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Unilateral Liberalization: A Rare Experiment

Farming Without Subsidies: New Zealand's Recent Experience. Edited by Ron Sandrey and Russ Reynolds. Wellington, New Zealand: Ministry of Agriculture and Fisheries, 1990, 347 pages, \$29.50

Reviewed by Nancy Morgan

Since 1984, a comprehensive economic reform program has transformed the New Zealand agricultural sector from one highly dependent on government assistance and intervention to one that is market-oriented. This deregulation of the New Zealand economy and liberalization of its trade provides economists with a unique opportunity to observe and analyze the re-emergence of market forces and the adjustment process of farms and agribusinesses. The publication of this book is a culmination of 6 years of experience since the election of the Labor Government in 1984 and the advent of "Rogernomics," the popular word for the economic policy approach of Roger Douglas, New Zealand's Minister of Finance until December 1988.

The indepth analysis of the New Zealand experience in the context of economywide policy reform is particularly timely as the deadline for the General Agreement on Tariffs and Trade (GATT) is renegotiated, and interest is sparked by options to the multilateral reform process.

This book traces the context, changing policies, and consequences of economic reform carried out in New Zealand from 1984 to 1989, documenting the effect of the reforms on the agricultural sector. The sensitive issue of agricultural reform and the experiences of a country that has unilaterally removed all specific agricultural subsidies within the context of economywide reforms should interest readers ranging from farmers to politicians. While the book is general enough to appeal to a broad audience, it contains enough economic rigor to interest economists and policymakers. The format of the book enhances its readability, allowing readers to select specific areas of interest. A comprehensive summary at the beginning establishes a context within which the reader feels at ease.

The overall structure of the book is comprehensive and easy to follow. Moving from a discussion of the historical context of change, to the reforms themselves, and then to their consequences, the book provides the reader with an overview of the effects of economic reform on the agricultural sector in general, land and labor markets, agribusiness, and the marketing and processing sectors. Chapter seven, "Deregulation

Selected Case Studies," furnishes a strong analysis of the effects of liberalization on three separate New Zealand agricultural industries: the egg, wheat, and fluid milk sectors.

Perhaps the weakest section in the book is the final one, entitled "Future," which consists of three chapters: "The Competitiveness of Agriculture," "Future Prospects, 1990-1995," and "Issues for Policy Makers." The issue of competitiveness is a crucial one, of great interest to readers concerned about the effects of unilateral liberalization and how it influences the economy. Containing useful information about the tools used to measure competitiveness, the chapter focuses more on the intersectoral terms of trade between the tradeable and nontradeable sectors in New Zealand over the past decade than how the liberalization process affected the international competitiveness of the agricultural sector. The reader comes away with an understanding of why the agricultural sector performed poorly over the past two decades and the importance of the appropriate policy mix on the real exchange rate and the enhancement of the tradeable sector. However, the status of future competitiveness in light of global changes is very unclear. Perhaps if this chapter had been placed in a different section, such as "Consequences" rather than "Future," the reader would not come away with a feeling of mild confusion and unfulfilled expectations.

The next chapter concludes that reducing agricultural assistance has allowed the market to determine the appropriate levels of production in competing pastoral enterprises, such as deer and goats. Hence, New Zealand enters the 1990's with a more diversified pastoral base that reduces exposure of agriculture to adverse commodity price shocks. The relevance of this chapter would perhaps be enhanced if the concept of competitiveness were expanded and analyzed in the context of the forecasts.

The general conclusions, elaborated in the final chapter, are that while the original reforms envisioned in 1984 included a reduction in assistance to all sectors of the economy, the agricultural sector has borne the brunt of the burden of reform. Incomes of agricultural producers were immediately hurt by the elimination of direct assistance to agriculture, while hikes in interest rates aggravated the precarious financial situation of some farmers. Farmland values fell precipitously, by over 60 percent in real terms between 1982 and 1989.

This concluding chapter, "Issues for Policy Makers," summarizes the findings of the previous essays while outlining the steps that need to be taken to complete the reform process. Despite reform rhetoric, protection continues for import-competing industries, resulting in higher input costs for farmers. The

Morgan is an agricultural economist with the Agriculture and Trade Analysis Division, ERS.

competitiveness of the agricultural sector continues to be hampered by high input costs and by high costs in the processing sector resulting from labor inefficiencies

Publications that are a compilation of papers by different authors often lack continuity and clarity of tone and style. The editor should be commended for producing a readable book. Each chapter is focused, yet integrated into the book's theme, which is to provide the reader with an understanding of the consequences of New Zealand's unilateral liberalization experience. Although the book succeeds in establishing benchmarks for ongoing reforms necessary to ensure the full potential of the agricultural sector, the reader is left unclear about the future of the sector and the overall effects of unilateral liberalization on such issues as international competitiveness and economic welfare.

Much research has been conducted on the effects of multilateral liberalization. However, not much is known of the actual effects of unilateral liberalization on developed countries. Thus, this study, for proponents of free trade, while not providing ammunition to promote the free trade cause, provides valuable documentation on the process and consequences of unilateral economic reform. The book is useful for policymakers who are interested in the effects of policy mixing on specific sectors of the economy. How-

ever, New Zealand's situation as a small country may make the unilateral liberalization experience less relevant to countries like the United States, where general standards of living are not inexorably linked to the performance of the trade sector in general and agriculture specifically.

The book includes (1) "The Seeds of Change" by Tony Rayner, (2) "Agricultural Trade" by Ralph Lattimore and Allan Rae, (3) "The Macroeconomic Environment" by Richard Wallace, (4) "Assistance to Agriculture" by Laurence Tyler and Ralph Lattimore, (5) "Primary Sector Taxation Reform" by John King, (6) "The Regulatory Environment" and (7) "Deregulation: Selected Case Studies" by Ron Sandrey, (8) "Farm Prices and Costs" by Russell Reynolds and Walter Moore, (9) "How Farmers Responded" by Russell Reynolds and S. SriRamaratnam, (10) "Land Markets and Rural Debt" by Warren Johnston and Ron Sandrey, (11) "Rural Employment and Labour Adjustments" by John Savage, (12) "How Agribusiness Responded" by Bill Dobson and Allan Rae, (13) "Marketing and Processing" by Tony Zwart and Walter Moore, (14) "The Competitiveness of Agriculture" by Russell Reynolds, (15) "Future Prospects, 1990-1995" by Richard Wallace and Russell Reynolds, and (16) "Issues for Policy Makers" by Ron Sandrey and Grant Scobie.