the packaging and distribution methods of the milk industries of Europe and America. The choice between glass bottles and other containers was observed as conditional on the form of distribution. While shop retail furnished milk in cartons, plastic sachets or plastic bottles, home delivery systems bottled their milk. As the alternative containers were more expensive and New Zealand maintained a home delivery system, Henderson reaffirmed the Board's commitment to preserve the bottled milk home delivery service. The Board remained adamant. With a perceived economic distribution sector, high reuse value of the glass container and limited variety of milk supplied, the Board believed "that while these conditions obtain, the room for other containers must be limited" (NZMB Annual Report 19:10).

Alternative packaging was to become the major issue for the milk industry, government and consumer in the debate over national deregulation. With the removal of the milk subsidy in 1985 the industry had already entered "a period of considerable self examination" raising matters like non-traditional packaging to the fore. The Board recognized the demand for cartons and plastic containers could serve as an avenue of increasing sales which, if managed carefully, would enhance the industry's business. The marketing committee established by the Board in 1983 reported the following year that the market was not adequately served under the current system, citing the unmet demand for takeaway sales from shops, schools and supermarkets. A packaging seminar was organised for the industry and was addressed by R M Kennedy sales director of the Scottish Milk Marketing Board. Agreement was reached to develop a marketing plan for the introduction of cartons. A Packaging Task Group chaired by Professor Cullwick was established with three working groups commissioned to report on the implications of carton introduction and both the legislative and administrative changes required (NZMB Annual Report 31:2,10).

The Task Group report "Milk Marketing and the Role of Alternative Packaging" was presented in November 1984. It identified the best means of maximizing milk sales as providing optimal access to a variety of products supported by promotional activities. The home delivery system had to become more effective and a reward scheme for high performance was suggested. A transformation of the Board was also required to reflect a greater market orientation. In sponsoring the imminent introduction of alternative packaging, the report reaffirmed the need for the industry to retain control and suggested

"the need for an integrated programme of prices, margins, milk round licensing and quality control of milk in distribution...a need to set proper

relativities between the bottle and carton selling prices... a need to control supermarkets as to selling price [and other sales performance standards being met]." (NZMB Annual Report 32:12).

In acknowledging the importance of developing the liquid milk service, the Board considered that it had "been constrained by the existing legislation from major innovative changes in marketing milk." By 1985 the Board was concerned with the continuance of the home delivery system, maintaining the level of public milk consumption and actual survival of the industry. While the report of the Industries Development Commission remained inconclusive, the Board expressed the industrial goal as

"that milk be made available to all consumers as cheaply as possible, in as many places as possible and in the most convenient container." (NZMB Annual Report 32:2).

The government approved the introduction of alternative packaging in October 1986 and sales indicated a growing consumer demand for milk in both carton and plastic containers. The Board saw the reversal of the milk sales trend as a "vindication" that had a greater freedom of product choice been provided to consumers the industry would have improved. The Board had also sought consensus over a national brand for milk and cream but as opposition to the Board's involvement ran high, many large processors developed their own house brand (NZMB Annual Report 34:3-4).

6.5.2 Alternative Products

In 1966 C J McFadden and D J Henderson attending the 17th International Dairy Congress in Munich informed the Board on overseas trends in disease control programmes, UHT pasteurisation, milk quality control and quality payment systems, processing station layout and handling methods, competition from milk substitutes, developments in alternative packaging and changes in delivery pattern. In light of the growing acceptance of UHT pasteurisation and aseptic packaging in milk industries abroad, the Board announced that sale of the UHT milk would be accepted within the nominated quantities scheme and provided with the standard subsidy and payments providing no market was totally dominated by the new milk. However the government declined initial applications by town milk companies to import the equipment for UHT processing. "Town Milk" Longlife UHT milk was first introduced in 1981 with an unrefrigerated shelf life of six months after treatment and packaging. It was produced by a UHT plant at Amburys milk station in Takanini. The market was primarily composed of the shipping industry and the motel/hotel/airline trade. The consumer price, about two and a half times subsidized standard milk prices, reflected the increased processing and packaging costs and was not seen to compete with the bottled milk market. Handled by a national distributor, UHT milk was marketed outside the national milk scheme, excluded from normal town sale disposal and subsidy grants while its prices remained fixed by the Board (NZMB Annual Report 13:10; 14:11; 15:9; 30:9).

Reconstituted or recombined milk was investigated as a substitute for winter milk supplies on several occasions. At the request of the Minister of Agriculture in 1968, the Board investigated the proposal to use this form of milk as a replacement for costly winter milk. It concluded that with the available technology, reconstituted milk did not resemble natural whole milk adequately to serve as a marketable alternative (NZMB Annual Report 15:9).

The Board first introduced a better tasting non-fat milk known as "Trim Milk" to the public during 1986 in conjunction with stations already supplying the product. It contained less than 0.5% of milk fat and to improve the product's taste, additional non-fat milk solids were included. Sales of Trim were significant in the milk market on its introduction, accounting for 10% of total sales (NZMB Annual Report 33:11).

Plastic sachets to contain single servings of milk had been used extensively in Europe. Although the New Zealand public's response to sachets of milk was unknown, the Board sought to protect the consumer's right of choice by a commitment not to incorporate additional costs into the product's price if it would prevent the milk's availability. Two town milk companies unsuccessfully tried to obtain licences in 1968 to import the required equipment and raw materials. The Waikato Milk Co. purchased the first plastic sachet filling machine in 1970 and commenced marketing the new product the following year. Skim milk was included to the sachet range in 1973. The level of sales was not significant. For this special trial venture the Board provided some financial assistance (NZMB Annual Report 14:11; 15:9; 17:10; 18:10; 20:10).

Overseas experience indicated cream sales increased when marketed in a variety of packaging. The packaging of cream in cartons was initially trialed in Auckland supermarkets and dairies in 1969. A Cream Steering Committee established in 1982 to test the market was denied permission by the government to test standard cream in cartons. The Committee then restricted its research to consumer response to varieties of cream and was involved in a promotional campaign for whipped cream in Palmerston North. Although sales targets were met, it was found that once the promotion ended trade slowed down (NZMB Annual Report 16:9; 30:11; 31:6).

6.5.3 Payment for Quality Schemes and Quality Testing

Producer associations were encouraged to include differential payments for solids-not-fats (SNF) in their internal payment schemes. By 1 September 1966 all had made adjustments, usually in the form of deductions of 2d to 4d per gallon for milk testing below 8.4%. However the poor weather conditions experienced in the previous season and the subsequent deterioration in the SNF level demonstrated the difficulty faced in controlling this variable. Farmers were also handicapped by the lack of testing facilities on farms to identify individual low SNF producers within the herd. Trials were underway with equipment from Lincoln College that tested for total milk solids and protein content. An infra-red milk analyzer was also available at the NZ Dairy Research Institute at Palmerston North. The Board was cognisant of these difficulties and did not recommend harsh adoption of the SNF standard. The Food and Drug Regulations were modified in 1973 to require a new minimum standard of 11.75% total solids. This combined a minimum of 3.25% fat with the 8.5% SNF, thereby allowing greater flexibility over quality standards in the winter months. Over the next few years tests indicated an increase in supplies with a SNF content below 8.5%. Procedures were also set out for the addition of non-fat milk solids to homogenised milk to maintain the minimum level of SNF as regular fat content was an important factor to many consumers of the product. The Food and Drug Regulations of 1983 permitted the addition of SNF in non-fat milk. In 1979 a voluntary internal standard SNF improvement scheme was adopted by the industry which imposed penalties as a result of unsatisfactory performance in the monthly average of three tests. The scheme remained sensitive to hardship experienced by some producers due to difficult climatic conditions. While not presumed to eliminate the problem

of SNF content, the scheme was however discontinued two years later at the request of the producers' Federation (NZMB Annual Report 13:13; 14:15; 20:12; 25:15; 26:17; 28:20; 30:17).

A revision of the grading system was undertaken by the industry in 1970. The methylene blue reductase test no longer provided a satisfactory indication of the bacterial and keeping quality of milk particularly when most stock was chilled. Two methods in use in the manufacturing industry were placed under trial. Both the modified methylene test with its longer and more uniform system of ageing the milk prior to testing and the nitrate reductase test were more severe than previous tests. Results indicated a higher standard of hygiene would be required on farms to achieve the finest grading. Other bacterial, senses and freezing point depression tests were also administered regularly as an optional check on the keeping quality and bacterial content. The Dairy Division made appropriate revisions in the testing and grading procedures for the quality payment scheme (NZMB Annual Report 17:13; 18:12; 26:17).

Concern that inflation had reduced the financial disincentive of producing less than finest grade milk, led to an industrial proposal for a revised payment scheme. However since the inception of the National Milk Scheme, payment for the finest grade of milk has been made on at least 90% of total supplies and in later years finest grade milk accounted for about 98% of milk received. The new grading standards introduced on 1 September 1981 were seen as enabling "stations to more effectively maintain internal quality control with suitable external monitoring" (NZMB Annual Report 27:17). Under the new system several tests were now mandatory.

Test	Raw	Processed
Senses	X	-
Sediment	X	-
Standard plate count	X	X (containers)
Inhibitory substances	X	-
Freezing point depression	X	X
Total milk solids	X	X (pasteurised)
Milk fat	X	X
Phosphatase activity	-	X
Acid and gas forming organisms	-	X
Thermoturic plate count	-	X
Solids-not-fats	-	X (and non-fat)
Homogenisation	-	X

(NZMB Annual Report 28:21).

In 1983 the industry elected to adopt higher penalties for first and second grade milk in line with the penalty scheme of the manufacturing sector. The Board's Milk Quality Committee met regularly to review both the developments in milk quality assurance programmes and the application of the milk quality standards. Based on a scheme of the English Milk Marketing Board, the Committee proposed substantial penalties in 1985 for second grade milk in order to eliminate this grade from the industry. It was implemented after Ministerial approval in

September and in 1986 this grade accounted for less than 2% of total supplies. A voluntary internal test was introduced in 1983 by the producers' Federation, the thermoduric plate count penalty scheme. Included in the Board's quality standards by 1985 were the Thermoduric Plate Count and Somatic Cell Count. Incentive payments for premium grade milk was also introduced for raw milk where a supplementary payment of about 0.5% per litre was available on a monthly basis for suppliers of finest grade milk with an additional requirement of a lower Standard Plate Count test (25,000 colonies per ml or lower) (NZMB Annual Report 31:10; 32:10; 33:10).

To regulate for quality control in the distribution sector the Board was provided with Amendment No. 3 to the Food Hygiene Regulations which enforced the use of permanent canopies on all milk delivery vehicles from 1 April 1967. Milk was now expected to be protected from all conditions of daylight. While many districts had already introduced this measure, resistance was found among the Auckland vendors whose local authorities had been reluctant to enforce the measure. The Board had thus found it necessary to increase surveillance over this matter. The standard of vendors vehicles was deemed satisfactory by 1976. With a greater number of afternoon deliveries, the Board placed more emphasis on temperatures in cool room facilities and at the time of collection by the vendor. When an industrial agreement had been reached over design, plastic crates were also expected to start replacing wire crates from this time. In 1983 a vendor training programme was initiated to encourage greater milk quality and improved customer service. The two day seminar and accompanying vendor handbook was designed primarily for new entrants to the industry. Shop dairies accounted for about 20% of all retail sales by 1970 and the Board had also increased its liaison with proprietors to check conditions and milk's availability to the public (NZ Annual Report 13:10-11; 14:12; 30:19).

With the purchase of the Milk Processing (Palmerston North) Ltd treatment station by the Manawatu Co-op Milk Producers Ltd in 1966, the twenty year program of government development of the processing sector was concluded. In the next period of the milk industry's history, new treatment stations were constructed, plants continued to be re-equipping and new depots were built for the delivery of milk to the vendor, often with the assistance of the Rural Banking and Finance Corporation. A review conducted in 1966 of treatment facilities required in the Auckland region highlighted the importance of the Board's continued involvement in approving sites for new stations. Rationalisation of the industry determined the Board's approach to the development of sites and the adoption of new technology particularly in the amalgamation of uneconomic stations into the processing sector. Rationalisation of processing and distribution was considered difficult by the Board to achieve under the 1967 legislation. To counter the effect of falling sales and rising costs the Board presented a program of national rationalisation for industrial comment in 1984. However as any major expenditure proposal now subjected a station to a Board investigation of its economic viability, fewer propositions were made by stations. Consequently the rate of reconstruction and re-equipment declined. Uncertainty over the future packaging and quality control measures provided more reason to defer costly station refurbishing.

"The final Government decision on the future of the town milk industry, in particular the extent of deregulation that is decided on, will have a significant effect on the progress of milk station rationalisation." (NZMB Annual Report 33:9).

Even within an obsolete legislative framework the process of industrial change was in progress by 1986. By 1987 the processing plant at Westport remained the only station that did not offer alternative packaging. While some stations were closed down, other stations in the face of direct competition had introduced alternative packaging without Board consultation. The Board expressed concern that the absence of a coordinated approach would encourage oversupply, financial problems and create the need for further rationalisation of processing operations (NZMB Annual Report 13:9; 14:10-11; 16:7; 26:16; 29:13; 31:7; 33:3; 34:4,12).

6.6 Consumption and Marketing

In 1966 the per capita consumption of town milk at 30.81 gallons per year (140.06 l/year) indicated a continued decline. The lower increase in sales coincided with a lower population growth rate. The cancellation of the milk in schools scheme had also resulted in a loss of trade of 3.5 million gallons. The industry's concern in declining consumption levels led to a national survey commissioned from the NZ Data Ltd on the levels of consumption and use of milk. Although a slight increase in the per capita consumption was evident from 1968 to 1972, the sales trend was reversed after the escalation in consumer prices from 1976, arrested only with the price freeze of 1982-85. By 1986 the per capita consumption of milk had fallen to 106.5 litres (NZMB Annual Report 13:5; 14:19; 16:5; 20:5; 24:7).

The Milk Publicity Council had continued its public relations and educational activities on a modest scale and the Milk Market "Week" Conferences remained an annual gathering of the industry. Annual competitions between treatment stations manufacturing by-products were introduced in the 1968 Week. The new 16mm educational film became available to the public in 1969. In 1967/8 a comprehensive television and radio advertising campaign was undertaken while the Council reduced some involvement in previous activities. An increase in financial contributions from the industry allowed the Council to commence its new scheme. With total expenditure at \$32,000 the new promotional scheme accounting for 70% of the budget. In the first year 144 telecasts were arranged and the radio coverage based on the television campaign was broadcast through a commercial network of 22 stations. This promotion was continued on a similar budget until an appeal to the industry for a need to meet inflationary costs led to increased contributions from 1974. The Council was to reevaluate its advertising activities through a market research programme commissioned in 1977. Based on the Council's revised marketing position, advertising agencies were approached for a new promotional campaign launched the following year (NZMB Annual Report 13:15; 14:19; 15:15; 21:15; 24:18).

In response to the significant decline in consumer sales after several price increases the Milk Publicity Council was replaced in 1978 by an official and independent body, the NZ Milk Promotion Council. While the constituent financial members remained key agents from the industry, further admissions to membership were possible. The normal publications and educational material were produced by the new body but it also sought in a more vigorous campaign to stabilise sales, encourage consumption and promote better a service for the consumer. In its first year the Council operated on a budget of \$250,000 with the Board contributing \$50,000. Another promotional effort involved in prompting the International Milk Day, 22 May 1979.

In 1982 the Council transferred its funds and functions to a committee of the NZ Milk Board.

Its constituent members remained unchanged and the Board increased its contribution to \$200,000. New promotional activities included assisting with a trial distribution of recipe leaflets by South Island vendors in concurrence with a television campaign, providing further grants to local promotional groups and releasing a new educational kit entitled "What Shall We Eat". In 1985 four new television commercials were produced. Market research and product development were regularly undertaken by the Council. A new professional agency was appointed for the Council's advertising campaign in 1984 and an attitudinal survey was made into the consumer's perception of milk. Arising from an opinion audit of the industry's image among government and media personnel involved in the agricultural sector, the Council implemented a number of recommendations in its publicity campaign (NZMB Annual Report 24:18; 25:18; 26:21; 29:21; 30:20; 31:11).

The Board also established a Marketing Committee in 1983 to advise on how to protect the existing market and further expand milk sales. The Committee arranged for a marketing audit of the industry and pursued issues in accordance with its findings. It reviewed the institutional market, the opportunities for milk sales in schools, pubs and outside the home, the vendor sector, alternative packaging and the future structure of the industry. New schemes were trialed in selected areas including incentive programs and selection procedures for vendors, the use of milk dispensers in hotels and food outlets, the introduction of new milk products, Longlife Milk and Trim Milk, and involving the Board's distribution officers in promotional activities. The opportunity to expand the market through adopting alternative packaging was important to the Committee who were participants in the 1985 report "Milk Marketing and the Role of Alternative Packaging". Late in 1985 the Milk Promotion Council and the Marketing Committee were amalgamated so that the Board could coordinate a strategic marketing policy within a body of industrial representatives and marketing experts. New projects included the further popular television commercials, one to promote the sale of Trim Milk, the "Milo Milkie" vendor promotion, production of nutritional booklets, articles for medical magazines and newspaper columns and booklets designed for carers of infants, "Where do I Start?" and young children, "Grandpa and the Baby" (NZMB Annual Report 30:18; 31:10; 32:11).

Deregulation of the industry was to foster a reduction in the production and supply of the Board's promotional material. The Board was also advised that it would lose financial support for its advertising campaigns. The industry sought patronage for a Milk Industry Council, a promotional body, but this proposal did not receive approval of many stations who now promoted their own products under the new regime (NZMB Annual Report 33:14).

6.7 Conclusion

The Board's administration had been considerably successful in the implementation of the early government's agenda for the restructuring and development of the town milk service. Higher quality standards had been adopted in all spheres of the industry and the consumer was assured a regular supply of a quality product. Advances had been made in the implementation of new technologies particularly in the processing sector. However there were significant elements of resistance in the traditionally structured industry that impeded the introduction of more radical technology and product changes, and their associated new economic agents. It will be the purpose of the final chapter of this report to outline the development of these new power structures within the context of a collapsing corporatist alliance, a comparison between the two systems would further an understanding of the

dynamics of the regulatory domestic milk economy. Thus the theoretical constructs presented at the outset of this report will serve to provide an interpretation of the narrative history of the New Zealand Milk Board.

CHAPTER 7

CORPORATISM AND DEREGULATION IN THE NEW ZEALAND MILK INDUSTRY

7.1 Introduction

In this final chapter the narrative history of the New Zealand Milk Board will be reviewed with reference to the corporatist theoretical model presented in earlier sections. The first section details the relationships and structures of corporatism that were derived from the alliance between the state and the milk producers and explores the effect of corporatist governance on the performance of the industry. In particular the following section examines how the state was able to secure market stability, contain industrial conflict and institute its agenda of rationalisation and modernisation of the liquid milk service through the mechanisms of a regulated economy. While the state's success in allocating responsibility for the economic management of the industry is evident, the deregulation of the milk service in the 1980s indicates the alliance became redundant to the administration of the milk economy. The breakdown of the corporatist relationship is examined and highlights the hidden dynamics of power contained within the producers' relations with the state that became apparent through the collapse of the alliance. Further understanding of the corporatist relationships, both their value and their limitations, is provided by the contrast of the emerging economic environment and agents that restructured the post-regulation domestic milk sector. A brief survey of the deregulated milk industry is offered for comparison to the earlier situation and this is followed by a commentary on the broader politico-economic setting within which the Milk Board history is situated. Both sections offer an outline of the contextual variables that have influenced the history of the organisation of the domestic milk sector. The chapter concludes with a summary discussion of the value of corporatist arrangements to the effective organisation of milk economies and what the corporatist theoretical model can offer to the process of milk industry construction.

7.2 The Rise and Decline of Corporatism in the Milk Industry

The restructuring of the domestic milk industry in the 1980s through the withdrawal of state assistance for agriculture marked the end of the corporatist alliance between farmers and the government. The bond that had existed between the farming community and government was redefined. Farmers' traditional access to governmental decision making structures had been sustained through an affiliation to the National Party and exemplified by the Minister of Agriculture's position in Cabinet, serving as Deputy Prime Minister from 1949-60. However by the second term of the fourth Labour government the Minister of Agriculture and Fisheries was relegated to the 18th position (Britton, Le Heron, Pawson 1992:95). The subsequent National Government did not seek to institute agriculture's customary structures of political power. The liquid milk sector was particularly affected by this realignment of political forces, demonstrating the powerful influence of the former corporatist alliance in the industry.

Corporatism has been used by analysts to explain the relationships that have arisen between the state and the agricultural sector in western economies. Perry suggests that Cawson's

concept of "bilateral monopoly" best describes the nature of organised interests within the meso corporatist relationship between the state and farmers found in post-war New Zealand (Perry 1992:43). Historically the political system in New Zealand can be characterised as providing

"associations or interest groups with the opportunity to gain access to the policymakers and to make known their proposals or demands." (Biggs 1965:15)

Thus sector specific corporatist arrangements were observed to have mediated between the state and interest groups, providing each sector with a distinctive structural position in the decision making arena. In addition to the organised interests of labour, small and medium capital, transnational corporations and international financial institutions, farmers have also been key actors in the political arena. As a corporatist partner with the state, producers have shared in the administration of their sector, empowered by mechanisms of delegated public authority to govern their members through some form of self regulation.

The rise of corporatism had its origin in the development of agricultural marketing structures as the following review shows. Typical of most western nations, New Zealand politics have been dominated by the agricultural lobby and its agenda. The significant position of agriculture's representation in Parliament assured access to the key decision making structures in government and the prominence of the agricultural program in government policy determinations. In particular, corporatist arrangements provided the political machinery of the agriculture sector with the opportunity to promote its own interests within the framework of the general national interest (Weststrate 1959:55). With the economic wellbeing of the agricultural economy perceived as a fundamental national concern, the state was able to intervene in agricultural markets "in the public interest" (Myrdal 1960 cited in Biggs 1965:8), public funds could be used for large subsidies to agricultural industries, and agriculture's leadership granted public authority to administer regulatory schemes over their industries.

During the international crises of World Wars I and II, the government's temporary regulation of the agricultural economy had facilitated a preference by both state and farmer for interventionist policies. A new concern for public economic welfare had encouraged the state's initial support for producer boards. Moreover indirect state control through the board system provided the state with a legitimate and efficient mechanism for intervention. Organising the agricultural lobby was also a means by which the state could "prevent the industry from becoming an irresponsible pressure group." (Biggs 1965:42). It relieved the pressure and criticism on the government from a particular interest group through its co-option into the decision making structures.

Initial producer opposition to state involvement in agricultural organisation was derived from the premises of a staunchly individualist ideology that typified the early farming community spirit. However the agricultural sector became more amenable to government intervention when the favourable returns of the state controlled war economy were compared to the lower prices received by the independently operating producers in the post-war markets of the 1920s. The board system was initiated in an era of prosperity where overseas markets were believed to be inexhaustible yet manipulated by the trading countries. The first four boards established did not possess extensive powers and thus did not require a high level of government supervision. The agricultural crisis arising from the depression of the 1930s

created further apprehension over agriculture's dependency on the market. Direct control by the state at that time was politically as feasible as the regime implemented during the war and was achieved through the implementation of the Agricultural Emergency Powers Act of 1934 and the Labour government's Marketing Department.

Stabilization policies had been first promoted by sector leaders as a measure to safeguard produce prices and farmers' incomes against the fluctuations of a protected overseas market. The dairy industry was an early advocate for a structured interventionist organisation and perceived government regulation as a means to secure their interests in the face of overseas processing and transport monopolies and importers. There had also been a greater awareness of the interrelatedness between all forms of state activity. For instance the price of butterfat would influence the cost of living, affect the government's Budget, be a consideration during wage award negotiations and reflect in the prices for other primary products including the price received for milk (Biggs 1965:48).

However not all agricultural sectors favoured state interference, the meat and wool industries refused involvement with government sponsored programs until World War II. Moreover the more widespread control of agriculture by government in the 1930s and 1940s was soon met with demands from producer associations to manage their own affairs and have a greater role in policy making. By 1947 with the Dairy Products Marketing Commission, the relationship had been reconstructed to allow greater producer participation and contemporary producer boards ensued.

In reaction to Labour's regime of political control of agriculture from 1935-45, producers entered into informal corporatist relationships with the state where the government delegated some authority to producer bodies. They now sought to develop a connection between the mechanisms of government and their industry's functional democracies. Public corporations and boards were not, in New Zealand,

"a means of introducing administrative autonomy into state marketing enterprises but as a means of enabling producers to share the responsibility for the centralized economic management of their industries." (Biggs 1965:50).

Corporatist organisation was established through the pressure and the approval of most agricultural actors. While the principle function of these arrangements was depicted as securing the stabilisation of the market, other political objectives were pursued by the actors involved. Producers, vendors and processors all sought to establish or strengthen their linkage with the state. Corporatist structures facilitated access to state resources and provided the group with greater market potency over less successful lobbyists. Powerful monopolies within agriculture were encouraged through the government's relationship with selected groups. According to the power and structure of the industry's lobby and its significance for the national economy, each board was assigned its own statutory powers and methods of operation.

However there remained fundamental differences between the New Zealand experience of corporatism and other nations' arrangements. No enduring formal tripartite corporatist structure existed between the state and the key actors of the participating agricultural industry, like the Australian Accord. The mediating committees, boards and public corporations all contained a greater measure of government representation and did not always

possess an autonomous regulating power (Biggs 1965:26). In agriculture the crucial sphere of policy making lay in the formulation of producer prices. For most producer boards the role of the corporatist agent was confined to maximizing its influence in price negotiations while the guaranteed prices were determined by the government.

The dairy industry had been an early participant in the political sphere, effectively lobbying for greater government involvement, culminating in one of the first boards in 1923 and a brief period of direct control of the export market (1926-7). Liquid milk became an independent sector distinct from the export dairy industry as the crisis of domestic milk supply escalated in the 1920s and 1930s. The inclusion of milk on the national political agenda occurred through the efforts of the health lobbyists and the demand for milk from visiting American troops in the early 1940s. The symbolic importance of milk to the public was soon aroused facilitating a ready acceptance for the highly regulated and heavily subsidized liquid milk regime. Poor supply conditions had elicited attempts at administration of the town milk by local municipal councils, the most effective in Wellington and Auckland, and culminated in the legislative sanction of the producers authority in 1944.

The Milk Act of 1944 extensively reorganized the relationships within the sector and between the industry and the state. Political power was transferred from the vendors to the producers. The Milk Commission had earlier noted that the industry under the control of the vendors reflected their commercial interests and had failed to provide a regular supply of high quality milk to the consumer. The vendors would seek to purchase milk at the lowest price and this commercial priority had extensively shaped the organisation of production activities. In Christchurch for instance, the business concerns of the vendors controlled the level and standard of production, determined the prices, contract terms, supplies to be used and the seasonal adjustment. The consequential poor quality supply, low returns to the producer and severe conflict between organisations within the industry all typified the effect of vendor monopoly.

As the new environment facilitated by the Act insulated producers from the variable nature of external circumstances, it enhanced the organisation of powerful producer associations. Market security was achieved through a statutory regime of price controls, government subsidy, a surplus milk scheme and quota rights to contractual suppliers. The National Milk Scheme administered through Supply Associations controlled both milk production and who could participate in the industry. Access to government resources was limited to those in the Milk Scheme and quota allocation remained at the discretion of those already within the system. Other producers found it difficult to enter the program and their discontent forced the establishment of an appeal committee to hear disputes over supply applications. A code of conduct was also devised by the Board and the Producers' Federation to prevent discrimination against new entrants. However as the code remained recommendatory and was not enforced, it appeared to serve as a mechanism to maintain the corporatist agent's legitimacy as representative of the producers.

The Milk Board perpetuated this partiality towards producers in its composition. The farming background dominant in both the industry representatives and the government officials allowed the board to consistently reflected the producers' concerns. The first Council was composed of government officials, the Minister of Health as Chair and two other Health representatives, two producer nominees and one person from the New Zealand Municipal Association. The Board structure under the legislation of 1953 continued with the

Minister as Chair, two appointments from the Departments of Welfare and Agriculture, three producer representatives and a member each from the New Zealand Municipal Association and the Vendors Federation. While in 1967 the structure favoured an increased consumer voice with four members from the Municipal and Counties Associations, the power balance reverted to a strong industrial representation in the amendment of 1980. In this final permutation the three producer nominees were joined by one from the treatment stations and two vendors representatives. While the government officials of the past had often shared the same background as the producers the Chair and the Deputy were now both chosen from the industrial representatives.

The Board further strengthened the producer organisation through the amalgamation of small associations and the establishment of committees of associations in bigger centres. The new power structure was also replicated in the processing sector where many plants became producer owned. When the government re-equipped the milk treatment stations and financially assisted the sale of the stations to local companies in the 1940s and 1950s, producer companies were formed at this time to purchase and operate these improved facilities. Thus the structured relationships of the milk industry created in 1944 featured monopolist agencies of key economic actors, in particular the dominant producer sector. The producers' monopoly that was initiated by the state as a control on commercial interests continued to dominate the industry until 1984.

During its forty year administration the Board was able to implement programs of modernization and rationalization through this structure of monopolist producer associations. With no alternative agency to represent liquid milk suppliers, the Board had a sole claim to financial and political resources provided by its relationship with the government and could impose a regulatory structure to dictate conditions of supply to its members. Their ability to regulate producers' behaviour allowed them to govern the sector in accordance with what was perceived as in the best interests of the industry and, by implication, of the nation.

Legislation committing the industry to quality milk production facilitated the introduction of several internal voluntary and mandatory quality schemes. To stay within the milk industry producers had to comply with the quality standards imposed. Thus the National Milk Scheme developed into a regular and good quality supply by means of a regulated organisation and a differential price regime that included seasonal, regional and quality schedules. The Board sought improved hygiene standards and a constant supply through education, penalty rates, bonus systems and inspections. When the composition and quality of milk was more readily tested, the administrators encouraged voluntary internal improvement programmes before the adoption of national payment on quality schemes. For instance, the standards for milk treatment and containers were initially encouraged by an educational strategy directed at both the producer and the consumer. As pasteurization and bottling facilities were introduced the Board pursued more stringent regulations. Through its liaison officers and inspectors problem areas could be identified and effectively approached. While the Minister of Agriculture possessed the power to regulate for the use of sealed containers in certain districts, the Board's method was usually preferred. Bottled pasteurized milk was to become a universal standard.

The rationalisation of the industry was another feature of the Board's agenda which again was implemented through the Board's program of liaison with the targeted sector, surveillance and financial incentive, supplemented by direct government regulation. The rationalisation

of the processing sector was achieved initially through direct government investment after the Milk Act of 1944. When the local companies acquired ownership of the stations they continued to reinvest in the upgrading and expansion of facilities. Laboratory facilities, station hygiene standards, bottling and pasteurisation procedures, were all readily incorporated in treatment stations by the companies involved.

Producers had responded well to self regulation programs for milk composition, to the mandatory grading system that penalized poor quality supplies and to the national program standardizing hygiene and container requirements. The Board also had little difficulty in the adoption of their rationalisation agenda for the processing sector. Their efforts were encouraged by the growth in milk consumption that continued until the 1970s. The ease of policy implementation in the processing sector perhaps reflects the producer dominance in the ownership of many stations and their affiliation with the objectives of the producer-based Milk Board.

The distribution service proved more difficult for the Board to influence. Rationalisation of distribution was complicated by the Board's relationship with the vendors. The strong vendor organisation had not been incorporated into the new administration's structure yet remained a crucial party to the success of the milk supply. The Milk Authorities sought to administer the regulation of the vendors through licensing individual distributors, zoning the vendor rounds and fixing the maximum goodwill permitted in the sale of vendor business. However the price established by the Board as the maximum goodwill in effect became the minimum price threshold as vendors continued to undermine the administration's authority in their business. The vendors also maintained an earnest resistance to Board initiatives perceived as injurious to their business. While pickup and delivery time schedules to protect the quality of milk were implemented, a stiff campaign was waged against the authorities' efforts to impose vehicle covering regulations. The canopies were seen as both expensive and an impediment to a rapid delivery service and were not adopted by many vendors during the Board's program of voluntary implementation. When the instalment of canopies had become mandatory in 1963, the vendor's Federation joined the Board to successfully lobby the government for a legislative amendment that provided an increase in the vendor margin to compensate for their losses when canopies were used.

Corporatist arrangements did not remove the element of political control, merely made the government's role less formal. With the proliferation of board structures, the only administrative agency that was able to enforce a consistent policy across the organised activities of the producers was Cabinet. Control was facilitated through the demand for an annual audit and the boards' annual report to be read in Parliament and the government's power to introduce legislation to revoke the board's statutory powers (Biggs 1965:55-8). Moreover the crucial sphere of policy making lay in the formulation of the producer price. In most boards guaranteed prices were determined by the government while the corporatist agent sought to maximise its influence in price negotiations. The government retained its control over liquid milk prices and persisted in linking the town milk price with the price received for the export milk supply. The Milk Board and the producer's Federation constantly petitioned the government to change the formula used to determine the annual producer's price received for milk and to include the Board in future negotiations. The Board's power to determine special allowances and subsidy allocations remained the only financial role it had in the industry.

The evolution of the corporatist relationship between the producers' Board and the state had been a means of sharing the responsibility for the economic management of the industry. However once the role of government becomes obscured through informal channels of political power, preferred by the state and its industrial partner in their mutual effort to preserve their legitimacy in their respective electorates, the degree of autonomy enjoyed by the Board remains difficult to determine. The changes in legislation over the years did afford the Board greater administrative scope : beginning with their authority over the producers in 1953, the distributor's sector in 1967 and more control over affairs of the processors in 1980. The governance of the sector remained in accordance with the policy negotiated between the state and the industry's leadership with the government retaining overall power through its control of price determination. During the protracted negotiations prior to the deregulation of the liquid milk sector in the 1980s, the vulnerability of the corporatist industry became apparent. The collapse of the state's alliance with the producers emphasised the dependence of the corporatist partner on a specific political and economic environment to sustain its privileged access to the state. In reviewing the contextual features prior to deregulation it will be possible to assess the durability of corporatist structures and appreciate the circumstances that had supported these arrangements between the state and the milk industry.

The original rationale for a highly regulated and statutory governed town milk service became redundant under conditions of the contemporary agricultural economy. A constant, high quality supply had been achieved through the implementation of industrial reform and installation of new technologies. The accomplishments of the milk industry thus allowed the regulated producer administration to seem irrelevant to the industry's future. Agriculture no longer commanded the same status in the national economic agenda as the country's dependence on the sector's exporting power declined. Many agricultural industries were finding it more difficult to justify the investment of public funds in their subsidized trade. High subsidies for the town milk service were now considered an excessive burden on the tax payer. Criticism of the milk subsidies also reflected the broad ideological shift against government intervention in business transactions. Moreover, the industry was no longer served by milk's representation as a symbol of the nation's health. Excessive consumption of dairy products now concerned health specialists and the public. New milk products were demanded and the trend in declining consumption continued to threaten the industry. Consumer's sensitivities to the new health agenda had even prompted the renaming of the 'milk fat' content of dairy goods to 'milk solids' in 1992. Thus the organizational demands of a perishable product, the economic importance of milk to the society and its symbolic nature that were the foundation for the regulated milk regime had become irrelevant to the new economic environment.

Rejection of a subsidized milk service indicated the powerful opposition to the government's intrusion in the national economy. When criticism of state intervention and market control becomes a significant feature in the political culture, regulatory and stabilizing arrangements are necessarily reappraised. The financial burden of protected industries was a key argument against government regulation. Moreover, in a "survival of the fittest" scenario, market forces were said to serve the economy better by sustaining the most efficient, competitive and consumer-responsive industries. As opinion moved against government intervention in agricultural industries, the efficiency of protected sectors came under scrutiny. The regulated liquid milk industry was criticized for its excessive financial cost to the taxpayer, its structural rigidities that prevent implementation of new products and technologies, and its

inefficient management of the sector. The debate over intervention in the agricultural economy has been characteristic of all states' relations with their farming sector. In Grant's analysis of the British milk marketing system he suspected that both the growing political concern of the acceptability of corporatist forms of regulation and changes in the economic conditions of the sector do not guarantee its continuance (Grant 1985a:191-5). Thus while there is agreement that indirect state intervention is beneficial to the industry and the consumer, corporatist arrangements may persist. A change in the ideological climate will severely test the flexibility of regulatory bodies. (No effort is made here to explore the extensive literature on this issue. For recent discussion of regulation in the New Zealand agricultural economy see Birks and Chatterjee, 1988; Bollard and Buckle, 1987; Britton, Le Heron, Pawson, 1992; Deeks and Perry, 1992; Gibson, 1988; Sandrey and Reynolds, 1990; Wallace and Lattimore, 1987.)

The corporatist structures that had been implemented 40 years ago allowed the state to secure market stability, contain industrial conflict and institute programs of restructuring and rationalisation of the milk economy. The state relied on the authorized agents of the industry to execute policy in favour of the government's economic agenda. At the inception of the regulated milk organisation, the Board and the affiliated associations acted as modernising agents stabilizing the market, reconstructing the sector and rationalizing the industry. They also developed a vested interest in maintaining the structures of their political status. When alternative milk packaging was first promoted, the industry remained opposed to the innovation in concern for the preservation of the home delivery system. Government demands for the implementation of sector rationalisation, adoption of new technologies and support of new economic agents were criticized and resisted by the vested producer interests of the regulated sector. Their entrenched position served to marginalised the traditional industry in the new economy and signalled the demise of the former corporatist partner.

As the industry's representatives failed to implement state-responsive policies they suffered a reciprocal reduction in organisational power and political status. The government's appointment of an Industries Development Commission to determine the future of the milk industry, indicated that the corporatist channels between the state and the sector were no longer functional. That the government imposed extensive structural changes on the industry through its deregulation process demonstrated the corporatist partner's ultimate political impotency. New economic actors were involved in the transformation of the milk sector. The loss of the producer Board's former public status was apparent in the acknowledgement of the competing lobbyist's agenda and was further emphasized in the adoption of the processing sector as the key industrial agent under the 1988 legislation. Moreover the struggle between the Board and the processors indicated the failure of the government's intermediary to remain effective in managing the conflict in the industry.

Studies of the milk industry's incorporation in the policy making process have suggested that a unique set of conditions exist in the sector which have permitted this mode of self-regulatory governance by the private associations. That corporatism requires a specific environment to flourish questions the durability of such relations. Several aspects of the scheme suggest a vast potential for instability is contained within the corporatist form of organization. While external conditions may alter the fortunes of the corporatist milk sector, other causes of instability originate within the corporatist structures. Thus in the regulation of the milk industry it was recognised that a necessary balance had to be sustained between pursuance of the sector's concerns and consideration of the needs of the whole economy.

That corporatist agents were compelled to pursue their government-sponsored functions to avoid the loss of organisational and political power, indicates their weaker status in the equation. In a changing economic environment or political culture the corporatist agents and their agenda may even become less relevant demanding a more flexible response from regulatory bodies. Underlying tensions which were contained through the government sponsored statutory structures persist and play an influential role in the power relations of the state-sector alliance. The recent conflict between producers and processors was to determine the nature of the industry's structured relationship.

7.3 Deregulation and Corporatism

After the milk subsidy was revoked in 1984 and the packaging controls were lifted in 1986 the government implemented legislation to facilitate further deregulation of the industry. It sought

"to provide for the continued home delivery of milk; and to reduce in other respects the regulation of the processing, supply, and distribution of milk for human consumption." (Milk Act 1988).

This partial restructuring was perceived as a transitional measure until full deregulation of the industry was achieved when the Act expired in March 1993. A three member New Zealand Milk Authority was established under the Milk Act of 1988 to monitor the industry, to determine retail price differentials, licence milk processors and supervise quality control of the home delivery service. The functions of the abrogated Milk Board were transferred to the milk processing companies. Processors were now responsible for production, pricing, promotion and distribution of the town milk supply. They negotiated contracts for supply with the producers and they controlled the vendors. Significantly, the powerful monopoly enjoyed by the producers was completely undermined in the deregulation of production.

Structural changes prior to the Milk Act of 1988 had encouraged the entry of new powerful economic actors into the industry such as packaging companies, bulk distributors and in particular, conglomerate processing companies. The ownership of many stations had already been transferred from producer co-operatives to the new participating companies in a series of takeovers and mergers after the Industries Development Commission report was issued. These changes in ownership of the processing sector were pronounced in the Auckland region. Accounting for half the nation's town milk consumption, such trends in Auckland's milk business were a significant indicator of the political realignment in the milk industry.

The Auckland trade had been divided between the Ambury's Milk Company and the Auckland Milk Company (AMC) in the regulated milk economy. Ambury's was both the largest town milk company in the country and a subsidiary of the dominant national dairy company, the New Zealand Co-operative Dairy Company (NZCDC). The other key player in the region was the Dairy Board which had entered the liquid milk sector through acquiring a significant holding of the AMC in 1985. At this time the NZCDC had overshadowed the northern districts through the purchase and closure of smaller stations, acquiring privileged control of five North Island milk districts. NZCDC's takeover of the remaining shareholding of the AMC (60%) was authorised by the Commerce Commission in 1988, significant in that the Commission had thus sanctioned "a merger that brought together the largest dairy

manufacturer, the largest town milk company, and the Dairy Board." (Sandrey 1990:119). The Commission had believed that "the detrimental effects of town milk dominance were more than offset by rationalisation gains and likely cost savings from a new winter milk scheme." (Commerce Commission 1988.) In the Wellington and Canterbury regions particular companies within the town milk sector emerged as dominant forces in processing. However,

"geographical isolation, residual regulation protection and a hint of collusive behaviour have protected most of the remaining milk stations, with almost no processed milk crossing boundaries." (Sandrey 1990:121).

(For further details of the ownership changes see Moffitt and Sheppard 1988:27-9).

The merger between NZCDC, Ambury's and the Dairy Board was significant in that it established the monopoly of the Auckland and northern region's liquid milk trade by the dairy industry. While the Milk Act supported the processors control of the milk sector, deregulation had permitted the domination of a significant portion of the industry by large dairy conglomerates. As the producers' power was usurped by the processors, it also effected the rapid integration of the two branches of the dairy industry: the liquid milk sector and the manufacturing suppliers (Sandrey 1990:121).

The expressed intention of those advocating a deregulated agricultural sector was to subject the industries "to the disciplines of a more competitive trading environment", the presumption being that more open market conditions would encourage business decisions that would better serve both the consumer and the national economy (Moffitt and Sheppard 1988:15). However for some commentators, the new economic climate merely facilitated the restructuring of the industry for the benefit of new monopolies and little advantage was seen by the consumer (Sandrey 1990, Consumer 1989).

Once the statutory corporatist alliance between liquid milk producers and the state was annulled, the new legislation facilitated control of the industry by large corporations engaged in the processing sector. In becoming the new agent responsible for ensuring a home delivery service, the processor was provided with the conditions to extend structured relations of its monopoly power throughout the sector. Each processor was granted sole rights to the home trade within its designated delivery district and could be licensed for more than one district. Given the high prices paid for exclusive milk zones in company takeovers, Brian Kimpton's comment that "licences could attain a spurious value based on unalienable rights bestowed by legislation" seems pertinent (Kimpton, 1988).

The major recipients of licences were processors within the liquid milk scheme prior to its restructuring. In Bollard's 1986 analysis of the Auckland company merger he referred to obstructions within the system that already prevented other companies from participating in the industry. In particular while it remained difficult for a new entrant to guarantee a constant milk supply, any authority would be disinclined to transfer rights of a delivery district from an established processor-supplier. The industry's incumbent processors were able to maintain their dominance by means of the regulations in the Milk Act which served to prevent the involvement of other companies. This was apparent in the supermarket and bulk user trade. Although competition in this market was designed to act as a control on processor's retail prices, the experience in Auckland prior to the company merger indicated

little rivalry between major processors. In the first years after deregulation few supermarkets had shifted their trade to new entrants outside the region. Access to the bulk user and supermarket trade was conditional on the possession of a licence which prevented competition in the industry from occasional suppliers. Entry into a new market was also obstructed by the costs of transport and quality maintenance. Thus the Milk Act insulated existing processors from rival claims to the market and strengthened their dominance in the industry by maintaining their exclusive rights to the trade with little competitive restrictions on price setting (Moffitt and Sheppard 1988:15-17, 23-25). Consequently,

"the competitive pressure on the incumbent to perform competitively, efficiently, and minimize prices to consumers would be very weak." (Bollard 1988 cited in Moffitt and Sheppard 1988:24.)

Deregulation was promoted as necessary for the advancement of the milk scheme into a more efficient, modernized and consumer-responsive service. However the reputable Consumer magazine expressed public concern over the deleterious effect of deregulation on the milk service. Under the new regime it was claimed that the consumer suffered higher prices, fewer product options, an irregular and limited distribution service and a variable quality supply. Early price movements adjusted the milk price to a comparable level with overseas services. Price increases were extended to cover company movements and the instalment of new technology, endeavours designed to enhance the efficient operation of the milk sector. However no savings from these efficiency measures were passed onto the consumer. For instance, the transference of projected savings from AMC's rationalisation program was regularly deferred. Two years after deregulation the largest processor in New Zealand, AMC, was charging the highest price for milk in the country (Consumer 1989:29). Variations in prices throughout the country indicated an absence of competition between processors. In approving one price increase for bottled milk the Minister of Agriculture had also commented that the government "objective of competition in the industry is not being met." (Moffitt and Sheppard 1988:22). While milk processing monopolies controlled the supply, price competition did not exist and milk became more expensive.

Capital investment in the new technologies shaped the packaging options for consumers. While the preference for milk in glass bottles still surpassed the demand for alternative packaging, consumers in the Auckland region lost their bottled milk supply. AMC's motivation for the phasing out of the traditional bottle was expressed as a response to a fall in demand. However, a consumer survey taken in the region indicated that 60% still preferred milk in glass (Sheppard 1988:19). The Consumer suggests that the market was "manipulated" by the AMC's monopoly of the industry to serve its business concerns. Brian Kimpton director of AMC noted

"Present decisions (of milk processors) ...are no longer made by or in consultation with a statutory body but by boards of directors who must make commercial decisions to be judged, not by the public...but by shareholder/suppliers in terms of a return on capital." (Consumer 1989:30)

Both the quality of the vendor service and the milk product were also affected by deregulation. Large milk corporations engaged in rationalisation programs reduced the number of vendors in their districts. While some consumers lost their daily home delivery, the quality of the service suffered when vendors were required to distribute over a larger round. The use of the new containers was initially marked by problems in maintaining the

milk's quality, including a public health scare concerning dioxin in cartoned milk. Moreover when the processors replaced the more expensive all year round supply with winter milk production contracts they introduced some variation in the quality of milk through drawing milk from different parts of the lactation time.

In general, deregulation of the town milk service provided the opportunity for extensive modernization of facilities and the rationalization of the processing sector. However the consumer appeared to receive few benefits purported to be associated with the new agenda. As commercial considerations were to shape the conditions of production once again, the continuation of a constant, high quality and consumer responsive service was at times in doubt. Deregulation heralded the demise of the statutory corporatist alliance between the producers and the state and facilitated the restructuring of the industry's power relations. It undermined the authority of the producer and the vendor in their business in favour of the processing sector, supported the control of the industry by large corporations, and advanced the integration of the liquid milk sector into the exporting dairy industry. Many critics believed the deregulation program merely served to facilitate the restructuring of the industry for the commercial benefit of new monopolies at the expense of other participants. There was little pressure from the market for the new managers of the service to "perform competitively, efficiently, and minimize prices to consumers..." (Bollard 1988).

While outside the confines of this particular report, it would be pertinent in the study of these cases where corporatist alliances have persisted to further examine comparisons of the New Zealand industry with the history of the US milk industry, that underwent deregulation earlier, or with the UK and European domestic milk sectors, which have persisted as regulatory bodies in spite of significant political pressure to reform their organisation. The history of the New Zealand industry is an example of how vulnerable a corporatist agent may be in the alliance with the state, how important it was for the corporatist agent to remain responsive to the government's agenda and the value of a mechanism to internalise the harmful effects of organisational restructuring. It remains uncertain whether the Board administration in New Zealand failed to develop these important political elements due to a structural weakness contained in the producer based organisation, through a political oversight by the leadership, or because of factors that differ between the farm organisational experience of New Zealand and of the UK and Europe.

7.4 The Global Politico-Economic Context

The history of the New Zealand Milk Board often referred to the context within which the Board was situated, in particular reflecting the general economic agenda followed by the government in response to international political and economic trends. Both the establishment and the demise of statutory regimes were paralleled by similar institutional movements in New Zealand and in the economies of its trading partners. It thus seems appropriate to place the story of the New Zealand Milk Board in the broader setting of national and global politico-economic contexts. While many ideological and theoretical analyses present current economic trends within a historical pattern of capitalist expansion and development, it serves the purpose of this report to merely identify this present retreat from the regulatory situation as a general trend of economic restructuring and institutional experimentation experienced throughout the international capitalist economic network.

Producer marketing boards have provided emerging agricultural industries with an effective

solution to the problems faced of unstable price regimes, uncertain economic and market conditions and the redistribution of returns to the different sectoral levels. These structures reflect the global preoccupation of the post war era for states to protect the development of national production spheres through regulated economies. This "productionist phase" was augmented by state sponsorship of the nation's consumption through the social welfare state. In the New Zealand case, the regulated economies of the 1940s have been suggested by commentators as a political outcome of a bargain reached at this time between the government, the manufacturing sector, and the agricultural sector set in the arena of international trade arrangements. After successfully negotiating an exception from the GATT agreement, the New Zealand government introduced import controls to shelter the manufacturing industries from outside competition. The protection of manufacturers was at the expense of exporters and was thus perceived to be the impetus for state compensation to the agriculture exporters and associated industries such as the domestic milk market, by means of guaranteed price and statutory board systems (Biggs 1965). The regulated liquid milk economy was the typical form of agricultural economy organisation pursued by the New Zealand government which was reinforced by subsidized consumption that even included a guaranteed consumption through its milk in schools scheme. The domestic milk sector thus appeared to be organised for reasons other than the immediate demands of the industry, and the implementation of these regulatory structures can be understood with reference to the broader politico-economic context as suggested above.

What analysts commonly refer to as a restructuring crisis was soon to appear heralding the next phase of capitalist expansion and development. The participating economies were required to dismantle their "interventionist apparatus" and provide the circumstances conducive to new international economic structures. Greater industrial flexibility and integration of production with international trade and finance was now demanded in the new cycle. Thus states have pursued the deregulation of national economies to provide for the entry of economic agents best suited to the new environment. The New Zealand government had initiated the restructuring process through its effort to expand the export production base in the period prior to deregulation, 1960-1984. By the 1980s several economic groups had emerged in the different agricultural industries that were distinguished by their efforts at internationalizing and diversifying production. The general revision of conditions of production facing all investors placed economic efficiency and profitability to the centre of the economic agenda. The new agents were at once prepared for the new economic regime and were instrumental in facilitating the restructuring of the agricultural economy to enhance their business environment. By 1984 much of the reconstruction of the agricultural sectors was already in progress. The deregulation of agriculture was merely a reorientation of the predispositions of the farming community to the manner in which they operated in their economic environment (Britton, Le Heron, Pawson 1992:8,92,96).

The New Zealand Milk Board history illustrates this process. The final stage of Board administration saw the government supporting the emerging involvement of processor conglomerates, alternative packaging manufacturers and the dairy sector in the liquid milk business. In 1988 these actors were already entrenched in the domestic milk sector and were instrumental in the reconstruction of liquid milk processing, distribution, and organisation according to their needs. Particular ideological constructs were incorporated in the new actors' campaign to reorganise the milk industry. The emerging regime was always supported with reference to the economy's need for structures of efficiency, rationalisation and flexibility. The deregulation ethos reflected the business interests of the new actors in

the milk sector and became the new mentality expected of the producers who wished to remain in the domestic milk sector. The restructuring crisis created the new agenda for participation in agricultural economies and rationalised the involvement of the new actors.

7.5 The Value of Corporatism to the New Zealand Milk Industry

The corporatist relationship between the producers' Board and the state was a means of dividing the burden of administering the industry. Public corporations and boards were not in New Zealand

"a means of introducing administrative autonomy into state marketing enterprises but as a means of enabling producers to share the responsibility for the centralized economic management of their industries." (Biggs 1965:50).

Corporatism did not remove the element of political control, merely made the government's role less formal. Indirect state control through the board system provided the state with a legitimate and efficient mechanism for intervention. Organising the agricultural lobby relieved the pressure and criticism on the government from a particular interest group through the sharing of responsibility for the sector and thus the state could "prevent the industry from becoming an irresponsible pressure group." (Biggs 1965:42,63).

Corporatist organisation was established through the pressure and the approval of most agricultural actors. Agriculture's political machinery was organised to promote its interests within the framework of the national interest and to afford its agents with public status (Weststrate 1959:55). While the principle function of these arrangements was depicted as securing the stabilisation of the market, other political objectives were pursued by the actors involved. Producers, vendors and processors all sought to establish or strengthen their linkage with the state. Corporatist structures facilitated access to state resources and provided the group with greater market power over less successful lobbyists.

As an explanatory model for the structuring of milk industries in liberal democracies, corporatism also proved a valid representation of the New Zealand milk marketing system. While identifying the actors, structures and political processes involved in the establishment and maintenance of a regulatory economy, the corporatist theory offers a perspective from which to critically analyze state sponsored regulatory bodies. At the inception of the corporatist arrangements in the New Zealand milk industry, these structures were the most efficient means of organizing the sector. The system sustained the industry while safeguarding the needs of its participants: ensuring the implementation of policy and avoidance of market conflict and political controversy as demanded by the state; providing income security for the producers; and guaranteeing supply and quality control for the consumers. Corporatism allowed the successful management of conflict in the sector. It also equipped the industry with an effective problem-solving capacity. Corporatist structures provided mechanisms for the government's program of industrial rationalization, restructuring and modernization. In presenting corporatist arrangements as an interaction between the state and its partner within a specific environment, it has been possible to appreciate the political, ideological and economic requirements for regulatory economies and recognize the vulnerabilities of these structured relationships.

Criticism has been directed at the effect of corporatist arrangements between the state and the targeted agricultural sector. The inequities built into the system allow one group of actors to develop exclusive, government sponsored monopolies within the industry at the expense of other potential participants. The regulated milk industry of New Zealand furnished the liquid milk sector with higher returns than the exporting dairy sector. That the town milk service was more lucrative was evident by the excess demand for supply contracts, many from manufacturing supply farms, and the capitalization of quota rights into the land prices. The vendors were also able to capitalize the benefits of the allowance system and their exclusive rights to a distribution sector which was demonstrated in the "goodwill" demanded in the sale of milk rounds. The monopoly structures profited certain participants in the milk industry at cost to tax payers funding the scheme.

The structural inequities indicated that the regulated milk scheme was unnecessarily expensive. The net returns for participants in the scheme exceeded the return available for other uses of these resources. Moreover to secure adequate supplies for the winter through the payment of the town milk price for the surplus quantities that were redistributed in the manufacturing sector, the scheme effectively paid for more than was consumed (Veeman 1972:240). The privileges gained within the town milk scheme provided little incentive to adjust production, distribution or processing behaviour in response to changing market conditions. Consequently the regulatory marketing system was associated with rigid structures and inefficient practices. Veeman criticizes the board administrations where,

"in some instances board operations have had deleterious effects on the efficiency of resource allocation - tendencies not confined to, but most evident with, domestically oriented boards." (Veeman 1979:116).

Criticism of the corporatist structures only threatened the continuance of the state-sector alliance when these arrangements failed to meet the demands of the government's agenda and of the changing politico-economic environment. The structures of corporatism that were once crucial for the successful administration and development of the milk industry had become redundant and were now a liability to the restructuring program for the domestic milk sector. Through the creation of vested interests such as the Supply Associations, the board administration instituted structures of opposition to future rationalisation or restructuring policies. Many instances of resistance to severe change were noted in the history of the Board's reign. The suggestion of any radical method of securing the town milk supply would naturally be opposed by the Board.

"The Milk Board is a long established body which one would naturally expect to have vested interests in its own maintenance as an administrative and controlling body." (Veeman 1972:251).

In the later years characterised by entrenched producer opposition to the reconstruction of the liquid milk industry, an inherent bias against the introduction of new technologies and actors was evident in the system. Thus the value of corporatism to the milk industry's management was lost when the corporatist arrangements failed to respond to the demands of the changing market.

These were the many issues of concern that lent support to the partial deregulation of the milk industry in 1988. However it appeared that one system of inefficient monopoly

structures was replaced by the noncompetitive, inefficient and unresponsive monopoly of the processing conglomerates. As the political climate begins its reassessment of the value of regulated/unregulated economies, perhaps a balance could be achieved between the commercial needs of the liquid milk sector and consumer requirements. While both systems purported to be established for the benefit of the public, in the end it is the consumer that has often not been well served by the privileged agents of the corporatist system or by the powerful business interests of the post-regulation town milk service.

In hindsight the replacement of the producer monopoly regime with another monopoly structure did not necessarily serve to enhance the efficiency, consumer-responsiveness or economy of the sector. Although beyond the parameters of this report, it is possible to perceive that a more viable domestic milk service may be achieved through a compromise between security attained through regulation and the economic accountability arrived at through a more open market. Moreover as the debate over sectoral independence and government intervention will continue to colour agricultural planning, further institutional experimentation seems imminent. Thus an informed statement on the alternative forms of milk industry management would require a comparative study of the different scenarios that are suggested by any combination of regulatory and free market administrations.

7.6 Conclusion: Corporatism and Statutory Board Systems

The narrative history of the New Zealand Milk Board has described the development of political structures that were instrumental in the advancement of a constant high quality milk service. Statutory regimes of experimental institutional arrangements gradually provided the Board with greater administrative power over the industry. Through the vehicle of government-sponsored Supply Associations, the sector implemented an agenda of sector restructuring, modernisation and rationalisation. For the formation of an effective quality national milk service the structured relations between the state and producer interests appeared the most viable option within the regulated agricultural economy. However the dissatisfaction of the state and the public over the expensive scheme that was expressed in the 1980s was to highlight the redundancy of this entrenched political configuration to the demands of a new politico-economic context.

The theoretical constructs of the corporatist model were valuable in understanding the state-sponsored collaborative arrangements with the authorized producer associations that were the foundation of the Milk Board administration. It identified the actors, structures and political processes involved in the establishment and maintenance of this aspect of a regulated economy. The administration of the milk economy seems to have been well served by the regulatory board system in its initial development stage. The statutory body secured market stability, contained intra-sector conflict, provided the industry with an effective problem solving capacity and equipped the milk sector with mechanisms for implementing government agricultural policy. Overall the National Milk Scheme sustained the emerging industry while safeguarding the needs of its participants.

Corporatist theory has also provided an appreciation of the vulnerability of statutory board administration. The collapse of the state's alliance with producers in the restructuring program of the 1980s emphasized the dependency of the corporatist partner on a specific political and economic environment to sustain its privileged access to the state. The accomplishments of the milk industry had ironically made the regulated producer's

management obsolete to the needs for an industry responsive to the changing global politico-economic climate. What also became apparent through this narration of the New Zealand milk industry's history is how the Board administration became associated with rigid structures of inequity and inefficient practices. The inequities built into the system granted one group of actors the means to develop exclusive, government sponsored monopolies within the industry. These structures of privilege were expensive to the taxpayer and provided little incentive to adjust production, distribution or processing behaviour in response to changing market conditions. Political arrangements of the vested producer interests were defended by instituting structures of opposition to industrial reconstruction. The Board's administration thus became characterised by an inherent bias against the introduction of new technologies and actors to the scheme. When the Board became an obstruction to the implementation of state agricultural policy, the government pursued its privilege of political control over the statutory regime - withdrawal from the corporatist alliance.

In employing the corporatist model to describe the relations between the state and producer interest groups, it has been possible to appreciate the politico-economic context which both facilitated statutory board administration and forced its dissolution. In effect this study found corporatism useful as an indicator of the value of statutory organised domestic milk industries and an anticipation of the inherent limitations within this form of organisation. The theory provides a guideline to the political and economic variables best suited for corporatist organisation, the structural demands required for the maintenance of a regulatory economy, the political crises to be expected in a corporatist domestic milk industry, and the difficulties inherent in a dismantled regulatory economy. In effect the study of the corporatization of the New Zealand domestic milk industry serves as a useful illustration of the management of a liquid milk sector by a statutory board and in particular assists the government and producers of newly emerging domestic milk industries with their assessment of the role of a milk board in the changing politico-economic climate.

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APPENDIX 1

OFFICE BEARERS AND MEMBERS OF THE CENTRAL MILK COUNCIL AND THE NEW ZEALAND MILK BOARD : 1944-1988

Chair

1953-1956	W B Tennent
1956-1978	L V Phillips
1978-1980	E G Ogier
1981-1984	D C Lane
1984-1988	B F Kimpton

Council Members 1944-1953

Minister of Health as Chair

H Innes	Director of Milk Marketing
M Bell	Government (Health)
W J Rogers	Municipal Association
H D Lambie	Producers' Federation
C McFadden	Producers' Federation

Board Members 1953-1988

1953-1958	R B Tennent	Government (Agriculture)
1953-1959	L E August	Federation of Vendors
1953-1963	H D Lambie	Producers' Federation
1953-1965	P T Jamieson	Producers' Federation
1953-1970	P Dowse	Municipal Association
1953-1973	C J McFadden	Producers' Federation
1953-1974	M Bell	Government (Social Welfare)
1958-1980	L G Purser	Government (Agriculture)
1960-1971	N H Kennedy	Federation of Vendors
1963-1980	A W Montgomerie	Producers' Federation
1965-1974	V J Cottle	Producers' Federation
1968-1971	R W Bennett	Counties Association
1968-1971	R J Calvert	Municipal Association
1971-1978	C L Bishop	Municipal Association
1971-1978	E W McCallum	Counties Association
1971-1980	K W Blackmore	Municipal Association
1971-1988	P J Beamont	Federation of Vendors
1973-1988	E F Stokes	Producers' Federation
1974-1977	I A Ross	Producers' Federation
1974-1988	M R Till	Government (Welfare/Consumer)
1977-1988	G J Guy	Producers Federation
1977-1988	A G Spratt	Counties Association
1978-1980	G Gee	Municipal Association
1981-1984	R C Brake	Federation of Milk Stations
1981-1984	R W M Johnson	Government (Agriculture)
1981-1986	I H McLaren	Federation of Vendors

1981-1988	C M Gordon	NZ Dairy Board
1984-1986	S Rajasekar	Government (Agriculture)
1985-1988	N M Brooks	Federation of Milk Stations
1986-1987	C Douglas	Government (Agriculture)
1986-1988	I M Murray	Federation of Vendors
1987-1988	R A Sandrey	Government (Agriculture)

General Managers

1953-1974	D J Henderson
1974-1979	R D Williams
1979-1981	G MacPherson
1981-1988	H G Turnball

APPENDIX 2

LEGISLATION FOR THE ADMINISTRATION OF THE NEW ZEALAND MILK INDUSTRY 1881-1988

Dairy Regulations 1881
Food Hygiene Regulations 1883
Milk and Dairies Regulations 1895
Dairy Industry Act 1898
Food and Drugs Act 1908
Milk Supply Act (Wellington) 1910
Milk Supply and Markets Act (Christchurch) 1914
Milk Supply Act (Wellington) 1919
Auckland Metropolitan Milk Act 1933
Dairy (Milk Supply) Regulations 1939

Milk Act 1944

Milk Board Election Regulations 1945
Milk Treatment Regulations 1945
Dairy (Milk Treatment) Regulation 1946
Milk Amendment Act 1947
Milk Amendment Act 1951
Milk Amendment Act 1953
Milk Marketing Order 1955
Milk Amendment Act 1956
Milk Amendment Act 1962

Milk Act 1967

Milk Price Order 1967
Milk Marketing Order 1968
Milk Price Notice 1968, 1969
Milk Producers and Other Prices Notice 1969-1974
Milk Amendment Act 1970
Milk Amendment Act 1971
Milk Amendment Act 1973
Milk Marketing Order 1973-1979
Milk Regulations 1973
Milk Production and Supply Regulations 1973
Revocation of Milk Producer and Other Prices Notice 1975
Food Hygiene Regulations 1974-1981
Milk Price Notice 1975-1977
Dairy Industry Regulations 1977-1982
Milk Amendment Act 1978
Milk Price Notice 1978-1979
Milk Order 1978
Milk Stations Regulations 1979
Milk Amendment Act 1980
Food (Hygiene) Regulations 1981
Milk Amendment Act 1982

Food Regulations 1984-1987

Auckland Milk Supply Associations Order 1984

Metrication Regulations 1984

Rotorua & Murupara Districts Milk Supply Associations Order 1986

Milk Amendment Act 1987

Milk Act 1988

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