Australian Journal of Agricultural Economics, Vol. 27, No. 2 (August 1983), pp. 145-151

RURAL COMMUNITIES: SOME SOCIAL ISSUES

WARREN MUSGRAVE*
University of New England, Armidale, N.S.W. 2351

In considering the (para. 11.2) '. . . general proposition that rural communities face a range of disadvantages and that as a consequence they require special attention from governments', the Group isolated three issues which were emphasised in submissions to it (para. 11.3):

- that rural dwellers face extensive disadvantages because of their relative isolation;
- that where a dominant agricultural industry is in decline the whole community could suffer; and
- that there are special welfare problems facing farmers which require particular attention.

If the purpose of the chapter was to divert attention from farm issues to the broader rural community of which farmers are a part, then the third of the above issues seems to be out of place. Inclusion of this issue in the chapter dealing with farm adjustment would have been more appropriate than its inclusion in Chapter 11.

In discussing the third issue, the Group pointed out the difficulty of making welfare comparisions between farmers and other groups because of problems in measuring farm income and differences in tastes and aspirations. The point is made that the Rural Adjustment Scheme (RAS) includes two welfare-related measures in the form of rehabilitation grants and household support which, though not heavily used, fill a need and, in the opinion of the Group, should be continued. The remainder of the section (paras 11.43 through 11.46) was devoted to a discussion of unemployment benefits and their availability to farmers. In particular, attention was paid to the difficulties farmers experience in receiving unemployment benefits because of the 'work test' which requires that they be available for and are actively seeking full-time, off-farm work. The Group noted the proposal that the work test be removed altogether for farmers and rejected it on the grounds that unemployment benefits are an appropriate policy for wage and salary earners but not for the self-employed.

While agreeing with the above conclusions, discussion of the issues raised is difficult without embarking on a full-blown review of the RAS which, to some, is best regarded as a welfare scheme for farmers (Musgrave 1982). Suffice it to note that the three welfare-related measures mentioned by the Group are all schemes which self-select their clients. That is, no selection criterion, such as the vexing notion of farm viability, has to be employed because only the relatively desperate would choose to apply for them. This is in pronounced contrast to the other categories of payment within the RAS where a high degree of selection is

* With the usual caveat, the author acknowledges the assistance of Gordon Gregory in preparing these comments.

Copyright 1983 The Australian Agricultural Economics Society.

involved, often in such a way that the desperate are excluded from the more generous benefits of the scheme. It is a pity that the Group did not pick up this issue somewhere in the report.

The other two issues nominated by the Group appear to be much more appropriate to the ostensible subject matter of Chapter 11 focusing, as they do, on the problems of all rural people, be they farm or non-farm.

Disadvantages for Rural People

Turning first to the disadvantages caused rural people by their relative isolation, one can only agree that many rural people are disadvantaged in this way. But this, as the Group noted, is not a sufficient basis for government action. Important questions which need to be answered in this respect are: How great are these disadvantages compared with the advantages of rural life? To what extent are they greater or less than the disadvantages of metropolitan life? And so on. Answering these questions appears to call for the compilation of a type of 'misery index' which, Sinden and Worrell (1979) notwithstanding, raises in the minds of many economists unpalatable problems of subjectivity and aggregation.

The Group, perhaps sensibly, did not attempt to answer these questions, though they indicated the more notable of the forms these disadvantages have been seen to take, such as the high cost of transport and communication and the lack of access to, and deficiencies in the quality of, educational and health services. In accepting that (para. 11.20) '. . . there is a case on social equity grounds for policies which aim to lessen . . .' the inequalities involved in rural living, the Group went on to list the substantial range of policy measures, such as air and freight charge subsidies, subsidised school bus travel and zone allowances, that already exist for this purpose.

The Group reported, and by implication agreed with, a consistent theme in the submissions to them that (para. 11.11 '. . . there should be equality of opportunity for rural communities in their access to the kind of services and recreation facilities that are enjoyed by people in large population centres'. After reporting some difficulty with the meaning of the notion of equality, they concluded that inequalities still exist, despite the wide range of policy measures that are in place. They concluded that further policy action was desirable, specifically in the fields of education and health, particularly because equality of access to these facilities is a principle which is widely held in the community (para. 11.27).

In a stable, competitive world in equilibrium, one would expect the cost of the 'inequities' of rural life to be reflected in asset values and in returns to labour and human capital and that, under such circumstances, no compensation by government for the hardship of isolation would be justified. On the other hand, such intervention may be justified in a dynamic, imperfect world which is out of equilibrium. Thus, cases could conceivably be made for assistance to children disadvantaged by the incorrect expectations of their parents, or even to those harmed by the consequences of structural change which unexpectedly disadvantages them in a socially unacceptable way. As examples of the latter, governments might choose either to support a firm or industry because of the employment consequences of not doing so, or to provide special assistance to those disadvantaged by the closure of a major firm. In the rural context

there have been suggestions — not always acted upon — that the closure of an enterprise with a major place in a town's labour market represents one such special case. The so-called 'abattoir towns' represent a case in point.

Thus, it is not isolation itself which warrants intervention; rather, it is the adverse consequences of change for isolated people which may be judged to constitute the necessary condition for intervening. As it is, the Group couched its discussion in static terms, implying that it is isolation alone that justifies intervention. Placing the argument in the context of a dynamic and imperfect world would have greatly strengthened their recommendations and contributed to a general elevation of the standard of debate about rural community welfare.

Declining Economic Base

In contrast, the effect of change comes to the fore in the second issue nominated by the Group; that is, the question of the impact of decline in the economic base on the associated rural community. In their discussion of this issue, the Group distinguished between the impacts of short-term fluctuations and long-term decline.

The instability of the Australian rural sector is notorious and has been an enduring cause for concern. One result of this concern has been an elaborate set of structures operating through the price, tax and other mechanisms with the ostensible aim of reducing or mitigating this variability as it impinges on the sector. The Group did not discuss in any depth the nature of the instability problem as it impinges on non-farm parts of the rural sector. They merely offer the consideration (para. 11.36) '. . . that the indirect effects of various rural assistance measures, including underwriting, and the Rural Adjustment and Disaster Assistance Schemes, should be regarded as meeting the needs of dependent rural communities'.

The empirical basis for this conclusion appears to be rather flimsy. The work of Mandeville and Powell (1976) and Powell and Jensen (1981) aside, the amount of research into farm/non-farm linkages is negligible. Assessment of the Group's contention would require some knowledge of the impact of instability of farm incomes on the income and resource allocation of non-farm rural people, together with the mitigating effects of different classes of stabilisation and disaster policy. There is scope for some useful research here. Such research would need to extend beyond the conventional input-output study to incorporate consideration of the dynamic and stochastic aspects of the farm/non-farm link and its impact on resource use and welfare in the non-farm sector.

The Group's suggestion may be correct and the existing mix of stabilisation, disaster (including activities such as flood relief, where direct assistance to urban dwellers is important) and conventional social welfare policies may be adequate to meet the needs of the non-farm sector. In addition, implementation of reform of the capital market along the lines recommended by Campbell et al. (1981), even though destabilising for small businessmen in one sense (Herr 1982), should contribute further to reduction of the instability problems which traditionally have concerned both farm and non-farm people in the rural community (Herr and Woodward 1983).

If there is still a feeling that existing and projected policies do not meet

adequately the needs of the non-farm rural sector, the research mentioned above becomes of greater potential value. Note should also be taken of the frequently heard comment that, in all logic, there seems to be no reason why some stabilisation measures, particularly tax averaging, should be restricted to the farm sector and that, in the case of drought relief, allocation of greater support to non-farm rural businesses would seem to be reasonable. Further, sight should not be lost of the cynical thought that present rural stabilisation policy reflects, not so much relative need, in either an efficiency or a welfare sense, as the relative political effectiveness of the farm sector.

In conclusion, with regard to instability and the whole rural community, the Group has advanced a recommendation which, while having the virtue of advocating government inaction, lacks an empirical base, is inconsistent with some threads of contemporary policy advocacy and fails to make the point that the stabilisation advantages of liberalisation of the capital market, as proposed by Campbell et al. (1981), apply to the non-farm as well as the farm sector.

Long-Term Decline Effects of the Community

In the context of long-term decline, the Group restricted itself to the impact of decline of the base industry (farming) on the dependent (sic) rural communities. This somewhat physiocratic view of the structure of rural society is needlessly restrictive and belittles the importance of the reverse link between the non-farm and farm communities whereby the welfare of farm people is influenced strongly by their neighbouring contry towns.

There is evidence that a process of structural change is affecting country towns and that this process is independent of change in the farm sector. That is, regardless of what is happening in the farm sector, this process of change in the country towns will occur, albeit modified by what happens in the farm sector. Like the process of structural change in the farm sector, the structural change of the rural urban sector has its policy implications, particularly with regard to its casualties.

Overall, there is a tendency for the needs of rural Australia to be met increasingly by the larger regional centres, with the result that a number of smaller towns are either stagnating or declining. The number of substantial towns (i.e. with a population of over 1000) experiencing population decline appears to have peaked in the 1966-71 intercensal period. Towns losing population have been those of fewer than 10 000 persons, though by no means all towns in that size category are stagnating, let alone declining. Sorensen and Weinand (1981) have advanced the notion of a 'fulcrum population size' for service settlements about which population growth and decline are balanced. This size will vary depending on the geo-economic characteristics of the region so that the size which may be associated with decline in one region could be associated with growth, as a vital regional centre, in another. Thus, there is no clear relationship, for towns under 5000, between size and trend in population (Gregory 1980). There is, however, a trend in rural Australia for regional centres to grow and for smaller towns in the hinterland, perhaps beyond a 'dormitory' perimeter, to stagnate or decline. This trend reflects an autonomous process of structural change which, in turn,

reflects changes in communication and transport technology and rising incomes.

Reactions to the decline of a country town can be complex and can involve cultural, historical, environmental, or even vote-winning considerations. To the economist, as with the Group, regardless of the cause of the decline, policies should not, in general, impede the process and should perhaps facilitate it, although acknowledgment must be made that, on occasions, non-economic motives may dictate otherwise. Possibly the winds of adjustment should be tempered by special-purpose policy, as with the farm sector, but presumably only if existing welfare policies are found to be inadequate.

There is evidence that certain classes of welfare problems are disproportionately represented in country towns. For example, the Poverty Inquiry (1975) reported a higher relative incidence of poverty, and a higher incidence of characteristics (single aged persons, single parents and itinerant workers) associated with poverty, in country towns than elsewhere in Australian society. Whether this is because of the problems of small towns described above, or whether it reflects some other phemonema is not clear. Whatever the cause, it is likely that such poverty and poverty-related problems would be exacerbated by the structural change process. There is scope for research into these matters, not only by economists, but also by demographers, geographers, sociologists and psychologists. Some indication of the gaps in knowledge were given by the Australian Rural Adjustment Unit (1981, p. 108):

> There is much information currently needed in order to chart the present situation of rural towns, including the average age of residents and its change over the decade, the population of school-leavers quitting small towns for the capital and provincial cities, the ratio of unemployed to vacancies and its long-term trend, the birth rate in country areas, the rate of bankruptcies in small business and the rate of creation of new jobs, the financial status of local authorities, and the degree of over-capacity in key employment industries in rural areas . . .

The scope for economic analysis, given such information, is considerable.

The Australian Rural Adjustment Unit (1981) also nominated a number of groups in country towns which probably contain those who represent the bulk of the casualties of decline. They include:

(a) children, because of the declining educational, social and recreational opportunities;
(b) job-seekers who are faced with a small number of vacancies near their place of residence and with the probable need to leave their community and buy into a higher-value real-estate market;
(c) the owners and operators of small businesses who are disadvantaged by falling turnover and asset values;
(d) the aged, who are rather immobile and are seriously affected by the erosion of retail, public and social services; and
(e) ratepayers who are likely to find local government becoming either more expensive or of lesser quality.

If these groups of people were judged to be entitled to receive assistance because of the disadvantages imposed on them by exogenous

change (from which others benefit), the question then arises as to whether new policies are necessary or whether action under existing headings would be adequate. The similarities to the process of farm adjustment are such that the question is begged as to why the rural adjustment scheme is not broader, so as to encompass the whole rural community. Perhaps the answer is that existing welfare programs were felt to be adequate for the needs of non-farm people but not for farm people. On the other hand, perhaps the situation is one where farmers are more effective PESTS (Rausser 1982) than are other members of the rural community.

The case for ear-marked assistance to non-farm rural people has yet to be made in any conclusive way. A considerable amount of research has to be done before the validity of any such case can be assessed. The Australian Rural Adjustment Unit has done much to define the problem (see, for example, Gregory 1980) and to promote community self-help. The Group endorsed this latter activity and suggested the appointment by State Governments of a small number of field workers to support it.

Conclusion

The Group is to be congratulated for including this discussion of the problems of rural communities in its report. The activities of certain pressure groups and of the Australian Rural Adjustment Unit, among others, suggest that there are problems, mainly of an equity nature, in Australian rural communities, both farm and non-farm. Too many of these problems are currently hypothetical in nature and a considerable amount of research is necessary before policy advisers have an adequate empirical base for their work. The Group's discussion of the topic reflects this deficiency but, by considering it, they have helped keep the issue where it needs to be: in the policy arena.

References

Australian Rural Adjustment Unit (1981), Submission from the Australian Rural Adjustment Unit to the Working Group preparing a Policy Discussion Paper on Agriculture, University of New England, Armidale.

Campbell, J. K., et al. (1981), *Australian Financial System. Final Report of the Committee of Inquiry,* AGPS, Canberra.

Gregory, G. (ed.) (1980), *The Acid Workshop,* Australian Rural Adjustment Unit Bulletin No. 2, University of New England, Armidale.

Herr, W. McD. (1982), Some longer-run implications of financial deregulation for the rural sector, in William McD. Herr and Ken R. Woodward (eds), *Rural Finance After Campbell,* An ARAU Bulletin, University of New England, Armidale, 83-103.

Herr, William McD. and Woodward, Ken R. (eds) (1983), *Rural Finance After Campbell,* An ARAU Bulletin, Australian Rural Adjustment Unit, University of New England, Armidale.

Mandeville, T. D. and Powell, R. A. (1976), *Structural Interrelationships in a New South Wales Wheat Region,* Agricultural Economics Bulletin No. 22, Department of Agricultural Economics and Business Management, University of New England, Armidale.

Musgrave, W. F. (1982), 'Rural Adjustment', in D. B. Williams (ed.), *Agriculture in the Australian Economy,* Sydney University Press, 292-307.

Henderson, R. F. et al. (1975), *Poverty in Australia: First Main Report of Commission of Inquiry,* AGPS, Canberra.

Powell, R. A. and Jensen, R. C. (1981), 'The structure and dynamics of rural regional economies', in Conley D. and Franklin J. (eds) *Country Communities . . . Planning a Better Future,* The Australian Institute of Agricultural Science (Western District Sub-Branch), 1-27.

Rausser, G. C. (1982), 'Political economic markets: perts and pests in food and agriculture', *American Journal of Agricultural Economics* 64(5), 821-33.

Sinden, J. A. and Worrell, A. C. (1979), *Unpriced Values—Decisions Without Market Prices,* Wiley, New York.

Sorensen, A. D. and Weinand, H. (1981), 'Recent changes in employment structures of non-metropolitan Queensland', in R. E. Glass and K. B. O'Connor (eds) *Papers of the Australian and New Zealand Section Regional Science Association,* Sixth Meeting, Surfers Paradise.