Reviews

Australian Agricultural Policy Since 1992: New Emphases, Old Imperatives

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Since 1992 there have been some major debates and decisions on Australian agricultural policy issues. Recent policy issues of the dairy, wool, wheat and meat industries are canvassed, as well as current policies on rural adjustment and drought, and the latest policy direction of the National Farmers Federation are documented. Emerging emphases in policy include adding value to commodities, privatization of activities of statutory authorities, and the management of resources and risk by farmers. In agricultural policy formation in 1992-1994 these new emphases confronted the old imperatives of agriculture.

1. Introduction

In 1992-1993 the Australian economy started to pull slowly out of the depths of the 1991 recession, with the usual mixed results prevailing for commodities, and by 1994 the recession was declared officially to be over. In Australian agricultural policy formation in this period the battle between competing interests for resources, for shares of the gross national product, and for the supremacy of ideas, continued with characteristic vigour but with varying degrees of rigour. Some new emphases in agricultural policy emerged, though the old imperatives of agriculture remained.

In this review, the focus is on policies affecting the major commodities, dairy, wool, wheat and meat, plus the broader issues of rural adjustment and drought. As well, recent policy directions of the National Farmers Federation are recorded. There were some significant inquiries and debates about rural policies during the period 1992-1994, and some significant policy actions were taken concerning dairying, wheatgrowing and meat production. Also, the wool industry debacle of the late 1980s and early 1990s continued to bedevil producers of wool, analysts and politicians alike, with consequences for the debate and the policy actions which ensued. These policy developments are discussed and prevailing and emerging emphases in rural policies are highlighted. Other policy concerns, such as natural resource policies, general trade policies and minor commodity policies are not covered.

Simon Crean continued as Minister for Primary Industry until late 1993 when Senator Bob Collins took over. A Federal election was held in March 1993 in which general taxation policy dominated policy debate. In late 1991 the Opposition had announced that the centre-piece of their policy proposals was a consumption tax. This was supported by the National Farmers Federation (NFF) (NFF 1993). The rationale for this proposal was that the current tax system, mainly comprising a mix of income and company taxes and an *ad hoc* array of wholesale taxes, had become unbalanced. Too great a reliance was being placed on personal income taxes and much of the total tax burden was being borne by those in the middle income brackets. The proposed move to a consumption tax was defeated, probably because total tax take was not being significantly reduced, just redistributed. However rural issues did not figure prominently during the 1993 federal election campaign, apart from some competitive bidding for votes in the

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sugar industry seats (Gerritsen 1992, Edwards 1993).

2. Dairy

The Kerin Plan

In April 1992, after much industry skirmishing and a 1991 Industry Commission (IC) inquiry, Minister Crean announced a new dairy plan. The 1986 Kerin plan which had provided assistance to dairy farmers, conducted under the euphemism of 'market support', ended in June 1992. The 1986 Kerin plan had the broad thrust of exposing the highly assisted dairy manufacturing sector of the 1970s and 1980s to increased competitive pressures, whilst reducing the distortions deriving from the pooling and equalization elements of the previous arrangements, and gradually reducing the relatively high levels of assistance provided to the dairy industry. The essential feature of the Kerin plan was a subsidy on exports of manufactured dairy products funded by a levy on all milk produced in Australia. This remained the cornerstone of the new arrangements. The effect of taxing all milk received by processors and manufacturers and using these tax receipts to subsidize exports of manufactured dairy products raises domestic prices of manufactured dairy products by an amount equal to the export subsidy. This occurs because competitive allocation of product between export and domestic markets ensures that returns from domestic and export markets are equalized. Thus the value of the transfer from domestic consumers to producers is the quantity of domestic sales multiplied by the rate of market support payment, for each of the products affected.

The efficiency effects of the market support arrangements derive from the payment of an average price for domestic and export manufactured products and market milk. Farmers in Victoria, South Australia and Tasmania are paid a weighted average of the higher-priced sales of market milk and the Kerin plan-enhanced returns from manufacturing milk. The returns from manufacturing milk are an average of returns from exports of manufactured dairy products, export subsidy payments and domestic dairy product sales. Transferable supply quotas are used in New South Wales, Queensland and Western Australia, the stated aim being to ensure year-round supply of market milk. Dairy farmers in these states are paid the higher market milk price for the share of quota milk used for market milk, and the manufacturing milk price for the rest.

The New Arrangements

The broad approach of the new dairy market arrangements was to provide a framework within which the dairy industry could become more internationally competitive and export-oriented. This was to be achieved 'by reducing government intervention in the marketing of dairy products and allowing industry decisions to more fully reflect commercial factors' (Crean 1992a). The practical manifestation of this intent was a phased reduction in the level of assistance given to the dairy industry. Under the Kerin plan the levy to fund the export subsidy was subject to a ceiling of 45 cents per kg of butterfat, with a limit on market support payments to the maximum of 30 per cent of average export prices. The actual level of market support in 1991/92 was estimated to be 22 per cent of average export prices.

Under the 1992 arrangements the subsidies for exports of dairy products were to continue until 30 June 2000. (However, circumstances changed by mid-1994 and the 1992 scheme is now to cease in 1995. The 1992 plan is being reformulated, following concerns about possible violation of some provisions of the Uruguay Round of the GATT, although the commitment to support is intended to be honoured). The maximum level of support payments for 1992/93 was set at the 1991/92 rate of 22 per cent because prices were low and some dairy farmers were struggling financially. Ironically, the dairy industry in Australia experienced boom times in 1993, with the highest production and prices received for well over a decade. From 1993/94 the market support payments for manufactured dairy exports were to be reduced in equal steps by about

2 per cent per year until the support of export manufactured prices was reduced to 10 per cent of export prices by 1999/2000. The Minister 'gave notice' that beyond 30 June 2000 'there will be no further legislated support to the dairy industry' (Crean 1992a). The cheese tariff quota was retained, with a tariff of $96/tonne on the 11,500 tonnes quota of imported cheese, and a tariff of $2100/tonne on over-quota imports. The promotion levy imposed on milk production was retained and the statutory ceiling for this levy was raised from 5.5c/kg of butterfat to 8c/kg of butterfat.

The advocacy and acceptance of a 10 per cent target rate of support by the year 2000, in preference to a lower target rate and thus greater reductions in support each year between 1993/94 and 1999/2000, was related to the March 1991 Economic Statement. In this statement the Government had announced that the general level of tariff assistance was to be phased down to an average effective rate of 5 per cent by 1996 (except for motor vehicles, textiles and clothing which were to be treated separately!). With this objective in mind, the dairy industry devised this ingenious argument: an overall 5 per cent increase in the price for manufacturing milk (equivalent to the effects of 5 per cent tariff assistance provided to manufacturing in general) could be achieved by a 10 per cent subsidy on exports (paid for by all dairy farmers), which would provide a 10 per cent increase in the price of manufactured production sold domestically (paid by consumers); and domestic sales of manufactured dairy products accounted for about half of all manufactured dairy production. A 10 per cent increase on the half of the manufacturing milk which is sold domestically would equate to 5 per cent assistance over the whole of the 'manufacturing milk industry'. The convenient symmetry of this simple tariff and industry support arithmetic seems to overlook the assistance provided to dairy farmers by the arrangements which raise markedly the price of market milk, as well as continuing to imply that the interests of dairy farmers are 'as one'.

Underwriting of dairy manufacturing product prices was removed in the 1992 plan. Under the previous dairy arrangements export returns from dairy product sales were underwritten at 85 per cent of the eight year trend. This guarantee was enacted only once, in 1990/91 when $22 million was paid out in subsidy. As well, under the previous arrangements 'any State' (New South Wales) had the right to suspend the market support arrangements in the event of 'interstate trade in milk' (from Victoria) - the so-called comfort clause which helped hold the previous all-milk levy, export subsidy arrangements together. The right of states to opt out of the national levy and export support scheme was removed in the new plan, thereby severing a link between Commonwealth and state arrangements. As is the case in all major agricultural industries, the new arrangements focused on marketing as well as production. 'Market development' is advocated as a sound way to use 'industry monies', particularly 'for profitable higher value products' (Crean 1992a).

The Industry Commission Recommendations

In announcing the changes in dairy industry policy, Minister Crean made a virtue of the fact that the policy which evolved reflected industry consultation which tempered the 'dry economic rationalism' of the IC report on the dairy industry. The IC had recommended that the Commonwealth marketing arrangements should continue the levy on all milk to fund the market support arrangements on dairy produce exports, with the maximum level of market support payments for 1992/93 to be 20 per cent of average export prices, and this should be phased down in equal annual amounts to 5 per cent by 1996. Then, subsequent general reductions in tariffs would apply to the level of assistance of the market support payments. As well the comfort clause was to be retained. The IC also recommended that the Australian Dairy Corporation (ADC) was to be continued as long as the market support arrangements continued, but the dairy industry fund should be wound up; the industry loan service discontinued; the ADC interest in Austdairy disposed of (if it could be decided who owned it); and the promotion levy repealed. The cheese tariff was to be reduced in accordance with any general tariff reductions after mid-1996 and the cheese quota was to be abolished. The IC recommended that underwriting of export returns continue to apply at 85 per cent of the long-term trend of export prices until mid-1999, and it should then cease. The Commonwealth's liability in any one year was to be limited to the $22m of underwriting payments for exports paid in 1990/91. The IC supported continuing the underwriting arrangements, despite its commitment to the principle of ensuring Australian industries 'assume more of the responsibility of meeting the costs of uncertainty' (IC 1991), because the underwriting facility was seen as a short-term measure to help ameliorate some of the adjustment costs which would result from the IC's proposed phasing down of market support by 1996. The IC placed little credence in the argument presented by dairy industry interests that the world market was corrupted and therefore it was necessary to have policies which would ensure that the Australian dairy industry was well placed to further exploit comparative advantages when the world dairy market became 'uncorrupted' at some future time. Unimpressed by the slow rate of reduction of regulation of market milk by the states, the IC also recommended that state milk marketing regulations be removed except those pertaining to, and necessary for, ensuring public health and safety.

The ADC in its submission to the IC inquiry queried the IC measures of support and argued that support should be retained; the dairy industry had adjusted markedly in recent years; was lightly assisted compared with dairying in other countries; the manufacturing sector of the dairy industry was efficient; and the long view meant that resources should be retained in the sector as the European Community was slowly reforming (ADC 1991). The ADC also argued for continuing underwriting and for the tariff and quota on imported cheese. The argument for retaining market support was, *inter alia*, along the lines that dairying in Australia had a good future export capability in the longer term, and the support of the past had helped maintain the size of the industry. Furthermore, the extent of price support is limited because the effect on domestic manufactured product prices is limited by the possibility of imports from New Zealand under the ANZCER agreement.

The Australian Dairy Industry Council (ADIC) argued that 'it is unreasonable for pricing in, and, hence, the resources devoted to, the Australian dairy industry to be based solely on corrupted world market prices determined by unilateral bureaucratic decisions in either Brussels or Washington' (ADIC 1991, p.i). The ADIC argued that the Kerin plan should be extended beyond 1992 while international markets are reforming; the all milk levy should continue with a ceiling of 45c/kg butterfat; underwriting should continue; the cheese tariff quota should continue; and market support payments should be such that the domestic prices in Australia do not rise above fair-traded New Zealand import parity prices (defined as the average price of all New Zealand exports plus the cost of trans-Tasman freight). The ADIC also advocated that the comfort clause approach to managing interstate trade should cease, and that state milk market reforms continue proceeding as they were, gradually.

Those conducting the IC inquiry estimated the assistance received by the dairy industry from the existing marketing arrangements: 'The purpose of measuring assistance is to allow comparisons to be made of the relative incentive effects of interventions on different industries, and how these change over time with different policies' (IC 1991, p.132). The effective rate of assistance is seen as an indicator of distortions in resource use and thus efficiency losses resulting from government interventions (IC 1991, p.133). In this case, of concern was not the relative efficiency of the Australian dairy industry as compared with international competitors, but the degree of assistance granted to the Australian dairy industry relative to other potential users of the resources involved, such as other Australian agricultural activities and other economic activities in general. The IC estimated that milk production received high rates of effective assistance, 40 per cent for manufacturing milk production and 106 per cent for market milk production, giving an estimate of assistance of 61 per cent for all milk production (IC 1991, p.136). The processing and manufacturing milk sector received negative or very low assistance. In a similar exercise Freebairn (1992) estimated the nominal rate of assistance (price received above export parity) for most dairy farmers in New South Wales, Western Australia and Queensland to be 25 per cent. Victorian dairy farmers were estimated to receive 33 per cent nominal assistance, Tasmanian dairy farmers received 40 per cent and dairy farmers in South Australia benefitted by 54 per cent. The effective rates would be about double these estimates.

Overview

The major contention about these measures of assistance is that although they indicate the order of magnitude of incentives which may exist for resource reallocation or misallocation, little of meaning can be inferred from them about the efficiency of resource allocation to or from a particular industry unless the estimates of assistance are accompanied by sensible estimates of changes in supply and demand which have occurred, or which will occur, as a result of this assistance. At the time it is made, policy is about how businesses will be able to operate in the future, while analysis is often about how businesses have been able to operate in the past. Regardless, conclusions about 'what happened' or about 'what might happen' in terms of efficiency of resource use requires estimates of changes in supply and demand which occurred or which might occur because of assistance given by particular policies. In an attempt to overcome the potential criticism that assistance measures without elasticity estimates of supply and demand are not very useful to prognostications regarding the size of efficiency costs and transfers, the IC used the ORANI-F model to estimate the economic effects of current policy and, by implication, the effects of their recommendations. Shying away from the ORANI model's long-run price elasticity of supply for milk production of 3.2, the IC used a supply price elasticity of 1.5 for both the long and medium terms. This price elasticity of supply was in stark contrast to the ADC's recommended supply price elasticity figures of 0.1 to 1. Both the IC and Freebairn (1992) found that the efficiency losses arising from the Kerin plan were relatively minor, once assumptions and errors are considered, at around \$30m. Consumer transfers to dairy farmers were much more significant, particularly in the market milk sector. For example, using export parity price as the reference point, and a supply price elasticity of 0.5, Freebairn (1992) estimated that transfers in 1989/90 from dairy consumers to producers were \$337m in the market milk sector and \$180m in the manufacturing milk sector. The IC estimates of consumer transfers used a different reference point and came to about half of these estimates.

In these two analyses, the estimates of transfers and efficiency costs depend critically on the guesses about the key supply and demand price elasticities. As these can never be known, the best that can be done is to seek out a logically consistent conclusion for a range of probable values of the key unknown parameters. If price elasticities of supply and demand in dairying are as low as is generally believed, then the transfers involved as a result of Commonwealth and state dairy policy are high and the efficiency costs are low. The Kerin plan arrangements, and therefore the current arrangements, would have had little implication for levels of consumption if demand is as inelastic as generally thought. The major efficiency losses result from the pooling of returns and average prices paid which have led to over-production in the non-quota states. If supply price elasticity is higher than the generally accepted very low levels, then the actual efficiency costs of price support would be correspondingly higher. If supply price elasticity is lower than the estimates used in the above analyses, as may be the case, then the actual efficiency costs of the dairy marketing arrangements would be lower than estimated. The existence of large transfers from many consumers to relatively few producers is quite unambiguous, with most of this taking place in the market milk sector which is under state government control. This suggests the state market milk arrangements is the area which ought to interest those concerned with implementing concerns about equity and distribution.

The 1992 dairy marketing arrangements contained provision for an increase in funds collected for the purposes of generic promotion of dairy products by the ADC. In general, promotion of products is enthusiastically embraced and happily funded by producers of most agricultural commodities, even though the logic of doing so is often dubious. However, the case of dairy products under the market support arrangements is slightly different. To the extent to which export sales of manufactured milk products can be increased by promotion, producers benefit by receiving higher domestic prices for manufactured product sales. The extent to which producers benefit from this depends on the extent to which domestic manufactured product prices exceed export prices, which in turn depends on the extent to which the export sales are subsidized. In the mid-1980s, the export subsidy reached a peak of 45 per cent of export price. Thus at this time the gain from enhanced domestic prices, and thus the potential gain from promotion, was high. It is somewhat contradictory to propose to reduce the export subsidy, and thus reduce the potential increase in prices of domestic manufactured products, and at the same time increase the amount which can (and so will) be spent on promotion. That is, it seems somewhat contradictory to propose to increase spending on promotion when the potential gains from doing so are being reduced. Nevertheless, farmers and politicians continue to be great believers in the benefits of spending producers' money on advertising to sell their commodity.

Finally, there are two issues looming for the dairy industry. First, signatories to the GATT have called Australia's 'high moral ground' bluff on agricultural protectionism and focused attention on the dairy industry's export subsidy arrangements: arrangements which are unlikely to stand too much scrutiny. One outcome of the Uruguay Round of the GATT was the aim to reduce the volume of subsidized exports by 20 per cent and reduce the level of domestic support on average by 20 per cent. The immediate challenge for the dairy industry will be to use their ingenuity to 'reinvent' the arrangements in a way which satisfies GATT obligations without doing further damage to dairy farmers' incomes. To this end the government has decided recently that the current (1992) milk arrangements are to cease in 1995 (not 2000 as originally intended), and are to be replaced by a different set of arrangements which will be designed to satisfy GATT requirements whilst trying to maintain the promised assistance. Second, as manufacturing milk assistance is being wound down and incomes of dairy farmers in the manufacturing milk states are affected the most, increasingly dairy farmers' attention will be focused on how the benefits of the market milk regulations of each state are being shared, and how the market milk regulations and premiums can be maintained in the face of the otherwise unavoidable decline in incomes of dairy farmers who are producing mostly milk for manufacturing.

3. Wool

The Story So Far...

The critical price setting process of the Australian wool industry Reserve Price Scheme (RPS) was taken over by the Wool Council representing woolgrowers' interests and the minimum price was boosted to a level far above the prices which the buyers of wool wished to pay. The Australian Wool Corporation (AWC) which administered the RPS had to buy more and more of the product. The financial reserves of the AWC, which was made up of money collected from levies on sales of wool in the past, was soon exhausted. With no relief in sight from wool buyers, the AWC obtained from the government a guarantee of borrowings, and Australian woolgrowers found themselves in the position, through the AWC, of borrowing around \$3 billion to buy 4.7 million bales of their own wool at a high price and storing it in the hope that one day some very keen buyers will return and take it all off their hands at an even higher price than the price at which they would not buy it previously.

As the growing absurdity of the situation became apparent, the government firstly introduced a 20 per cent wool tax to try to service the debt and meet the storage costs, and then abandoned the RPS in early 1991 and asked 'Now what do we do?' Following various pieces of advice (for example Vines *et al.* 1990, Stoeckel *et al.* 1991, Beare *et al.* 1991, Watson 1990, ACIL 1990, Males *et al.* 1990, Bardsley 1991) the AWC was replaced by three organizations, one to sell the stockpile (the Australian Wool Realization Corporation (AWRC)), one to research and develop wool technology (the Wool Research and Development Corporation), and one to do the remaining facilitating functions of the old AWC (the new Australian Wool Corporation). The AWRC was instructed to levy woolgrowers 9 per cent of their wool proceeds to pay for storage costs and the interest bill on borrowings, and to sell the wool stockpile as best they could over the next six years. More than expected was sold in 1992 as demand for wool recovered somewhat. Under pressure from growers and the Wool Council, the government reduced the wool tax from the initial 9 per cent to 4.5 per cent. The buoyancy of the market was to be short-lived however as the wool market went flat in 1993, and less wool than was expected was sold for lower than expected prices. Still, by the end of 1993 the AWRC was on target to meet its six year disposal deadline. Throughout this period there was no shortage of advice. Suggestions were made to destroy the stockpile; to denature it; to implement a wool export tax; for growers to 'sue the government'; for the government to take-over the debt; for better marketing; to do more promotion; to sell it cheaply on credit to impoverished Eastern European countries; to invest in processing in China and Russia; and so on. Unnerved again by the strange debt-ridden beast called the wool industry, the government commissioned another hasty inquiry in 1993; the Wool Industry Review Committee headed by Professor Ross Garnaut (Garnaut 1993). Further serious advice for the short and longer terms came from several quarters (for example, Chisholm *et al.* 1993 and 1994, Edwards 1994, Haszler 1994, Watson 1993a, b, c, Hertzler 1994).

The Garnaut Report

The chief recommendations of the Garnaut report were to restructure the newly restructured institutional arrangements, in particular to replace the AWRC with a new body called Wool International which would have the charter of selling from the stockpile at a fixed rate for the next four years until 1997, as well as fostering the development of a futures market in wool and improving marketing and value-adding activities. Promotion and research was to be united in the Australian Wool Research and Promotion Organization (AWRAP). The government adopted these recommendations without hesitation in late 1993. Six months later the activities of AWRAP and those of the International Wool Secretariat were integrated and the two organizations merged.

The La Trobe Wool Policy Group

A group of academic agricultural economists from La Trobe University argued that as the price elasticity of demand was thought to be less than one, reducing the debt by selling the stockpile, and thus reducing total revenue, would leave growers worse off than if the debt were reduced by using the tax only, or by some combination of stockpile sales and tax (Chisholm *et al.* 1993 and 1994). With this conclusion the knotty problem of what to do with the stockpile remained. The group reluctantly concluded that woolgrowers would be better off destroying the stockpile than selling it; they opted to advocate the alternative of denaturing the wool in the stockpile and selling it by tender. Taking a longer view and given their conviction that the demand for Australia's wool was price inelastic, the members of the group applied economic principles and advocated restricting wool production and exports via the use of an export tax.

The Watson Critique

Dr Alistair Watson responded to these two contributions to the policy debate, describing the Garnaut Report as something of a travesty of policy analysis, and expressing reservations about the relevance of the La Trobe group's judgement that the demand for Australia's wool was necessarily price inelastic. The solution to disposing of the stockpile hinged on this factor. Watson considered that the Garnaut Committee was seriously remiss because it did not examine in depth the income crisis in the wool industry, emphasising that a focus on the supply side of the wool situation was as important, or even more important, than the demand side. Watson also said the Garnaut Committee failed to distinguish between business marketing and agricultural economic approaches to analysing the economics of commodity production and marketing, which in essence is the difference between the operation of a firm and the economics of industries (Watson 1993a, p.3).

Watson also criticized the theme running through the Garnaut report to the effect that a statutory marketing authority, Wool International, has a role in fostering the development of the futures market for wool. This is contrary to the operation of futures markets generally, where they develop in response to price risk and operate independently of commodity institutions. Anyway, futures markets were incidental to the real problem which is low prices caused by weak demand and too much wool. The related thrust of government acting to improve farmers' risk management and financial skills was equally misguided as it confused the management actions which are taken or needed to cope with business and financial risk with major factors affecting profitability of farms such as farm size. Watson also criticized the recommendation that research and promotion activities should be linked within the same organization, arguing that it is necessary to keep research decisions separate from other functions.

The fixed quantity of sales from the stockpile rule, advocated by Garnaut *et al.*, was also criticized on the grounds that it is the very difficulties of forecasting which make market solutions more attractive than planning approaches. Thus there is a great need for the stockpile sellers having the flexibility to respond to whatever market conditions might prevail. Furthermore, Watson argued, the notion that a fixed quantity rule would be maintained regardless of market circumstances and grower agitation is not believable in a practical political sense, and it will not be believed by those in the trade. So they will speculate against it anyway, just as happened with the fixed price rule of the RPS.

The business marketing emphasis of the Garnaut report gets into full stride with the incantation 'value adding'. Garnaut *et al.* advocated that Wool International indulge in trading and value-adding by conscripting growers to invest in what could turn out to be even riskier 'downstream' investments than woolgrowing. As Watson put it 'For some, value adding is not only a good idea, it is so good it has to be compulsory' (1993a, p.8). Recommendations based on the 'obvious merit' of government intervention to foster local early-stage processing and processing in Asian countries underrates the importance of the economic aspects of the decisions about where best to locate processing of primary products.

Watson also turned his critical attention to the La Trobe Group's suggestions, noting that views about management of the stockpile depend on views about the responsiveness of quantities demanded and supplied to price. The case for assuming a low price elasticity of demand for wool is based on the fact that Australia produces 30 per cent of the world's production of wool less than 30 micron (apparel wool), but more interestingly, a high proportion (75 per cent) of the apparel wool entering world wool trade, and the price elasticity of demand for apparel wool is regarded as being low. The alternative view, that price elasticity of demand for wool is high, is based on the fact that competition from cotton and synthetics is keen, and wool represents a low share (10 per cent) of the world fibre market.

Watson was sceptical about the emphasis on market shares as being significant or of much analytical relevance and questioned the alleged low price elasticity of demand for wool, stressing that wool is not homogeneous, having many qualities, markets and end-uses. Demand for wool is prone to marked swings according to economic conditions and the measurement of average price elasticities of demand over time does not reflect the different price and income elasticities, and demand shifts, which occur at different stages of trade cycles. Income elasticity of demand and economic conditions relevant to near future selling periods, plus own price elasticity of demand, plus own price and cross elasticity of supply, are the relevant parameters for running an effective RPS. Furthermore, sales of wool from the stockpile are a close substitute for sales from current production, but the costs of wool in the stockpile are sunk, whereas resources used in current production have alternative uses. Burning or denaturing the stockpile underrates the fact that the alternative on the farm is to produce something other than wool. That is, both Garnaut and the La Trobe group needed to think about grain and meat prices as well. Also, suggestions from the La Trobe group and Garnaut both paid little heed to the reality that in the future stockholding will be done by the private sector. This is a different world to the past where the AWC did the stockholding, so conclusions based on price elasticities of demand in the previous 'world' are not relevant to the 'new world' of wool marketing. As well, the La Trobe group's advocacy of the use of a wool export tax relies on low price elasticity of demand, which is open to debate and is ultimately a guess. But, the export tax case has problems if price elasticity of demand is high, as well as the possibility of provoking retaliatory actions by wool buying countries.

Hertzler's Property Rights Approach

Hertzler (1994) explored the possibilities of using an approach based on property rights to 'coordinate production and extend the market power of the central bureaucracy to include producers'. A policy to dispose of the wool stockpile could combine individual transferable entitlements (ITEs) and payment-in-kind (PIK) certificates. The PIK certificates would transfer ownership of the wool stockpile and the ITEs would extend market power from the central wool disposal authority to the wool producers. Linking production and disposal decisions promised to achieve the best result, for the industry as a whole, from all the options for disposing of the wool stockpile. Hertzler also concluded from his analysis that the price elasticities of demand and supply are relatively unimportant, with the more significant parameter being the length of the disposal period. This finding is interesting in that it contrasts with most of the other analysis of how best to dispose of the stockpile, which generally worked to the initial AWRC six-year timetable. The fixed disposal schedule of Wool International, with a fixed length of disposal, ranks as a poor option which could leave the wool industry worse off than would other options.

Wool Futures

The Garnaut committee view was that wool futures were, if not the hope of the side, at least going to be very important in the future. A well-functioning wool futures market could be of significant benefit to woolgrowers, even though most might never trade a contract, by facilitating more informed and efficient pricing and operations by others in the wool marketing chain. For a futures market to work effectively, the contract needs to be appropriately specified. Furthermore, the relationship between the futures prices of the type of wool specified in the contract and the cash prices of the wool that farmers are producing needs to be consistent. This might not have always been the case in the Australian wool futures market in the past. Cunningham (1994) found that the relationship over time between various wool types and the values of the futures standard 22 micron indicator has been asymmetrical, i.e. the basis for various grades of wool differed according to whether the 22 micron indicator price increased or decreased. This effectively removed the potential for woolgrowers to hedge effectively.

Also, if a farm business is struggling economically because of low net income or struggling financially because of high gearing, greater price stability resulting from using commodity futures will not turn the situation around. Indeed, even for farms with a sound future, reducing price risks via futures and options trading are not likely to be the main tools of financial management. In practice, farmers take many different steps to place their business in an overall 'risk-situation' which gives a good chance of long-term survival. Futures, if used at all, will be tools which will complement the many other risk management actions which farms with sound prospects will, almost by definition, be doing already. In the past the volume of trade on the commodity futures markets in Australia has been too little to be an attractive method for risk shifting. Certainly in the past the existence of the AWC and the operation of the RPS mitigated against the development of a robust market in wool futures.

To Sum Up

Despite the shortcomings of the Garnaut Committee's report, as highlighted by Watson (1993a) and Chisholm *et al.* (1994), it was well received by groups representing woolgrowers, and received rapid endorsement from the Wool Council. The Wool Council, judged by history as being largely responsible for the high wool reserve price which caused ultimately the demise of the RPS and creating the massive debt which burdens woolgrowers, seems to have been resurrected and restored to policy-making respectability. The Government too, uncritically accepted most of the suggestions, quickly adopting them as policy. If the 'fixed quantity of sales' rule was adhered to, in 1997 the privatized Wool International would have around two million bales of wool on hand. Still, much can happen between now and then. Regardless, the scene is now set for Wool International to be listed on the Stock Exchange in 1997, with a positive grower-owned net worth (provided wool prices hold up). The change from a statutory wool marketing authority operating a buffer stock scheme to a private wool trading organization reflects the modern policy preferences for private business activity in competitive markets over unjustified public activities and regulatory approaches. This transition of Wool International holds clear portents for marketing of other major commodities, like wheat and dairy products.

4. Wheat

The 1989 Wheat Marketing Act expired in June 1992. The 1989 Act had introduced changes from the previous arrangements: the Australian Wheat Board (AWB) was given a broader role involving trading in other grains as well as wheat; the domestic market for wheat was deregulated; in the light of the proposed removal of government underwriting, the Wheat Industry Fund (WIF) was introduced to enable the AWB to build up a capital base by levying growers up to 5 per cent of their returns; the sunset provision on the life of the AWB was removed; and the Guaranteed Minimum Price to growers was changed to a government guarantee of AWB borrowings which was due to expire in June 1994. The AWB monopoly on exporting wheat was maintained. In 1992 the Wheat Marketing Act of 1989 was amended. Government underwriting of AWB borrowings was extended to 1999, and the AWB was given the specific new charter to engage in value-adding activities to complement its trading activities. The AWB monopoly on wheat exporting was retained.

Prior to the 1992 amendment there was considerable debate within the wheat industry about the next move. The major issue was whether sale of the 80 per cent of Australia's wheat harvest which is exported would remain the sole right of the AWB, or whether this market too would be deregulated. A related issue was whether the AWB would continue in its present form, or whether it would be 'privatized' into some form of wheatgrowers cooperative. Some proposals were put forward along these lines, all having the essential feature of establishing a private enterprise with monopoly power to export an agricultural commodity. However, response by growers to any tampering with 'their Wheat Board' was lukewarm at best, with some distinct state-by-state differences (Ryan 1994). Central to the debate about the future form of the AWB was the export monopoly, and the question about whether the AWB extracted a premium for wheat and secured other advantages in the world wheat market which would not be achieved if the export monopoly were removed and the international grain traders also were granted access to Australia's producers of wheat for export.

In the past decade the role of statutory marketing authorities has been increasingly questioned, at both federal and state levels (Commonwealth of Australia 1986, 1990, 1993, IC 1993). Meanwhile, the AWB has been increasingly seeking greater organizational scope to act more like a private business, and less like a statutory marketing authority with publicly granted monopoly powers and government guarantees and assistance. The question of the AWB monopoly export powers reduces to claims that the AWB does better for wheatgrowers in the market than the international grain traders would; and counter claims that the AWB cannot extract any price premiums that are not available to other sellers and that without competition there is no way of knowing if the AWB operates efficiently or inefficiently. Antagonists generally assert that the AWB does not market the crop as efficiently as would be done under more competitive conditions and therefore significant cost savings which will benefit growers are to be had by breaking the monopoly. Few of these claims have been able to be tested empirically. Piggott (1993) discussed the difficulties of evaluating claims that the AWB extracts price premia in some markets. He used *a priori* reasoning, equilibrium displacement modelling and some guesses about own and cross elasticities of supply and demand to demonstrate why it was unlikely that the AWB could extract significant price premiums.

A superficially appealing argument is that the AWB 'belongs' to growers and so the 'profits' are returned to growers in the form of higher prices, in contrast to the private traders who would keep the profits. But, what counts is the overall net return to growers, under whatever selling method is used. The weakness in the 'growers get the profits' argument is that it fails to give cognizance to the fact that it is the efficiency with which the wheat crop is marketed which will help determine the overall net return to growers. If there are no monopoly premiums to be had, then pressures of competition can be predicted to help ensure efficient marketing and thus the 'best' net return to growers. Another argument used by the AWB to defend their export monopoly is that there are economies of scale in coordinating sales, storage and distribution of grain, and in providing market services and gathering information. If it is the case that there are such economies of scale, it is not clear why compulsion would be needed to force growers to sell through the AWB and thus ensure that these gains are achieved. As well, the pooling arguments of the AWB are matched by the notion that it may well be best for growers to make their own decisions about what markets they sell into, when they get paid and so on.

The AWB had \$110m in the WIF in 1992 and \$200m in 1994. One purpose of the WIF is to provide a capital base to fund the AWB's cash trading operations. The second purpose of the WIF is to 'enable growers, through the AWB, to invest in marketing, processing and other value-adding activities along the marketing chain' (AWB 1994). To counter the criticism that growers should have the right to use their own money how they see fit, the Grains Council of Australia and the AWB have developed a proposal for a buy-back scheme which will enable growers to redeem portions (suggested to be 5 per cent per year) of their equity in the WIF. The AWB has invested \$1.7m of the WIF on behalf of growers to acquire a 8 per cent share of a feed mill in Southern China and also invested in a business in Western Australia. Accountability for the use of the WIF is through the Grains Council of Australia. The rationale behind growers investing in value-adding activities reflects, in essence, the eternal preoccupation with farmers' relatively small shares of the consumers dollar (AWB 1994, p.4), despite the fallacies this meaningless measure involves. Recognizing that government involvement in agricultural marketing is not likely to be a feature of the future, and that the export monopoly will be increasingly difficult and maybe even impossible to justify in the future, the AWB is positioning itself to be a grower-owned grain trader with a substantial capital base, and possibly one which does more than export bulk wheat. In the longer term, the emphasis on value-adding, and the coercion of growers into investing in a fund which is used for value-adding activities, may prove to be little more than a diversionary part of the critical process of transforming a statutory marketing authority, the AWB, into a private grain trader. Maybe the inevitable costs of value-adding experiments by the AWB would best be seen in this light.

5. Meat[1]

The operation of the red meat industry has been less subject to government intervention than the dairy, wool and wheat industries, largely because of the nature of the product and the markets concerned. Nevertheless, it has been subject to two recent inquiries: one into industrial relations issues in the meat processing sector in 1992-93 by the Full Bench of the Australian Industrial Relations Commission (the Harrison Inquiry) and an Industry Commission Inquiry in 1993/1994. These inquiries were brought about as a result of pressures for structural adjustment experienced in the meat processing sector of the industry.

The brief of the Harrison inquiry (1991) was to 'inquire into and report upon all aspects of the meat industry, the subject of Federal Award Regulation, with a view to improving industrial relations, efficiency and productivity'. The Harrison inquiry reported to the full bench of the Industrial Relations Commission (IRC) in September 1991 and the IRC brought down its recommendations in mid-1992. The IRC recommended that the plethora of awards across the nation be rationalized into one award for each for the processing, smallgoods and retailing sectors; with the detail of these awards being left to the parties to negotiate, but including Australia-wide minimum conditions. Most importantly, the IRC decided that in addition to the minimum conditions to be set in these awards, the union and employers should be free to reach agreement in individual workplaces to pay more than these minimum rates. Enterprise agreements were specifically endorsed. The IRC did not accede to any of the far-reaching proposals put to them regarding the tally system of payment used in processing and did not recommend the abolition of the tally system.

The IC was instructed to investigate, *inter alia,* the strengths and weaknesses of the meat industry, drawing on international comparisons where appropriate; the potential for value adding; the significance of environmental issues; and changes which could remove impediments to efficiency. The IC (1993a) recommended, in its 1993 Draft Report and 1994 Final Report, that various services provided by government to the meat industry be provided by the private sector, at least in part. These services included meat inspection, computer aided livestock marketing, the AUS-MEAT grading system, public saleyards and processing, and some of the research and development which is done. Other recommendations were that the Australian Quarantine Inspection Service be split into a regulatory agency and a service agency; that private quality assurance systems be developed; and where inspection is required, public and private agencies be able to contest the right to provide the inspection services; also processors should continue to be encouraged to undertake brand promotion, and be able to recover a proportion of their levy contributions if they carried out approved marketing activities in export markets. These recommendations reflected changes which were already slowly starting to happen in the meat industry. On industrial matters, the IC found that reform of the labour market was making slow progress, and recommended that enterprise agreements at the plant level be pursued; that the award details be simplified and generalized; and in an about-face from the 1983 IC inquiry, that existing payments systems based on the tally and seniority systems not be the basis for paying meatworks.

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[1] This section draws on a study by M.P. Read and L.R. Malcolm (1992), 'The Victorian Meat Industry 1992: its Strengths and Constraints', Report to the State Government-ACTU-Meat Industry Working Party, Read Sturgess and Associates, Melbourne.

Policy matters affecting the meat industry, and various contributions to policy debates, are discussed below under the headings meat inspection, grading and promotion, and industrial arrangements.

Meat Inspection

The meat inspection question has long been a major concern in the meat industry. The Australian Quarantine Inspection Service (AQIS) provides inspection services for domestic and export meatworks. In broad terms, the role of AQIS is to protect the access of Australian meat to export markets: (i) by helping to maintain disease-free status in Australia's domestic meat industry; (ii) by helping to guarantee the health status of export meat; and (iii) by helping to verify that export product is what it is claimed to be. The AQIS does not directly have a quality role, except insofar as health standards relate to quality. Common criticisms of the meat inspection service concern the methods for determining the number of inspectors required; the justification for level of standards required, particularly for the domestic sector; the level of cost recovery expected by AQIS; the difficulties for companies which export only a small proportion of their production, but require export standard for total production; and the need for greater progress towards processors taking responsibility for their own quality control. The focus on meat inspection costs heightened following the move to full cost recovery in 1988. The cost of meat inspection is now fully met by producers and consumers of meat, with the small component of total cost which is identified as being associated with 'community service' being paid by the taxpayer.

The AQIS response to the common queries is that: (i) large steps have been made in containing and reducing costs; (ii) moves towards greater self assessment are well underway; (iii) it is very important to both the domestic and export sectors to maintain disease-free status, and relatedly; (iv) the costs of not having a properly functioning inspection service would be large. The AQIS claims that without an independent national inspection service, Australian exports to the United States would not comply with United States law. A similar situation applies to Europe and Japan. All of these markets have stated 'standards of equivalency' which Australian meat production standards must meet. The major fear of not having public inspection services is that where overseas markets have been developed for 'Australian' products, and product is sold as 'Australian approved', then without public efforts to maintain standards, opportunists may reduce the quality of their own export produce and thereby impose subsequent losses on other exporters due to a downgrading of the impression of the quality of meat from Australia. As long as any change from public to private responsibility for meat quality is accompanied by the establishment of individual not generic (Australian) brand names, the threat of costs to other exporters, imposed by inappropriate actions of some exporters, would be reduced. Even so, no system of public or private quality control can totally safeguard against such practices. The argument for government control of meat inspection is not that this eliminates the problem of the actions of a few spoiling things for all, but that these types of problems are likely to be less costly with government control than would be the case with private responsibility for quality. However, this conclusion ought not just be assumed to be correct (see Wills and Harris 1994).

The major justification for meat inspection by AQIS in the domestic market is to protect the disease-free status of the export industry rather than to protect local health standards. AQIS argues that if the domestic industry is not monitored, then Australia cannot know about the disease status of its total livestock and meat industries, and it cannot then claim exports to be disease free. While it seems plausible that the export industry gains the benefit from ensuring the maintenance of minimum standards in the export sector, it might be thought that it is also the export sector which gains the major benefit from ensuring the benefit from the maintenance of minimum standards in the domestic sector. To the extent that this was true, doubts would be raised about the appropriateness of charging domestic meatworks for domestic inspection on a fee for service basis. The response to this reasoning though is that the domestic industry too has a vital interest in Australia having a disease-free status and flourishing export industry. That is, a collapse of the export industry has dire consequences for the domestic industry.

Grading and Promotion

Abattoir operators are required to pay levies to the Australian Meat and Livestock Corporation (AMLC) and this represents about half the funding for the operations of the Corporation. The other major source of funding is a similar levy applied to livestock transactions. AMLC levies are seen by many meat processors as a major burden (though much of it is passed on to producers) for which the benefits are not obvious. AMLC operations include promotion activities and the AUSMEAT grading programme. Processors who have invested to establish their own brand names in overseas markets in the past have faced the anomaly of also paying levies to the AMLC, some part of which would be used to promote generic Australian brand names which would represent competing products against their own brand names, and an average lower quality product than they already sold. Nowadays, the AMLC encourages processors to establish their own brand names on export markets.

Despite frequent calls for the introduction of a national grading system for meat, there is still no widespread use of such a system for domestic meat sales, even though there have been important developments towards the introduction of such a system. AUSMEAT is a national language for describing a uniform set of objective criteria for the specification of live animals and carcasses. It involves a description of characteristics including fat scores. The use of this description/grading system is mandatory for export establishments. The IC recommended that this compulsory requirement for exporters should be removed. While many of the large supermarket chains specify their meat requirements according to the AUSMEAT criteria, some use their own descriptions and smaller operations use informal grading methods. One way or another, buyers and sellers communicate to the extent the product is defined in some way and prices for this product are agreed on. Prices themselves convey an enormous amount of information. The benefit from formal grading systems is when further gains to buyers and sellers are made possible, either by reducing the cost of defining the product and establishing the price, or by defining the product better and reducing uncertainty and earning a price premium, or by facilitating savings in operational costs through changes in handling procedures. The case for formal grading is not simply a matter of applying the truism that more information is better: rather the magnitude of all costs and benefits has to be considered.

Industrial Arrangements in Meat Processing

The view of farmer organizations and of the meat industry business body (the Meat and Allied Trades Federation of Australia) about industrial arrangements is generally that meat processing wages and conditions negotiated to date are too generous to employees and too costly to employers, and by inference to sellers of livestock. (This comparison is difficult, with meat production and processing systems which are fundamentally different, as nearly all are.) The tally system as a basis of paying meatworkers is seen as cumbersome and byzantine, and most importantly, as constraining throughput and raising costs. The Industry Assistance Commission (IAC), in the 1983 Meat Inquiry, was not convinced, on balance, that the tally system imposed a specific cost disability on the meat processing industry (IAC 1983, p.69). According to the IAC an advantage of the tally system was that by building in incentives, it helped achieve the intensive, coordinated team effort from labour which was necessary because of the sequential nature of the processing task, and was a logical response to the fact that ultimately the speed of processing is determined by the slowest link in the processing chain.

Criticisms of the tally system often have the implicit assumption that if more hours were worked, proportionately more output would result. The tally system is seen as limiting the scope to reduce overheads and, also, as enabling labour to capture a disproportionate share of productivity gains arising from technological change. Processors' concerns are not usually so much with the tally system as a method of payment as with the existence in awards of a maximum tally. This concern has been expressed during the 1983 IAC inquiry as well as the 1993/94 IC inquiry (IAC 1983, IC 1993a). Most meat processors argue that they could benefit from having the flexibility to increase maximum tally during the peak periods. In other cases, or at other times, it is not the maximum tally which constrains throughput but other factors such as livestock supply at certain times or product chilling, freezing or storing capacity, or distribution factors. One consequence of increasing a maximum tally would be an increase in the numbers required by a smaller number of processors in the livestock markets. If enhanced market shares of processors were accompanied by enhanced competition between them in markets, then livestock producers would gain and some processors could be disadvantaged relative to the maximum-tally constrained situation.

Concern with effects on product quality, and with occupational health and safety considerations also loom large in thinking about raising the maximum tally. In the past the Australasian Meat Industry Employees Union attempted to justify the setting of a maximum tally as spreading the peak season over a greater part of the year, thereby providing a more constant rate of employment in the industry. However, this is spurious. If livestock are not processed at a particular meatworks on a particular day then they are likely to be sent to other works. There is no doubt that industrial awards in the meat industry need to encompass the flexibility which is necessary to match the seasonality of livestock supply. The imposition of a maximum tally and no overtime would have potential to constrain at some future date the ability of processors in the industry to process increased livestock during the season of peak availability. In practice however, on a works-by-works basis, considerable flexibility usually exists between the workforce, the union and management when it comes to processing over-maximum tally when it is necessary.

Overview

The focus of many participants in the meat industry remains firmly on the costs of meatworkers' wages in the total costs of processing and on grading and promotion of meat. Often underrated in discussions about the efficiency of meat processing are the following distinguishing features of the Australian meat industry: (i) the marked seasonal variation in quantity and quality of livestock available and the affects this has on abattoir throughput and total costs of processing meat, and (ii) the sunk capital nature of the investments in meat processing distributed around the country and the large fluctuations in activity and profits in meat processing, both within and between years. The inquiries into the meat industry by the Harrison Committee and by the IC both made recommendations in areas where some improvements had already been introduced. It would be unusual in a highly competitive industry, with little tradition of government intervention, for the situation to be otherwise. The recent concerns by processors and producers about public use of privately-provided funds reinforces in the meat processing industry the trend evident in other industries towards private provision of formerly publicly-provided services.

6. Rural Adjustment

In the 1980s the Rural Adjustment Scheme (RAS), which involved expenditures of up to $200m per year, had three components which were concerned with providing concessional credit for reconstruction and adjustment (Improving the Farm); providing short-term carry on finance (Maintaining the Farm); and providing household support and re-establishment assistance (Leaving the Farm). The RAS was subject to a major review and overhaul in 1992-93, associated with the prior development of the National Drought Policy. For the first time drought policy has been linked explicitly with the operation of the RAS. The new RAS is to be subject to a comprehensive review in four years, with an eight-year sunset clause on the scheme in its new form. The operation of the RAS is currently the subject of a Senate Committee inquiry.

Justification for adjustment policy is usually couched in terms of declining farmers' terms of trade; equity; the nature of demand and the markets for agricultural products; the high productivity gains achieved in agriculture; and asset fixity. Economic gains occur if assistance results in more rapid adjustment of resource use and thus more efficient resource use than otherwise would be the case. Sometimes, economic gains may come from preventing a rapid change in resource use which may not be sensible over a longer term. The standard criticisms by economists of adjustment assistance are that it is not certain that the rate of adjustment without government intervention is too slow, or too fast. There has been enormous adjustment over time in response to commercial circumstances, and there are always doubts about whether low earnings of labour are necessarily less than their opportunity cost, at least when the off-farm economy is not growing. Regardless, the confusion of efficiency and equity objectives which bedeviled the original Rural Reconstruction Scheme and all the latter RAS arrangements, until and including the most recent Scheme, has always had economists calling for welfare problems to be dealt with separately from efficiency measures, preferably with direct income payments. As well, the contradictory objective of, and provisions for, farm build-up and debt reconstruction, has always attracted criticism. The use of concessional credit has long been criticized for causing inefficiencies and inequities, especially when there was no obvious market failure in farm financing. The RAS was often characterized as having a lender-of-last-resort role, providing cheap credit to high-risk borrowers. Indeed the major redeeming feature of the RAS, apart from preventing some short term 'collapse' in land values with the disruptions (not to mention opportunities) that can result, was the 'defeatist' argument that the existence of a formalized mechanism for delivering assistance to 'the marginal farmer' probably prevented governments taking less justifiable actions when the regular 'crises' come to call on these marginal farmers who always exist within an industry.

The most recent RAS brought drought policy within the scope of the arrangements, accompanied by the now obligatory concerns with 'sustainability' and 'management skills'. The new RAS still has concessional credit as the mainstay, and still has plenty of scope for discretion in handing out money, without much justification, if the government so wishes. Under the latest arrangements, 90 per cent of funding comes from the Commonwealth and 10 per cent from the States. In 1992/93, $166m was allocated. The key features of the new scheme include a focus on farm productivity, profitability and sustainability, rather than the emphasis on assistance and debt reconstruction under the old scheme; concentration on a single program, to be administered flexibly by State Rural Adjustment authorities; provision for interest subsidies on commercial finance; a re-establishment grant of $45,000 for those meeting financial tests and electing to leave the farm; and special interest subsidies up to 100 per cent, under a Commonwealth and State shared funding arrangement, to provide additional support for farmers experiencing exceptional circumstances (Crean 1992b). To assist adjustment out of farming and meet some short-term welfare considerations the new Farm Household Support scheme (FHS) is to be serviced by the Department of Social Security. The FHS is for farmers who cannot obtain commercial carry-on finance and need help for day-to-day living expenses. It is income tested and has a non-farm assets test. It provides funds for a two-year period during which FHS will be available at the equivalent of the Job Search Allowance while the farmer is free to choose whether he or she sells or remains on the farm. Any FHS received by farmers who choose to remain on the farm will be on the basis of a loan. Farmers who sell within the two-year period will receive the first nine months of FHS as a grant and the balance as a loan. The total potential benefit under the FHS and the RAS re-establishment grant to individual farmers is $55,000. To be eligible for financial assistance, farmers with a future must show how RAS support will improve the productivity of the farm unit; be able to obtain commercial finance; demonstrate past and future profitability and performance of the farm unit; show the capacity of the farm unit to become financially independent of RAS support; prove that non-farm assets are not in excess of those needed for prudent risk management of the farm unit; contribute a significant proportion of their labour to the farm unit; and develop comprehensive farm plans as part of a property management planning program (Crean 1992b).

Overview

There are a number of contentious provisions. To obtain help, the farmer must be able to obtain commercial finance. This is a marked change from the previous approaches in which RAS support was for those who were marginally viable but unable to obtain commercial finance. It is not clear under the new arrangements whether the commercial finance for productivity-improving investment is available as long as the government subsidy on interest is provided, or whether the government subsidy of interest is provided to those who can get commercial finance to improve productivity anyway. Perhaps the most contentious provision is the provision for exceptional downturn. The policy as stated is (Crean 1992b):

> Farm businesses that are profitable in the long term, have access to commercial finance if the interest is subsidized and are temporarily in severe financial difficulties will, in times of exceptional downturn, receive interest subsidies of up to 100 per cent of the interest rate on commercial loans and/or existing debt.

The exceptional circumstances provisions were implemented in 1993 to assist drought-stricken farmers in parts of Queensland and for woolgrowers faced with low wool prices. Davenport *et al.* (1994, p.3) were critical of many aspects of the new RAS, in particular the exceptional circumstances provision:

> The exceptional circumstances criteria are an attempt to describe those 'severe' circumstances relating to prolonged drought, unseasonal rain, extreme temperature, disease, pests and low commodity prices, and the point at which assistance will be provided. One can liken them to a series of 'if statements', that while providing administrative ease, translate into fundamental inequities and inefficiencies upon implementation. By defining events that qualify for assistance rather than using needs based criteria, the provisions have the effect of rewarding inefficient producers at the expense of the efficient.

When the detail of the new RAS and drought policies are studied, it appears that the professed aim of the government to foster greater self-reliance by farmers in the face of risk is largely illusory. As risk in Australian agriculture is a major source of cost, and is thus a major incentive to structural adjustment, the underwriting by government of risk in agriculture acts as a disincentive to structural adjustment which would otherwise occur, and in this way is contrary to aims of improving efficiency through structural adjustment.

National Drought Policy

In the past the basic drought policy has been based on concessional finance and subsidies of fodder, administered under the National Disaster Relief Scheme. This scheme was wide open to abuse, especially the provision which enabled local areas to be declared 'drought affected', and thus eligible for assistance. A consequence of this provision was that some parts of Queensland were declared to be suffering drought for three months or longer nearly all of the 1960s, 1970s and 1980s, while in New South Wales the Western Division spent 32 per cent of time in drought from 1967-86. Some districts of the Western Division were drought declared for three months or longer in 20 out of the previous 30 years. Even the high rainfall Eastern

Division was suffering drought 18 per cent of the time over this period (Briggs 1991).

The most recent drought policy is based on 'principles of sustainable development, risk management, productivity growth and structural adjustment in the farm sector' (Crean 1992c). The philosophy underlying drought policy is that drought is a normal commercial business risk with which farmers must deal in their own way, i.e. self reliance. The objectives of the new drought policy are (Crean 1992c):

- to encourage primary producers and other sections of rural Australia to adopt self-reliant approaches to managing for climatic variability;
- to maintain and protect Australia's agricultural and environmental resource base during periods of extreme climate stress;
- to ensure early recovery of agricultural and rural industries, consistent with long-term sustainable levels.

Improved management of drought and other risk by farmers is to be achieved, according to the drought policy statement, by 'widespread adoption of whole-farm or property management planning'. As though it is something new, and not merely what good farm managers have always known and done, (and doing everything but shout 'Eureka'), the Minister pronounced 'property management planning' and 'risk management' to be the keys to the new self-reliant, drought-resistant farming of the future (Crean 1992c):

> Property management planning allows the integration of management practices for the physical, financial, marketing and farming practices of individual properties. Through the use of tools such as land-capability assessments, farm budgets, marketing plans and decision-support systems, farm plans allow producers to identify the elements of risk within their businesses and take steps to minimize their impact. A general improvement in the capacity of the rural community to increase self reliance will not be achieved until the majority of producers develop and implement an integrated property management plan. The Commonwealth will provide support for the development and effective use of property management planning techniques. Education and training will be provided to increase capacity to manage risk and implement property management planning.

Some specific measures are made available to farmers in the new drought policy to assist them in building up financial reserves, namely tax averaging, Income Equalization Deposits (IED) and a Farm Management Bond (FMB), and various accelerated depreciation measures for tax purposes for investment in water and fodder conservation and storage. The IED has an investment component set at 61 per cent, an implied marginal tax rate of 39 per cent, and the FMB has an investment component of 80 per cent, an implied marginal tax rate of 20 per cent. The IED scheme, sensible in its own right, is often not an attractive option in that the imputed marginal tax rate of 39 per cent is much higher than the actual average marginal tax rate of most farmers (Douglas *et al.* 1990, Douglas and Davenport 1993).

Like the revamped RAS, the new drought policy goes some way to meeting economists' criticisms of drought policy of the past (e.g. Freebairn 1983). The economists' questioning centred on whether drought meant inefficient allocation of resources or was it an event which people could plan for and even exploit. Furthermore, it was concluded that there was no evidence of a capital market failure which warranted concessional credit being supplied. The economists' criticisms went further, arguing that drought assistance worsened the situation by acting as a disincentive to prepare for drought (e.g. higher stocking rates are encouraged), and was inefficient and inequitable in that the most aid went to those who were worst prepared and the least aid went to the best prepared. Furthermore, drought should not be a welfare problem because an industry which has a long term future has to be able to provide adequate funds on average to meet satisfactory income levels, even though there are temporary downturns. Despite the claims about expected self-reliance of farmers under the new drought policy, whether things are to be much different from the past probably will be known as soon as the first dry spell, or rural by-election, arrives.

7. The National Farmers Federation Policy Document: New Horizons - A Strategy for Australia's Agrifood Industries

During 1992 the NFF, drawing on their Australian Farmers Fighting Fund, canvassed the countryside and the cities for suggestions about the 'desired future direction of agriculture': a process which culminated in the NFF policy document 'New Horizons: A Strategy for Australia's Agrifood Industries' in which policies were detailed 'for agriculture to reach its full potential' (NFF 1993). The NFF policy document included aims such as: improving farmer managerial skills and education; integrating farm production with the rest of the marketing chain; moving marketing beyond commodities to differentiated products which are objectively described and branded; investing beyond the farm gate to capture a higher proportion of the consumer dollar; trade liberalization; control of dumping and effective countervailing arrangements; collective marketing arrangements to maintain leverage in foreign trade; greater promotion of Australia's production; increased government contributions to research; further labour market deregulation with greater use of enterprise arrangements; industrial action be made illegal except where employee safety is at risk or where the employer does not abide by the rules set out in the award or enterprise arrangements for settling disputes; greater reform in transport and freight handling; business taxes be replaced by a goods and services tax; tariff protection to be rapidly reduced and cuts in assistance to agriculture to cease until secondary industry protection is cut to similar levels.

Most of these policy aims have long been concerns of the NFF. The NFF policy emphasis which was relatively 'new' was the emphasis on farmers investing beyond the farm gate to capture a greater share of the consumer's dollar. To transform the New Horizons philosophy into commercial reality the NFF created the Farmers Investment Trust (FIT) for farmers to invest in rural marketing and processing. The FIT intended to raise $30m to buy a 30 per cent share of Elders Australia Ltd, but raised only $16.7m which bought only 15 per cent of Elders. Two thirds of this investment came from several large investors. The emphasis of the NFF on farmers investing in agricultural production beyond the farm gate could stem from a traditional farmer belief that the share of the consumers dollar they receive is an indicator of marketing efficiency or farmer welfare, along with the traditional mistrust of, and understatement of, the roles played in selling a product by the distribution, financing, transformation, transportation, communication, coordination and retailing functions. Or, it could stem from the notion that the future area of growth will not be in the demand for farm product but in the demand for services added to that product. Therefore, the reasoning goes, if this is where the extra profits are going to be earned, then primary producers ought to be vertically integrated, at least in an investment-ownership sense. This reasoning is consistent with the directions being emphasised by the AWB and by Wool International.

The weakness in this reasoning is the presumption that there must be potentially profitable opportunities to add value which are not already being realized; or that the current marketing functions are not being performed efficiently and there is great scope for producer-owned operations to achieve efficiency gains; or that there is insufficient scope as things presently stand for producers to invest privately in food and fibre processing activities, such as in firms already listed on the stock exchange. These assumptions may be correct in some instances, though there are no obvious reasons why they should be true. There can also be an ambiguous effect on risk of farmers having more of their portfolio of investments in an area closely related to that of their major investment. In April 1994 the NFF decided to sever their involvement in the FIT and placed it on the market. The NFF claimed that this was always the intention, whilst acknowledging that the FIT had not achieved the original aim of attracting large numbers of small farmer investors to invest in activities adding value to primary produce. At the same time the NFF announced a refocussing of their efforts on their 'core' activity: representing their members' interests through political lobbying. The disinclination by farmers to invest in value-adding activities on a voluntary basis, as shown by the FIT experiment, usually results in various industries making such investment by farmers compulsory.

8. Emerging Policy Emphases

Some common ideas emerge from analysis of the various policies which have been adopted in the dairy, wool, wheat, and meat industries; from the drought and adjustment policies; and from some of the policies advocated by the NFF. There is emphasis by government and farmers on the involvement of producers in activities adding value to their primary production; emphasis on privatization of the wool and wheat statutory marketing authorities and emphasis on improving the quality of farm management in the areas of financial and risk management and in 'sustainable agriculture'. These themes now keep recurring in many areas of policy while some of the older imperatives of agricultural production and marketing, such as the low price elasticities of demand and supply; shifts and irreversibilities of supply; the difficulties of knowing much about supply and demand responses, in the past or in the future; the efficiencies of marketing chains under competitive market conditions; the many facets of farming risk; and other truths, continue to endure.

The attractive and pervasive notion of adding value to products, something to which Minister Crean pinned his profile and achieved the rare double of winning plaudits from both farmers and the trade unions, treats economic decisions about processing of primary products as though there is a means of capturing benefits which farmers are somehow currently being deprived of for some reason. This idea has its genesis in the long-held distrust by producers of raw materials of those involved in the marketing chain between them and the consumer. There are no obvious reasons why there would be any 'free lunches' to be picked up along the marketing chain, provided activities along that chain are competitive or contestable, though obviously depreciation of the exchange rate creates profitable opportunities for further activities along the marketing chain. As to who should do this, the answer is simple: whoever can do it most profitably. Whether this includes statutory marketing authorities, or newly privatized co-operatives including grower conscripts, or firms part-owned by farmers investment trusts, or any other entrepreneurial type with an eye to the main chance and money to invest, remains to be seen.

Nowadays policy almost always has a 'better management', or even better, a 'sustainability' clause. In the 1990s the discipline traditionally known as farm management or farm management economics was belatedly discovered by technologists who had previously discovered phenomena such as soil conservation, drainage, salinity control, and tree planting during the 1980s as being 'good things' which farmers 'should do'. The discovery of farm management led to the related knowledge that an important motive for farmers doing what they do (and why they often do not do what technologists think they should do) is to make enough profits so as to keep on doing what they like doing. Then came an awareness that various types of risk are involved in farming, and in policy discussion better management came to mean better financial management and risk management. Risk and how well it is managed makes up a big part of one farmer's competitive advantage over another competing farmer. This notion seems also to have been overlooked in the ubiquitous advocacy in almost every document about policy of the need for government to help hone individual farmer's skills at managing their many different risks. In particular, policies often aim to help those who are not very good at what they do or who have lots of risk to manage.

The fact that the real problem at the heart of a perceived environmental or risk problem might be a low income problem, which basically cannot be solved by better financial risk or environmental management, seems to have been overlooked in the enthusiasm of the discovery that farm management is an economic and financial process as well as a technical and human activity. Also underrated is the extent to which, in a general equilibrium sense, public actions to reduce risk faced by investors results in over-investment in risky ventures, at the expense of other uses of resources.

What of the future? Dairy farmers and their representatives will be in for some creative thinking as milk marketing arrangements come under closer domestic and international scrutiny. Woolgrowers will be hoping that, for once, the dictum of the Latin scholar Quintus Ennius (239-169 BC) 'Delay sets everything to rights' will prove to be true for the wool industry. Some wheatgrowers and economists will continue to ponder about whether the AWB markets Australia's wheat efficiently. In the meat industry, there will continue to be calls for increases in efficiency in processing. As well, plaintive pleas for more meat grading will continue to be made. Farmer groups everywhere will want greater expenditures on promotion of their products, despite dubious returns from doing so in most cases. The operation of the RAS and drought relief will continue to be vulnerable to inefficient or inequitable but politically expedient responses. The NFF has indicated it intends to refocus its activities on its traditional role of political lobbying. The more things change ...

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