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Kiwis put Canada's dairy supply scheme to shame

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In the worldwide food shortages that developed at the end of the Second World War, tiny New Zealand grew fabulously rich. The country fed Britain, New Zealand dairy farmer Thomas Lambie recalled years later in an essay published by the Cato Institute. "[We] had the second-highest per-capita income in the world. … Farmers had it made."

In the ensuing years, New Zealand's government moved decisively to protect the country's farmers from marketplace risks – supply fluctuations, declines in prices, foreign competition. It didn't hurt that, as Mr. Lambie put it, almost every cabinet minister was a farmer. The country adopted supply management in all its forms: marketing boards, controlled prices, import tariffs and import quotas.

When finished protecting dairy farmers, governments proceeded to protect everyone else. "We locked out the foreign competition," Mr. Lambie wrote. "We 'protected' people's jobs and we had virtually no unemployment."

Fortress New Zealand, as it was dubbed, did well for more than 20 years. In 1973, however, Britain entered the European Economic Community – and New Zealand farmers lost their primary market. In 1979, the first of the oil shocks struck. The country was compelled to borrow to sustain its protectionist devices. Huge deficits followed, accompanied by spiralling debt. The country hit the wall early in the 1980s with simultaneous financial crises in public and private sectors.

New Zealand had no choice but to dismantle the Fortress, and farming was the first industry liberated. An industrial revolution followed. Rather than please government, Mr. Lambie said, farmers realized that they needed to please consumers. Rather than pass along price increases, they realized that they needed to operate more efficiently. With supply management, sheep farmers tended 70 million sheep; after supply management, they produced the same amount of meat with 40 million sheep. With supply management, productivity increases averaged 1 per cent a year. After supply management, they averaged 4 per cent.

Within six years, moribund New Zealand was ready to take on the world. "We now live in one of the most open and unregulated economies in the world. Other than a few tariffs … we are completely open at the border for everything." So it remains to this day. The Heritage Foundation's 2012 Index of Economic Freedom lists New Zealand as the fourth-freest country in the world (behind Hong Kong, Singapore and Australia). Canada is sixth.

This difference in ranking comes down to supply management, the means by which Canadian dairy farmers (and others) are permitted to fix the prices of their products – actions that, in any other industry, could land them heavy fines or imprisonment. It's a big difference. Canada (population: 33 million) exports $250-million in dairy products a year. New Zealand (population: four million) exports 10 times as much, $2.5-billion. Canada exports only a marginal percentage of its production of milk and milk products; New Zealand exports 95 per cent.

Many countries protect their dairy industries through one form of supply management or another. Only 7 per cent of the world's production of dairy products is traded on the global market. Yet these closed-door restrictions make New Zealand's global success all the more impressive.

It isn't only Canada that can't compete with New Zealand. Neither can the United States or Europe. U.S. milk producers are now lobbying hard for an exemption from the pending negotiations for the Trans-Pacific Partnership, a free-trade zone that would include countries from North America, South America and Asia, including New Zealand and Australia.

But even 7 per cent of the global dairy market is an enormous amount of milk. New Zealand, the first country to sign a free-trade agreement with China (in 2008), now holds preferred trading status in many (actually, 90) goods and services in China, including dairy products. New Zealand is a truly global leader, as its statistics show.

New Zealand has five million dairy cows; Canada, 1.4 million. New Zealand's average dairy herd is 336 cows; Canada, 72 cows. New Zealand sells almost half of the global trade in butter; with 80 per cent of Canadian dairy production, Ontario and Quebec "export" butter only to the rest of Canada – where, though heavily subsidized, it is largely considered, and priced, as a luxury product.

In Canada, incidentally, the price of butter increased 9 cents per kilogram this year – the supply management "support price" rising to $7.28 per kilogram from $7.19. In New Zealand, the open-market price fell 44 cents, to $3.86 per kg from $4.30. So much, exchange rate fluctuations aside, for Canada's biggest protection racket.