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AGRICULTURAL POLICY AND INNOVATION

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In principle, the Group regards long-run market forces as the best guide to resource allocation, not only within existing production units, but also between sectors. However, in practice they perceive many instances of market failure in the rural sector which justify government intervention either on efficiency grounds or on equity grounds. They aggregate these intervention/assistance measures into sets and devote a chapter to each set. The new, novel and controversial aspects of assistance are highlighted in these comments. The Group discussed price support and underwriting schemes, input subsidies and related issues, natural disaster relief, income tax averaging, product promotion and export inspection services in Chapter 5 and research, extension and education in the context of innovation in Chapter 9.

Agricultural Policy Issues

Many of Australia's major rural export products are now subject to underwriting schemes. In most instances, these policy measures represent significant departures from the traditional stabilisation schemes which evolved over the 1920s to 1940s period and which continued to operate well into the 1970s. The current underwriting schemes are all 'safety nets'. The aim is to protect the industries concerned against down-side price risks but, under normal circumstances, they are not intended either to support or to stabilise producer returns to any great extent. The Group had nothing of substance to say about the detailed operation of these underwriting schemes. They did not pass judgment on whether underwriting is preferable to the older stabilisation schemes. The Group did, however, support the principle of underwriting and advocated its wider application within the rural sector. For example, they consider such a scheme (para. 5.32) '. . . for meat, and thus live animals would be technically feasible'. While recognising that underwriting schemes could become a major means for supporting farm prices and, hence, incomes (para. 5.35), the Group did not grasp the nettle and express a view on whether these schemes should be used for this purpose.

The next batch of assistance measures considered in Chapter 5 were those designed to reduce farmers' input costs. The Group saw these measures as raising farm incomes first and improving productivity second (para. 5.38). They began by listing six deficiencies commonly associated with this kind of assistance measure (paras 5.39 and 5.44). These problems are all important and could, perhaps, have been given more space. The Group then turned their attention to fertiliser subsidies. While raising the possibility, the Group avoided endorsing the claim that fertiliser manufacturers are major beneficiaries of fertiliser subsidies. On the strength of recent lobbying efforts by the fertiliser industry, and on the basis of simple economics, the Group should have at least classified a

portion of the fertiliser subsidies as assistance to manufacturing.[1] While supporting the continuation of existing fertiliser subsidies (para. 5.53 with emphasis added). '. . . the Group does not consider that *increasing* assistance for fertiliser use would improve productivity in the agricultural sector to any marked degree'.

On the petroleum freight subsidy, the Group emphasised the obvious, namely that (para. 5.62) '. . . this assistance benefits all groups in country areas'. Therefore, they were reluctant to endorse the idea that the subsidy be increased because (para. 5.66) '. . . such an approach would be a relatively costly means of helping farmers since many other groups will also benefit'. This conclusion highlights the distinction between assistance for farmers and assistance for the rural sector as a whole. Despite some motherhood statements to the contrary elsewhere in the Report, the Group was primarily concerned with farmers and their plight rather than with the rural sector more broadly defined.

The section on rural credit is noteworthy for several reasons. The curiously worded para. 5.119, in which it is suggested that primary producers be allowed an income tax deduction in excess of 100 per cent for interest paid on borrowed funds, has received considerable publicity. While the point about tax rebates being preferred to tax deductions (para. 5.41) seems to have been overlooked, the Group was correct when it suggested that, if the Government wants to lower the cost of credit for certain borrowers, then it is preferable to use a tax measure than to intervene directly in the credit market. Two other important issues raised in the debate about deregulating interest rates are the role of the Primary Industry Bank of Australia and the possible subsidisation of a young farmer establishment scheme. While the Group questions the need for both of these innovations in a (para. 5.94 and 5.98) '. . . deregulated (finance) market . . .', they failed to pour enough cold water on these two concepts.

On the topic of financing arrangements for statutory marketing authorities, the Group strongly suggested such organisations should have free access to both domestic and overseas credit markets (para. 5.123). While this recommendation was probably made with Commonwealth authorities in mind, the difficulties of the Queensland Peanut Marketing Board and the New South Wales Grain Sorghum Marketing Board in 1982-83, suggest they may need to rethink this recommendation.

The Group discussed taxation and income stabilisation issues without any great novelty. As always, the reaction of government will be to accept the palatable and overlook the unpalatable. For example, the Labor Government moved quickly to implement the suggestion that the old averaging system be reintroduced (para. 5.178) but the companion suggestion (para. 5.182) regarding the removal of restrictions on the amount of non-primary production income to which averaging applies, has not been so swiftly considered.

The Group supported almost all of the assistance measures discussed in Chapter 5 and, where they felt a measure was inappropriate or unnecessary, they almost always advocated a modification or alternative to replace it. They have been happy to tinker with the *status quo* rather than to suggest any radical new initiatives.

[1] Although the situation is a little different, the Group subsequently claimed that *all* of the tractor bounty should be treated as assistance to manufacturing (para. 5.59).

Agricultural Research and Extension

In an era of sunrise industries and with the emergence of biotechnology research as the latest craze (to replace solar energy research, which replaced . . .), traditional agricultural research distinctly lacks sex appeal. The Group's comments do nothing to redress the situation. As in Chapter 5, the Group canvassed a range of issues but broke very little new ground. Perhaps one of the most important contributions in Chapter 9 was the definition of 'innovation' as (para. 9.3) '. . . beginning with the bright idea and ending with a change in commercial practice'. The Group gave both the generation and the dissemination of new knowledge and/or technology equal billing.

As in other chapters, the Group began by paying homage to *beyond* the farm-gate (para. 9.8) and then does an about-face and focuses attention on research, extension and education relevant to *within* the farm-gate. Perhaps one of the reasons for this is the emphasis given to the discussion of Rural Industry Research Funds (RIRFs).

In discussing the funding of rural research, the Group recognised the marked decline in the allocation of Commonwealth funds for this purpose since 1976-77. In addition, they pointed out that RIRFs have also provided less money in real terms in recent years. Despite these cutbacks, the Group claimed that, in real terms, the expenditure on rural research actually increased between 1968 and 1980. It would seem that, over the 1970s decade, the state governments increased substantially their expenditure on rural research. Only a supreme optimist would expect this trend to continue (especially now that the urban-based Labor parties have won government in all but two states).

Rural research, which has been one of the sacred cows of Australian research and development, will face a major funding crisis in the 1980s. The Group failed to grasp the magnitude of this problem. They have neither highlighted the seriousness of the situation nor argued the strongest possible case for increased public funding of rural research. In para. 9.30 they weakly sum up a poorly reasoned section on 'Who should pay for research' by saying that '. . . agricultural research funding should be increased . . .' and that the Commonwealth Government should contribute more because 'The Group considers that research is an appropriate area for providing assistance to raise farmer incomes . . .'. Many readers will realise the last point is only one (and, in Australia today, probably the least politically appealing one at that) of many valid reasons for public funding of rural research.

The Group implicitly recognised the impending shortage of money for rural research by examining ways to improve the operation of the RIRFs in considerable detail. The Group has also endeavoured to convince primary producers that they could incur substantial opportunity costs by not funding more research even if the public sector is not prepared to increase its expenditure on rural research (para. 9.35). Given the parlous financial state of many farm businesses, most of the Group's suggestions for raising more money for the RIRFs are not likely to prove popular in the bush. In particular, the concept of a general research levy on all primary producers collected through the income tax system would take a lot of selling. This is unfortunate because this idea, along with the associated proposals for its disbursement (paras 9.40 through 9.45), deserve serious consideration. Indeed such an approach could easily be

extended to solve the problems of very small, new or not yet discovered industries (paras 9.47 through 9.49). It would be much harder to justify collecting funds from all primary producers on a flat rate of tax basis for the purposes of funding extension or promotion activities (para. 9.46).

Securing adequate funds for rural research is only one side of the coin. Of equal importance is the need to manage the available cash to the best advantage. The Group endeavoured to come to grips with this problem without upsetting anyone.

The RIRF Advisory Committees are indirectly chastised (para. 9.61) for wearing blinkers. The Group suggested a wider representation on these committees may result in funds being directed to a greater range of research activities. It would be nice to feel that the Group also meant that a wider range of research institutions should also be given a slice of the action. For example, why has the Australian Meat Research Committee restricted the funding of economic analysis research to the BAE? Why is it so difficult to obtain wheat industry funds for marketing and policy research?

The CSIRO and state departments are asked to ensure that their research programs are relevant (para. 9.62). After giving the CSIRO a gentle nudge, the Group again suggested that specific research tasks could be contracted out. Presumably the Group envisaged domestic research contracting would follow the same general pattern traditionally adopted by the Australian Development Assistance Bureau (ADAB) and now by the Australian Council for International Agricultural Research (ACIAR) for overseas projects.

One of the problems with contract research and with the so-called 'at the margin' research funding strategy advocated for the RIRFs, is the presumption that research institutions can acquire (para. 9.67) '. . . core expenditures (capital and recurrent) from their own resources'. This assumption is no longer valid for the universities and, while the situation in the CSIRO is not as serious as at the universities, even the CSIRO can no longer be assumed to have the funds to cover so-called core expenditures. Indeed, this problem also needs to be noted and addressed by other rural research funding agencies such as the Australian Research Grants Scheme and the Rural Credits Development Fund.

Two other aspects of rural research raised by the Group were the question of giving away hard-won agricultural technology and expertise (para. 9.71) and the establishment of ACIAR (para. 9.82). The only serious public debate about preventing Australian agricultural technology 'leaking' overseas has centred around the export of merino rams. But with the establishment of ACIAR to help ADAB export not only existing Australian farm technology but also the highly skilled and expensively-created human capital needed to develop the next generation of Australian farm technology, perhaps the Group could have sounded a stronger warning. Both ADAB and ACIAR programs need to be restructured to ensure that foreign aid complements, rather than competes with, domestic training and research endeavours.

In respect of extension, as already mentioned, the Group moved it to centre stage as an equal partner with research in the innovation process. They identified the need for extension services to adjust to the changing technological, economic and social environment. Furthermore, the Group obviously believed that there was scope for research and innova-

tion in the field of extension itself (paras 9.117 through 9.119). In particular, the Group stressed the potentially beneficial impact of developments in the information industry on the productivity of professional extension workers (para. 9.116).

It would be difficult to quibble with any of the detailed suggestions made by the Group on extension. But there are three broad areas where the Group left fertile ground untilled. First, the need for extension varies dramatically across rural industries, regions and types of farmers. The Group failed to perceive the importance of delineating carefully the target audiences for rural extension. Their three-way classification (para. 9.85) does not go nearly far enough. Besides, they made no attempt to estimate the relative number of farmers in each group. Second, the Group was reluctant to admit that there is a growing need for rural extension agents to be social workers as well as suppliers of technical or management information and advice. Third, the Group did not seem to perceive that extension policy should aim to reduce the *total* cost (i.e., private plus social cost) of information transfer. In the past the emphasis in rural extension has been on persuasion and adult education. The farmer has been seen as a more-or-less passive recipient of the benefits of extension. Nowadays, the commercially viable farmer is more likely to be an active seeker of information who is trying to minimise the private cost of his information searching activities by transferring them to the public sector. If society wants to minimise the *total* cost of information gathering this may be highly desirable because only the public sector can take advantage of the economies of scale involved. In addition, there will always be some externality effects, given that the information will usually have some public good characteristics. Therefore, it may not be in the public interest to charge progressive farmers for extension services.

Agricultural education was not seen by the Group as central to their terms of reference (para. 9.120). Nevertheless, they did venture into this minefield and their comments highlight some important issues. As with research and extension, the Group was reluctant to make controversial suggestions. For example, they acknowledge there (para. 9.124) '. . . are some fifty post-secondary education institutions involved in providing this (agricultural) education and training', but they do not draw the obvious conclusions that this is too many and that it is time for some rationalisation. The Group should have said that the available resources are being spread too thinly to be effective. The Group does 'point the bone' at the traditional agricultural colleges which have become CAEs (paras 9.128 through 9.131) but they are simply echoing sentiments expressed in some of the submissions received. The Group would have been justified in asking for a separate national inquiry into post-tertiary agricultural education. On the one hand there are too many institutions chasing too few students and on the other hand the current mix of available education opportunities does not appear to be appropriate to national needs.