JOHN W. LONGWORTH

Domestic Price-Income Policies for Farmers in Relation to International Trade Policies: Exporting Country

This paper outlines the general thrust of domestic agricultural price and income policies in Australia and identifies linkages between these policies and Australian trade policy. It also highlights the extent of common interest between Australia and developing nations heavily dependent on the export of agricultural commodities.

The impact of domestic agricultural price and income policies on agricultural trade policies is generally weaker in the case of countries which are net food exporters than for food importing nations. Furthermore, the strength of the interdependence will tend to decrease as the exporter's share of the world market for its products diminishes.[1] Australian agriculture is heavily export orientated but, with some important exceptions, the Australian share of world trade in the relevant commodities is relatively small. Therefore, domestic agricultural price and income policies do not exert a strong influence over agricultural trade policies. On the other hand, and in stark contrast to the situation in most developed countries, the realities of the international market have tended to play an increasingly important role in the development of domestic price and income policies for farmers.

AUSTRALIA AS AN AGRICULTURAL EXPORTER

In value terms Australia is about the fifth largest agricultural exporter in the world (behind the United States of America, The Netherlands, France and Brazil). Four commodities (wool, wheat, meat and sugar) are responsible for more than 80 per cent of Australia's agricultural export income. These facts and many others about Australia as an exporter of agricultural commodities are discussed by Harris (1982).

Almost all Australian farming industries of any significance (with the notable exception of dairying and fruit growing) have become increasingly dependent on overseas markets during the last two decades. Some of the major agricultural export products and the percentage of output by value exported in recent years are as follows: wool (97 per cent), wheat (83 per cent), mutton (72 per cent), sugar (72 per cent), beef (47 per cent), barley (64 per cent), skim milk powder (74 per cent), and canned (deciduous) fruit (55 per cent).

Despite steady growth in the value of both total output and exports, the Australian agricultural sector has continued to decline in economic importance relative to the rest of the economy. Agriculture now contributes only 6.8 per cent of the Gross Domestic Product and employs only 6.5 per cent of the workforce. Although agricultural exports are still responsible for almost half the nation's total export income, the increase in the export of minerals and energy resources since the late 1960s has substantially reduced the dependence of the Australian economy on the export of rural products. Nevertheless, since trade plays a bigger part in the Australian economy than is the case for most other countries, international trade in agricultural commodities remains of vital concern to the Australian people.

AGRICULTURAL PRICE-INCOME POLICIES IN AUSTRALIA

There are important constraints which have greatly influenced the development of price and income policies for farmers in Australia. Nevertheless, a remarkable diversity of measures have been tried at different times and in respect to different industries. Over time, there has been a gradual shift in emphasis in regard to both policy goals and policy instruments.

Constraints

The division of powers between the state and federal governments under the Australian Constitution severely limits the scope for effective price-income policies not only for farmers but also for all sectors of the Australian economy. For instance the Constitution assigns control over production to the Australian States thus making nationwide production control an extremely difficult policy instrument to implement. Section 92, which guarantees free trade between the States, is another part of the Constitution which has proven a major obstacle to agricultural policies. As Campbell (1980, pp. 90–2) has pointed out, institutions and procedures have been developed to overcome these Constitutional problems. For example, the Australian Agricultural Council and its Standing Committee were set up in 1934 to facilitate the formal discussion of agricultural policy issues between the federal government and the various state governments. As a result of Section 92, the implementation of a national price or income policy measure requires complementary legislation at both the Federal and State level. In some cases (for example sugar) only one state is involved (Queensland) and reaching agreement is relatively easy. However, when a number of states are required to consider and to pass complementary legislation (for example in the case of wheat), achieving a consensus may be extremely difficult.

Australia is unique among advanced countries in having a significant political party representing farmer interests. The National Country Party (NCP) is the junior member of the two-party coalition which has governed Australia since 1949 (except for the 1972 to 1975 period). The declining economic and demographic importance of the rural sector has not, as yet, substantially reduced the political power of the NCP at the federal level. Nevertheless, the need for State Governments to pass complementary legislation provides opportunities for political point-scoring even when state and federal governments are of the same political persuasion.

Despite the existence of the NCP, political constraints to agricultural price and income policy options have become more important as the farm sector has declined in economic and electoral importance. The increase in the proportion of total output which is exported has reduced the scope for home consumption price (HCP) schemes for many products. As these indirect forms of assistance have lost their effectiveness, direct budgetary measures have begun to assume greater importance. But the political resistance to direct assistance has hardened as Governments attempt to cut-back their outlays. In this context the Australian rural sector has mounted a continuous campaign to educate the public to the costs of indirect assistance to segments of the manufacturing sector by way of tariffs and import quotas. The farmers' arguments have been substantiated by the research of the Industries Assistance Commission (IAC), which has quantified the assistance being given to certain highly protected secondary industries (Quiggin and Stoeckel, 1982). The National Farmers Federation (NFF) has spearheaded the attack on indirect assistance to manufacturing.

The NFF has consistently supported the 'first best' solution, that is reduced protection for secondary industry and a lower exchange rate. However, in their 1982 Budget Submission the NFF tacitly acknowledged political defeat on this front and embraced the 'second best' tariff compensation argument. The essence of this approach is 'protection-all-around' and it dates back to the 1920s when price policies were developed for certain primary industries as a *quid-pro-quo* for the introduction of tariffs for secondary industries (Bridgen et al., 1929). While maintaining pressure for tariff reform, the NFF has now decided to seek direct compensatory policies primarily in the name of national economic efficiency rather than on equity or income distribution grounds. But the political impracticability of achieving significant gains via direct budgetary transfers and the economic realities limiting indirect transfers through HCP schemes, have forced farmer groups to become much more economically sophisticated. Straightforward price-income policies may no longer be the most appropriate way to achieve worthwhile gains for farmers. Nowadays the NFF recognizes that broad sectoral gains can only be achieved through such activities as influencing exchange rate policies and pressuring the Government to continue with its strong anti-inflationary measures.

Technological and geographic constraints also have important influences on the achievement of consensus on policy issues among farmers and the relevant governments. For example, the traditional division between the large-scale specialist producers who advocate 'free-trade' and the smallerscale mixed farmers who call for 'orderly marketing'. This division is based on differences in technology and geographic conditions (climate and so on) as much as upon size of enterprise. Rapid rates of technological advance, the opening up of large areas of land previously considered marginal cropland in a climatic sense, and the development of large scale irrigation schemes chiefly with private capital, have increased the diversity of Australian farming. Even within the one industry, different farmers in different parts of the country face different problems. It has become increasingly difficult to devise price and income policies which are acceptable to all the relevant farmers. The recent acrimonious debate within the beef cattle industry over beef marketing and price policies is a good example of this kind of constraint on rural policy formulation. These divisions within and between farming industries are another factor inducing the NFF to concentrate on broader sectorally advantageous issues such as exchange rate and inflation policy, rather than specific price-income policies.

A catalogue of price and income policies

Despite the constraints, Australia has 'experimented' with a great diversity of measures designed to effect farm prices and incomes. The traditional emphasis has been on 'prices' rather than 'incomes' (Campbell and Fisher, 1982). However, over time the emphasis has shifted towards measures designed to influence incomes directly rather than indirectly via prices.

Unlike the situation in most advanced countries, advocates of farm price and income policies in Australia have always stressed 'stability' rather than 'support' as the primary goal. Naturally enough many of the stabilization schemes have supported farmer returns at levels above what they might otherwise have achieved in some years. But those schemes have also, on occasions, substantially reduced the returns of farmers compared with what could have been achieved if the stabilization scheme had not been operating (Longworth and Knopke, 1982).

Following Lewis (1967), Australian price policies can be classified as to whether they influence farmer returns either by influencing the market supply/demand conditions or by adjusting the market price after it has been determined in a relatively free market.

Supply side policies can be further sub-divided into measures designed to influence the shape and position of the supply curve and instruments which divert supplies once they become available. In the Australian context restrictions on inputs such as water (rice, dried vine fruits) and land (sugar); restrictions on imports (all agricultural commodities with HCP schemes); and marketing quotas (wheat, sugar, tobacco, whole-milk) are examples of measures designed to affect the supply curve. Supplies have been diverted through time using buffer stock arrangements (wool); from one market to another by HCP schemes (wheat, dairy products, sugar, rice, dried vine fruits, eggs); from one purpose to another (whole-milk, sugar, wheat, eggs, peanuts); and from one class of consumer to another (whole-milk).

Measures designed to influence the demand side of the market include mixing regulations (cotton, tobacco, peanuts); restrictions on substitutes (whole-milk, dairy products, sugar); public consumption and foreign aid schemes (whole-milk, wheat, dairy products); and bilateral export contracts (sugar, wheat, beef).

Market prices have been augmented by the operation of buffer funds (wheat, dried vine fruits), deficiency payments (wheat, cotton, dried vine fruit); and direct subsidies (dairy products).

Policy measures designed to affect farmer incomes directly have received more attention in recent years but have not been so numerous. As with price policies, the historical emphasis has been on stability of incomes over time rather than the raising of farm incomes. The year-to-year seasonal and market fluctuations experienced by Australian farmers create extreme variability in farm incomes. Income stabilization measures are often justified on national resource-use-efficiency grounds. For example, it may be in the national interest to assist a major rural export industry such as cattle raising in times of depressed export markets so that private resources are not permanently withdrawn from the beef industry. Another efficiency argument for farm income stabilization springs from the belief that productivity raising investment will be greater with stable rather than unstable incomes.[2] That is, stable farm incomes are likely to create a more modern and hence internationally competitive agricultural sector.

In practice, the major measures designed to stabilize farm incomes operate through (or in conjunction with) the income tax system (for example income averaging for tax purposes, income equalization deposits, and certain special tax concessions for farmers). These measures tend not only to stabilize but also (under certain conditions) to raise the after-tax incomes of farmers. While these forms of income support have been severely criticized by spokesmen for other sectors of the economy, they do not constitute a large transfer of income to the rural sector.

Income stabilization measures which work through the taxation system are of value only to commercial farmers with taxable incomes. Genuinely low income farmers have not received much special attention in Australia. There have been instances of one-shot welfare programmes (such as the cash grants scheme for woolgrowers in 1970/71) but the only long-term policies of assistance to low income farmers have been the various rural reconstruction or adjustment schemes (Longworth, 1978). Rural adjustment assistance to farmers has been justified in national efficiency of resource use terms since it facilitates the restructuring of agriculture. However, rural adjustment schemes also have a modest welfare component in that they provide carry-on finance and rehabilitation and retraining allowances for people forced to adjust out of farming into some other occupation. Poverty-stricken farmers, as with everyone else in the Australian community, also have access to a wide range of pensions and welfare services. Under these circumstances, there may not be any special need on welfare grounds for income support schemes for low income farmers.

The changing emphasis over time

The first national agricultural price policy was concerned with marketing arrangements for sugar within Australia after federation in 1901. During the 1920s, as already mentioned, certain agricultural industries were granted assistance as 'compensation' for the growing burden of the tariff (Brigden et al., 1929). In the 1930s farmers saw government guaranteed wheat prices evaporate and the HCP schemes seriously weakened by legal interpretations of Section 92 of the Constitution. War time agricultural price control impressed many farmers who wanted these stable marketing conditions to continue after the war. At the end of the war the Government and farmer leaders were greatly concerned about the possible collapse of agricultural prices. During the 1945 to 1952 period, therefore, the emphasis in agricultural policy debates was on 'down-side' risks. As a result, domestic price policies were developed which emphasized security and stability above all else (for example the wheat industry stabilization scheme).

About the time of the Korean Crisis, there was a major shift in emphasis in Australian rural policies. Increased output became a major policy goal. From the early 1950s to the late 1960s, therefore, Australia introduced a range of measures designed to stimulate productivity and boost agricultural output. These 'golden years' of Australian agriculture were followed by a painful five years between 1968 and 1973 when world markets and seasonal conditions were both far from favourable. During this period rural policymakers were forced to switch their attention from output stimulating measures to stabilization and reconstruction (Edwards and Watson, 1978). The low farm-income problem, so common in advanced industrialized nations, became a major issue in Australia. For the first time, farm *income* stabilization and support, as distinct from *price* stabilization and support, became recognized as the primary goal of rural policies. Traditionally the emphasis had been on price policies but rural adjustment and even direct welfare payments to desperate farmers dominated policy discussions during the depressed 1968 to 1973 period.

The rural depression came to an abrupt end with the commodity boom of the mid-1970s. In addition, the introduction of flexible exchange rates after 1971 and the emergence of mining as a major export sector reduced the traditional concern about the need for greater agricultural exports to maintain balance of payments equilibrium. These economic facts of life plus the change of government for a critical three-year period in the mid-1970s initiated a redirection of rural policy. As a result agriculture has received less and less direct and indirect government assistance.[3] the industry stabilization schemes for dairy produts, wheat and dried vine fruits have all been substantially remodelled. There have been significant moves away from traditional price setting procedures, based on cost of production concepts, to a much greater acceptance of export market realities. In return the Government has agreed to underwrite the new stabilization arrangements for wheat, dairy products and wool. These underwritings provide absolute protection against catastrophic price collapse but under 'normal' conditions should not prove costly to taxpayers.

The emphasis in agricultural policy discussions has now shifted from the narrow domain of price and income policies for individual products or industries to broader issues. The maintenance of international competitiveness is a primary goal. In this regard domestic inflation and exchange rate policies are of vital concern to Australian farmers. As indicated above, changes in Australian international trade and commercial policy in such areas as the exchange rate, tariff reductions, and foreign exchange control, are now seen as crucial to the well-being of Australian farmers.

AUSTRALIAN AGRICULTURAL TRADE POLICY

Immediately after World War II Australian agricultural trade policy reflected a world-wide concern to avoid a return to the disastrous trading circumstances which prevailed in regard to agricultural commodities for most of the inter-war period. Australia, therefore, strongly supported the idea that agricultural trade issues should be discussed within a multilateral framework such as the General Agreement on Tariffs and Trade (GATT). Unfortunately, agricultural trade issues were considered to be 'special' in many respects and they were not formally considered under GATT until the Kennedy Round in the 1960s. For the first time these negotiations considered the possibility of bargaining across industry sectors. The Kennedy Round failed to make any headway on agricultural trade problems principally because the EEC, Japan and the United States were not prepared to negotiate on domestic protection measures for farmers. One unhealthy outcome of the Kennedy Round as far as agricultural exporting nations were concerned, was the reaffirmation that agricultural trade was 'special'. One common argument was that agricultural trade involved different issues which required different rules. Others felt agricultural trade liberalization required greater effort and was best left until industrial trade had been liberalized. Harris (1980) has argued that the situation was more complex and the GATT has served Australia's interests reasonably well despite the apparent failure of the Kennedy Round.

The Tokyo Round of Multilateral Trade Negotiation (MTN) offered agricultural exporting nations new hope. Not only were these talks concerned with multilateral trade negotiations (including agricultural issues) but also they aimed to rewrite the post-war trade rules.[4] some people felt that multilateral discussions of the Tokyo Round should be used to consolidate discussions taking place in other international forums. This was especially true with respect to food and agricultural trade which had been discussed in UNCTAD, FAO and OECD as well as under GATT, to mention only the major sponsors. Of particular interest to developing countries was the UNCTAD Integrated Programme for Commodities (IPC) covering agricultural commodities, which had become a cornerstone of the New International Economic Order (NIEO) proposals. As explained by Harris (1980; pp. 172–73), at the MTN Australia sought better trading arrangements for world agriculture in general; improved market access for agricultural exports; and the protection of traditional markets. The last point was especially important with regard to the US/Japan negotiations which took place under the MTN (since the United States was pressing Japan for a larger share of the Japenese beef imports at Australia's expense). The achievements of the MTN from Australia's viewpoint were modest but worthwhile and have been summarized by Harris (1980; pp. 174–76).

While emphasizing the need for multilateral negotiations on agricultural trade problems in the widest possible forum, Australia has also pursued bilateral agricultural trade negotiations especially with its major trading partners. These bilateral negotiations have been aimed at improving the competitive trading position of Australia and at gaining access to particular markets.

Australian trade policies stress the need to reduce instability and unpredictability in international markets for agricultural commodities. The convential approach to these problems through multilateral commodity agreements has consistently received strong support from Australia, a signatory to all major post-war agreements covering relevant commodities (for example wheat and sugar). Bilateral agreements have also been negotiated with a view to removing trading uncertainties. Australia has consistently argued that steps to prevent 'collapse and disorder in its main markets' (Harris 1980; p. 174) are of paramount concern, with price stability and market access being of somewhat lesser importance. On the other hand the United States, with its much larger domestic market which can be 'managed' to provide stability for American farmers, has tended to put market access ahead of stability in agricultural trade discussions.

Two recent issues to enter agricultural trade debates have been the need for world food security and the significance of increasing state trading in agricultural products. As one of the world's major exporters of food, Australia has a potentially vital role to play in world food security. Unfortunately, while the principle is an admirable one, no real action has yet been taken on this issue. The major policy proposal so far put forward, namely the concept of a world buffer stock of food grains, has received support from the Australian Prime Minister in international circles. However, no detailed plans have been discussed within Australia as to who should pay for the holding of these stocks. Furthermore, Australian farmers have always been concerned about the price depressing effects on world markets of large carry-over stocks. In the long term, the Australian viewpoint on world food security may be expected to stress the benefits of a properly functioning international market for food commodities rather than a buffer stock approach.

The emergence of state trading has had a number of important effects. The first and most obvious is the impact massive government purchases (or sales) can have on the rather thin residual world market for most agricultural products. The best known example is the Russian 'grain grab' of 1973. In this context state trading creates the potential for greater instability than might otherwise be expected.[5] a second and more subtle and important result of state trading is the ease with which non-price aspects of the transaction can become paramount. Political trade-offs may be linked with grain sales at concessional prices and so forth. State trading also facilitates the use of food as a weapon of international diplomacy. Other than in war time, Australia has not engaged in state trading on a Government-to-Government basis. On the other hand, many of Australia's agricultural products are exported by (or on behalf of) statutory marketing monopolies (for example dairy products, wheat, barley, eggs, sugar). Furthermore overseas sales of wool and meat have come increasingly under the control of statutory corporations. With government corporations dominating the agricultural export scene, Australia has the necessary machinery in place to implement state trading policies if the need arose and if the domestic political climate permitted such a radical step.

LINKAGES BETWEEN PRICE – INCOME POLICIES FOR FARMERS AND INTERNATIONAL TRADE POLICIES

In economic terms Australia is a small country. In most international commodity markets Australian traders must act as price-takers rather than price-makers. Any exporting country in this position has little scope for manipulating the world price by its trade policies. Therefore, domestic agricultural price and income policies will tend to react to international market conditions rather than vice versa.

There are also some important interrelationships between agricultural trade policies and trade policies in general.

Overseas agricultural markets and domestic price-income policies for farmers

Since Australia is a price-taker on the world markets for most agricultural exports, the price elasticity of demand on these export markets is high (in absolute value) relative to the elasticity on the domestic market. As already mentioned, HCP schemes have been used in Australia both to stabilize and to boost farmer returns by exploiting this opportunity for price discrimination (Lloyd, 1982). It has been argued that these HCP schemes are a form of export 'dumping' and hence contrary to the spirit of GATT. While it is difficult to refute these claims, the extent of the assistance provided to Australian farmers by HCP schemes has never been great and, as pointed out earlier, has diminished over time.

Other trade policies have been developed from time to time in response to overseas marketing conditions which have indirectly influenced the returns of Australian farmers. For example, the voluntary restraint agreements in regard to beef exports to the United States and the meat export market diversification scheme. The buffer-stock, reserve-price scheme for wool may be seen as an economically rational reaction of the Australian wool-growing industry to conditions in the international market for wool. In this case, Australia can exert some market power since

Australian exports dominate the world market for apparel wool. Yet another example, is the recent plan to have the Australian Meat and Livestock Corporation act as a single seller on the Japanese beef market. The aim is to prevent Japanese importers exploiting Australian exporters (and hence beef farmers) who compete vigorously with one another for a share of the Japanese beef import quota.

Export incentive schemes have a long history in Australia. In the 1950s most of the measures introduced to boost agricultural output were really export incentives. More recently the Government has initiated a range of export market development and incentive schemes not specifically designed to assist rural exports. Nevertheless, agricultural exports frequently qualify. These incentives have been the main stumbling block to Australia accepting the new MTN code on export subsidies.

The most important overall link between Australia's international trade and domestic policies with regard to agriculture is that, in both spheres, the risk of international market chaos and hence ruinous prices for Australian farmers is ever present. Therefore, both internationally and domestically, steps have been taken to safeguard the future markets for Australian farm products.

Australian trade policies in general

To outsiders Australian trade policies appear inconsistent. The representatives of the export industries (principally, but not only, agriculture and mining) continually argue for freer world trade. At the same time, a significant proportion of Australian manufacturing industry is protected by tariffs and import quotas and the spokesman for these industries vigorously defend their right to protection. In many respects, Australia is a mirror image of most other developed countries. In Europe and in Japan it is the agricultural sector which is 'special' and in need of protection because of low productivity. The political situation and concern about food security in these countries ensures that agriculture remains highly protected in these otherwise internationally competitive industrialized societies. Australia is an industrialized economy in which agriculture has remained highly competitive in international terms but certain segments of secondary industry have not been able to achieve the levels of productivity required to make them internationally competitive (given the historical strength of the Australian dollar). In Australia it is these manufacturing industries which are 'special' in much the same political sense that agriculture has 'special' status in the EEC or Japan.

As already mentioned, the heavily export-orientated farmer groups have vigorously attacked the protectionist aspects of Australian trade policy in regard to certain imports on national efficiency of resource use grounds. Their position has been supported by other exporters and even by the present Government on occasions. Academic economists also appear to have reached an efficiency orientated consensus 'that substantial reductions in protection are highly desirable including a reduction in the dispersion of effective rates' of protection (Quiggin and Stoeckel, 1982). Nevertheless, no policy action has been taken to improve the situation; indeed recent Government decisions have substantially increased assistance for the automobile and footwear, textile and clothing industries. Quiggin and Stoeckel (1982) put forward an explanation based on distributive rather than efficiency arguments as to why this aspect of Australian trade policy has proven so difficult to reform.

The ASEAN nations, in particular, have been highly critical of Australian trade policies with regard to certain manufactured consumer goods. Australian politicians are quick to point out that on a per head of population basis, Australian imports of footwear, textile and clothing are far greater than is the case for the EEC, Japan or even the United States. Nevertheless, protective policies for specific manufacturing industries (footwear, textile, clothing and automobiles in particular) make it more difficult for Australian spokesmen to argue for freer trade for agricultural commodities.

The need for Australia to trade-off gains in the agricultural trade policy area against a reduction in domestic protection for certain manufacturing industries is not new. But, the political and economic climate in Australia has rarely been *less* favourably disposed to such trade-offs than at present.

FINAL COMMENTS

Despite continuing domestic problems with the levels of protection for certain manufacturing industries, Australian trade policy has consistently stressed the need for freer world trade especially in agricultural commodities. In this respect, Australia is one of the few industrialized nations whose trade policies have the same basic goals as the trade policies of the developing countries heavily dependent on agricultural exports.

Australian farmers are, for the most part, highly efficient and internationally competitive at current exchange rates. Yet the instability and unreliability of international trading conditions for agricultural commodities greatly inhibit agricultural production in Australia. In this regard, the present arrangements for agricultural trade are not only unsatisfactory from the viewpoint of Australian farmers but also a threat to world food security.

NOTES

[1] Net food importing nations sometimes adopt agricultural export policies for certain products which are a direct result of domestic price-income policies (e.g. rice exports from Japan and beef exports from the EEC).

[2] Campbell (1958) and others have suggested the opposite, namely that farm investment, on average, could be greater with fluctuating incomes.

[3] Full details are available in the *Annual Reports* (and other reports) of the Industries Assistance Commission (IAC). For an up-to-date summary, see Quiggin and Stoeckel (1982).

[4] While the MTN was an international trade negotiation in the GATT tradition, it was not formally a GATT conference.

[5] Similar criticism has been levelled at international commodity agreements, for example, see Johnson (1973 and 1975).

REFERENCES

Brigden, J. B., et al., *The Australian Tariff:* An Economic Enquiry, Melbourne University Press, 1929.

Campbell, K. O., 'Some Reflections on Agricultural Investment', *Australian Journal of Agricultural Economics,* Vol. 2, No. 2, December, 1958.

Campbell, Keith O., *Australian Agriculture; Reconciling Change and Tradition,* Longman Cheshire, Melbourne, 1980.

Campbell, Keith O. and Fisher, Brian S., *Agricultural Marketing and Prices,* Longman Cheshire, Melbourne, 1982 (forthcoming).

Edwards, G. W. and Watson, A. S., 'Agricultural Policy', in F. H. Gruen, *Surveys of Australian Economics,* Allen and Unwin, Sydney, 1978.

Harris, Stuart, 'Australian Agriculture and World Commodity Trading Arrangements', *Australian Journal of Agricultural Economics,* Vol. 24, No. 3, December, 1980.

Harris, Stuart, 'Agricultural Trade and Its International Trade Policy Context', in Williams, D. B., *Agriculture in the Australian Economy* (Second edn), Sydney University Press, 1982.

Johnson, D. Gale, *World Agriculture in Disarray,* Fontana/Collins (in association with the Trade Policy Research Centre), London, 1973.

Johnson, D. Gale, 'World Agriculture, Commodity Policy and Price Variability', *American Journal of Agricultural Economics,* Vol. 57, No. 5, December, 1975.

Lloyd, A. G., 'Agricultural Price Policy', in Williams, D. B., *Agriculture in the Australian Economy* (Second ed.), Sydney University Press, 1982.

Lewis, J. N., 'Agricultural Price Policies', in Williams, D. B., *Agriculture in the Australian Economy* (First edn), Sydney University Press, 1967.

Longworth, John W., 'Protection or Reconstruction?', in van Dugteren, Theo, *Rural Australia: The Other Nation,* Hodder and Stoughton (for Australian Institute of Political Science), Sydney, 1978.

Longworth, John W. and Knopke, Philip, 'Australian Wheat Policy 1948–79: A Welfare Evaluation', *American Journal of Agricultural Economics,* Vol. 64, No. 4, November, 1982.

Quiggin, J. C. and Stoeckel, A., 'Protection, Income Distribution and the Rural Sector', a paper presented to the 24th Annual Autumn Forum of the Economic Society of Australia and New Zealand, Melbourne, May 1982.

Schuh, Edward G., 'Floating Exchange Rates, International Interdependence and Agricultural Policy', in Johnson, Glen and Maunder, Allen, *Rural Change: The Challenge for Agricultural Economists* (Proceedings of the 17th International Conference of Agricultural Economists), Institute of Agricultural Economics, Oxford (for International Association of Agricultural Economists), Gower, 1981.

DISCUSSION OPENING – CHAIWAT KONJING

It is a great honour to be the discussion opener of the very important issue of farm policies delivered to this meeting by Professor Longworth.

The paper outlined the general thrusts of the domestic agricultural price and income policies in an exporting country, Australia, the fifth largest exporter of agricultural commodities in the world. The paper also identified the linkages between the domestic price-income policies and the trade policies in Australia and highlighted the extent of common interest between Australia and the developing countries which are dependent on the export of agricultural commodities. On an international basis Australia's agricultural export share falls under the small-country definition, meaning that Australia has little (or no) scope for manipulating the world price by its trade policies or export sales.

Traditionally, the domestic price-income policies for farmers in Australia emphasized over time stabilization of farmers' incomes for many reasons both on efficiency and equity grounds. Measures adopted in income stabilization schemes included those affecting both supply and market demand of commodities. They are, for example, input and import restrictions, marketing quotas, buffer stocks and buffer fund operations, mixing regulations, price discrimination by export monopoly practices and so on. However, these policy measures changed from time to time and from commodity to commodity following changes in political and technological as well as geographical constraints. In particular, a decline in economic and electoral importance, as the economy expands, and an increasing participation in the world market of Australia's farm sector have resulted in a shift in the policy emphasis from traditional price-setting procedures to a much greater acceptance of export market realities. In other words, the recent policy goal of Australia's farm sector is to maintain the nation's competitive position in the international market through more liberalized trade policies, such as exchange rate manipulation, tariff reduction, and the support for freer world trade arrangements.

In practice, however, trade and commercial policies in Australia appeared inconsistent. While advocating competitively free trade in the agricultural sector, a significant proportion of Australian manufacture, particularly the secondary industry, is highly protected by tariffs and import quotas. In addition, the common interest between Australia and the developing countries in supporting international actions for better trade arrangements or freer trade has not been taken seriously by the major world trade partners. Various forms of international trade forums still leave the world trade arrangements with instability and an unreliable trading situation, part of which is attributable to protectionism.

The paper concluded that with existing trade and commercial policies, Australia's farm sector could not be as 'special' as it is in most developed countries; that the instability and unrealiability of international trade in agriculture has prevented Australia from contributing more to world food security; and that the strong political and economic climate which favoured protective policies for some specific manufacturing industries has distorted the need for Australia to trade-off gains in the agricultural trade policy area against a reduction in domestic protection for certain manufacturing industries.

My first comment concerns the technical and economic aspects of the agricultural price and income policy measures. In principle, the stabilization of income could be achieved either through market operation schemes or income compensation schemes. However, neither market operation nor income compensation schemes could relieve the equity problems. In particular, from the small farmer's point of view, these stabilization schemes have been far from desirable. In addition to the technical aspect of the price and income policies, many policy instruments adopted in Australia seem inconsistent with the free trade concept advocated. For example, the establishment of statutory market monopolies and price discrimination practices for some specific commodities not only turned the farm sector towards protectionism but also created equity problems between producers and consumers. My questions relating to the above issue are that if it is not for political reasons what would be appropriate policy options for income stabilization and competitive market objectives? Is protection a necessary condition for growth and equity? If it is, what is its implication for developing countries which have limited resources for protection?

My second comment is directed toward the implications for the developing countries of Australia's farm policy experience. As mentioned in the paper, the strength of the interdependence between the domestic price and income policies and the trade policies decreases as the exporter's share of the world market for its products diminishes. This is also true for Australia. In my view, it is rather a common problem faced by most developing countries from time to time. It has been the farmers in developing countries who cannot do much to solve this problem but simply rely on the principle of comparative advantage. Therefore, the Australian experience in the above problem leaves no guidance for most developing countries, particularly those which are not exporters of agricultural commodities.

My third comment is on the issue of whether or not agriculture should be 'special'. The implication of Professor Longworth's paper is that the developed countries generally favour protection for agriculture for both political and economic reasons. Australia is one among the developed world which could not have agriculture fully 'special'. This argument is controversial since agriculture could be 'special' either directly or indirectly. Keeping in mind that in any country the industrial sector plays an important role as a source of economic growth, it also can be 'special' since growth of the industrial sector brings growth into the agricultural sector sooner or later.

As mentioned in the paper, Australian farm policy is to stabilize farmers' incomes and to have high producer and consumer prices but lower export prices. This policy approach is exactly contrary to that pursued by some exporting countries in the developing world. For example, in Thailand the policy is to have low consumer prices while maintaining a competitive position in international trade. It is interesting to speculate which approach can contribute more to the agricultural sector in regard to growth and equity.

My final comment on Professor Longworth's paper is that the arguments on the advantages and disadvantages of various policy options in many parts of the paper have not been supported by empirical evidence.