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BOOK REVIEWS

Australian Farmers Under Stress in Prosperity and Recession. By ROGER G. MAULDON and HENRY P. SCHAPPER. (Nedlands: University of Western Australia Press, 1974.) Pp. 221, paperback \$4.75, cloth \$7.95, ISBN: 0 85564 087 1.

Peculiarities of the agricultural sector and implications for the responsibility of government are hardy discussion perennials in any gathering of agricultural economists and farmers. Most of the variants of these arguments are to be found in Mauldon's and Schapper's book, suggesting that the authors have seen their share of action on this front.

The purpose of the book is '... to provide farmers, their leaders and agricultural policy makers with an independent perspective of farm problems and policies'. They begin with a descriptive review and summary of the types of argument with which agricultural economists are confronted at one time or another. Agricultural fundamentalism, costs of production, the farmer as a price taker all get a run. Part II contains an exposition of the relentlessness of the forces of supply and demand including the subtleties of market interdependencies, the usefulness of prices as signals and the capacity of the market as an organizing instrument.

Family farms, input and product marketing institutions including financial institutions, government-farmer organizations and political parties are examined in an Australian context in Part III. Although structured into four more parts, the remainder of the book is about government in relation to agriculture. The writers examine a range of past measures taken by governments and present various hypotheses about motives which might explain the historical role of government. They identify the kind of agriculture they would like to see, 'their preferred agriculture', and outline transitional policies to be used to proceed to this end.

Part IV looks at Agricultural Policy in the context of resolving social and economic conflicts. In the first chapter of Part V a set of five farm business models is developed as a basis for formulation and execution of agricultural policies. Using this approach farms are viewed first in terms of the products they produce, second in a flow of funds framework, third according to stage of family cycle, fourth as forming the conversion of inputs into output and, finally, as business units. The approach, although basically sound, does not seem particularly relevant, especially as it is not directly used by the authors in later discussions of policy issues.

A chapter on price and market control sets the scene for a discussion of the reasons why the authors prefer an economic system which provides farmers with scope to exert control over the prices they receive. A notion of countervailing market power appears to underlie much of the thinking on this issue. Their proposal generally takes the form of price discrimination with monopoly power in the home market obtained through some form of statutory marketing organization. However, the

pooled pricing provisions of current two-price schemes in Australian agriculture are given fairly short shrift.

Part VI entitled Authors' Preferences and Part VII entitled Perspectives, are probably the key to the book. Judgements about what government ought to do about agriculture are frankly stated. Given this start there will be few readers who will either quarrel with or applaud all the views advanced. For example, readers who regard government conferred monopoly power as a form of assistance will find the endorsement of government action to this end contradictory with the desired characteristic that prices paid and received be free of subsidies and concessions. This contradiction has probably become more apparent over recent years with the strengthening of measures to control restrictive trade practices, a development that is not consistent with conferral of restrictive trading rights by government upon certain sectors.

Recommendations for welfare and social assistance, involving assistance according to needs criteria, common for farm and non-farm sectors, are sensible and straightforward. Compensation for losses arising from changes in government policy, e.g. subsidy withdrawal, is seen as a way of approaching the preferred agriculture largely by alleviating hardship and injustices due to removal of the subsidy. The question of where to draw the line between providing a stable investment environment and underwriting risky ventures is not considered. Perhaps more emphasis could have been placed upon the practical and allocative aspects of wholesale endorsement of a policy which in most instances will reflect a political judgement of how big the 'bribe' has to be.

However, these things are questions of balance about which complete agreement is a most unlikely event. In regard to the book as a whole most readers are likely to agree with a good deal, but certainly not all the ideas advanced. Although some issues are discussed with textbook clarity, for example the description of supply and production control, the authors tend to opt for a generous and comprehensive treatment of issues rather than abstracting in order to make a point. This, of course, is one of the problems which arises in writing a book for several audiences. By choosing a comprehensive approach, Mauldon and Schapper have not (and claim not to have) resolved many issues. Nevertheless, their considerations and judgements are a valuable contribution to the ongoing agricultural policy debate.

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U.S. Trade Policy and Agricultural Exports. Edited by EARL O. HEADY.
(Iowa: Iowa State University Press, 1973.) Pp. 228, ISBN:
0 8138 1655 6.

In his foreword to this book Heady suggests that an emerging tendency towards increasing protectionism in world markets for agricultural products had created a need for reviewing 'the present status of American agriculture with respect to export markets' and for evaluating 'new

international developments which affect trade'. Consequently the U.S. Trade Policy and Agricultural Exports Conference was organized by the Iowa State University Centre for Agricultural and Rural Development. This book presents a series of fourteen papers prepared by participants in the Conference. While it was published in 1973, before recent developments in commodity trade and policy, the issues it raises are given greater immediacy by these developments.

Approximately half the contributors are university economists, while the remainder come chiefly from Government circles, in particular from the U.S.D.A.

The book opens with an introductory paper by Heady summarizing some of the principal issues raised in the accompanying papers. Three of these papers are essentially descriptive dealing with the pattern of world and U.S. agricultural trade and with the role played by the latter in the U.S. balance of payments. A further three papers cover aspects of U.S. trade policy, including the history of its evolution, some contradictions in its operation and the effect of domestic political groups in its determination. The economic implications of trade restrictions are analysed in papers dealing with the effects of such restrictions on world community welfare, domestic consumers and the level of U.S. exports. In addition there are papers dealing with the regional effects of alternative trade policies, agricultural and trade developments in the less developed countries, the relationship between U.S. capital and international political conflicts and a paper making a case for increased import controls on textiles.

It is evident from this survey of its contents that the book is heavily oriented towards the policy questions facing the U.S.A. However, it has more general relevance in that many of the problems discussed are of equal concern to Australia. As could be expected one dominant theme relates to the benefits and costs deriving from protection policies. A comprehensive theoretical treatment of this issue is given by Gale Johnson in his paper on the effects of trade on world community welfare. He concludes that the transfer payments from consumers and taxpayers to farmers resulting from trade restrictions and farm support policies are substantially larger than the probable real costs of protection in industrialized communities. Furthermore, he argues that these transfers are considerably greater than the long run increases in farm income achieved by protection and manifest themselves chiefly in increased returns to land.

Another aspect of this issue is an interesting quantitative analysis by Seevers and Keeton of the potential impact on U.S. exports of new import restrictions. On the basis of specified assumptions they conclude that a \$1 billion general restriction on imports would reduce U.S. exports by \$229 million. Their estimates are based on the use of 'reflection ratios' which are defined as the product of a country's export multiplier and its marginal propensity to import. One limitation of this paper, however, is that no further details are given of the method of calculating these ratios.

In general an effective case against increased protection emerges from these papers and Heady, in his introduction, concludes that while the classical representation of comparative advantage and trade gains may

not always hold, U.S. agriculture would stand to benefit in the long run from a relaxation of trade restrictions and increased world trade. There would be, of course, associated problems of short run losses by producers currently benefiting from protection and some of these are detailed in the papers dealing with the regional effects of alternative trade policies and the textile industry. The question of adjustment assistance arises in this context, but apart from several references by Heady in his introduction, the book does not take up this issue.

It is here, then, that the book perhaps falls short of expectations. Somewhat too much space is occupied with historical and descriptive material while the central theme is left with certain questions begging. Obviously if trade liberalization is to be contemplated there are adjustment problems and the book would have provided a more complete survey of the current situation facing the U.S.A. in its agricultural trade policy determination if, for instance, some attempt had been made to analyse the adjustment requirements associated with possible trade policy changes. Certainly this would not have been beyond the book's rather broad terms of reference.

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Economics of Markets—an Introduction to Economic Analysis. By C. A. TISDELL. (Newcastle, Australia: John Wiley and Sons, 1974.) Pp. 404, \$9.95, ISBN: 0 471 87439 6.

Tisdell's book is unique, for at the time of writing this review it is the only available book which covers the basic groundwork of micro-economic theory as well as relating the concepts of the theory to Australian conditions and Australian experience. Wherever possible throughout the book Tisdell illustrates the point being made by reference to Australian examples. For example, in early chapters on demand, supply and elasticity, Tisdell not only uses the common technique of 'made-up' examples, but also introduces actual Australian econometric estimates of various demand and supply parameters, typically for agricultural commodities. Furthermore, he does this in a non-technical manner which makes the book particularly appealing for use as a microeconomic text at the first or second year tertiary level.

Chapters 1 to 9 and chapter 12 cover the material usually found in basic microeconomic texts, with the addition of the above-mentioned Australian examples. Chapters 10, 11 and 13 to 16 cover topics such as market failure and public regulation, environmental economics, competition and public policy, growth and urban issues. Again, the theoretical points are illustrated with Australian examples. The final chapter is on macroeconomics, employment and inflation, and it attempts to cover, in thirty-three pages, the Keynesian system of equilibrium, monetary effects, fiscal and monetary policy in Australia, the quantity theory, the Phillips curve and Parkin's 'natural' rate of unemployment. As a summary of some key macroeconomic issues it is a good chapter but as an introduction to these issues for the uninitiated it fails by attempting too much in too short a space. Tisdell justifies its inclusion by saying, in

the preface, that it is there to 'ensure that a wide range of economic problems is covered'.

While the inclusion of Australian material is a great strength of the book, it is also a potential Achilles heel. Much of the Australian material is very topical, viz., the section discussing Australian restrictive trade practices legislation. This kind of material is likely to date rapidly thus ensuring the necessity of revised editions. Furthermore, the inclusion of Australian material uses up space and one cannot but get the impression at times that this is at the expense of a thorough development of the theoretical concepts. This criticism is particularly relevant to the early chapters on supply, demand and elasticity. Experience in using the book as a first year text suggests that it needs to be complemented by a book with a more thorough and rigorous approach to pure theory. This is not to detract from its value in stimulating student interest by showing the student the immediate relevance of the body of theory.

There are two general features of the book which, as a teacher in the area, I find very annoying. Firstly, Tisdell frequently refers to slopes of supply and demand curves when he really means elasticity (for example, at the top of page 70 and the bottom of page 98). It is disheartening to drum into students that slope is a poor measure of demand responsiveness and have the opposite being implied by the text. Secondly, there is constant reference throughout the book to a Pareto optimum, starting as early as page 9, and yet nowhere does the book develop the general equilibrium model. The reader is asked to accept that under certain conditions we have a Pareto optimum and that is 'good', while under certain other conditions we do not have a Pareto optimum and that is 'bad'. The enquiring mind does not like to have to accept such things on faith and it would probably be better omitted altogether.

There are a couple of specific errors which I picked up. On page 70, when discussing a buffer stock scheme for marketing an agricultural commodity, Tisdell says it is necessary that 'stocks are on hand for periods of low demand' if the scheme is to be self-supporting. As any agricultural economist worth his wool-mark tie knows, *cash* must be on hand for periods of low demand while stocks are needed in periods of *high* demand. Finally, on page 85 he says that an indifference curve is 'strictly convex when viewed from above' when in fact it is convex from below.

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The Australian Capital Market. Edited by R. R. HIRST and R. H. WALLACE. (Melbourne: Cheshire, 1974.) Pp. 548, \$6.95, ISBN: 0 7015 1914 2.

This book is a revised edition of *Studies in the Australian Capital Market*, first published in 1964. The original edition rapidly became a standard reference on the subject, and an updated volume is timely in view of the changes in the capital market which have occurred in the last decade.

The book consists of twelve articles, by different authors, each considering a different aspect of the capital market. Ten of these are

updated versions of chapters appearing in the original edition. Two new chapters have been added, one on non-life insurance and one entitled 'Performance, Responsibility and Control in the Australian Securities Markets'. The revision of the ten original chapters has been comprehensive. Much material relating to the 1950's and early 1960's has been compressed or omitted, and post-1964 developments have been discussed at length. These developments have been significant. Not only has the relative importance of various established institutions changed, for example the building societies, but the mineral boom has led to the creation and expansion of government development institutions such as the AIDC, and an inflow of foreign capital. These latter factors receive comprehensive treatment in a chapter by Hirst on finance for economic development.

Professor Jarrett's chapter on finance for agriculture has been almost entirely re-written, this time in collaboration with R. J. Edgar. Less space is devoted to pastoral finance companies, possibly because their relative importance as a source of rural credit has declined; while in 1926, 20 per cent of all rural debt was owed to pastoral finance companies, the equivalent figure in 1972 was only 14 per cent. In some areas the chapter draws fairly heavily on the 1972 BAE publication, *Rural Credit in Australia*, and obviously this should be a primary source for any study of agricultural credit. A final section on policy issues discusses the concept of a 'credit gap', and whether concessional credit should be provided to the rural sector. It concludes that 'the confusion of welfare and efficiency objectives may well have restricted the total supply of credit to agriculture', and that 'subsidized credit is likely to prove an ineffective way of solving welfare problems in agriculture'. The chapter could perhaps have benefited from some discussion of some of the institutional arrangements that have been proposed to overcome rural credit problems, such as a loans insurance scheme to combat high risks and a reserve fund to enable fixed loan repayments to be made while income fluctuates. However, it does provide a clear description of the existing institutional framework together with a discussion of policy issues.

An obvious criticism of the book is that little consideration is given to the role played by the trading banks. The editors admit this in their preface, and refer readers to *The Australian Trading Banks* by Arndt and Stammer. Despite this, it is felt that there is a place in a comprehensive study of the capital market for some discussion of the part played by the trading banks.

In any book where different chapters are written by different contributors some overlapping is inevitable. The possibility of duplication is increased here since some chapters are concerned with different sectors of the market, trade credit for example, while others relate to institutions, such as the savings banks. Obviously, an institution can be involved in several sectors of the capital market. Overlaps do occur, therefore, but they appear to have been kept to a minimum by the editors and are not a major irritant.

Finally, it is felt that there is room in such a study for one general chapter which could take an overview of the capital market. It is difficult, after reading the book, to judge how efficiently the market

allocates resources between the various sectors and industries which require finance, and to what extent imperfections exist. The effect of the government's monetary policy could also be examined. A discussion of these factors would have enhanced what is already an extremely useful and comprehensive book.

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The Image of Australia: British Perception of the Australian Economy from the Eighteenth to the Twentieth Century. By CRAUFORD D. W. GOODWIN. (Durham, N. C.: Duke University Press, 1974.) Pp. 255, ISBN: 0 8223 0310 8.

It is always interesting and enlightening to see ourselves as others see us, or in this case to see ourselves as others have seen us in the past. In this book Crauford Goodwin, now well known in this country for a previous work, *Economic Enquiry in Australia*, traces the various ways in which the Australian economy and society was seen through the eyes of British observers and commentators during the different phases in our history.

This is a work of thorough scholarship involving a painstaking survey of the British journals of opinion and books by oversea travellers and observers which were available to readers in England. One can hardly imagine a relevant source which has not been consulted in the author's quest for understanding of how 'informed' British perceptions of Australia were formed over the past two hundred years.

British interest in Australia ebbed and flowed during the nineteenth century depending on the relative importance that the colonies were thought to possess for the imperial economy. Until mid-nineteenth century most observations on Australia were unflattering and generally reflected the British-centred prejudices and parochial interests of the observers. The expansion of the wool industry indicated a role for Australia as a provider of raw materials but the convict origins and general lack of civilized amenities evoked much comment on the deterioration of the British race and most accounts of Australia were generally pessimistic.

The discovery of gold, the subsequent flurry of economic activity and the achievement of self-government brought about some changes in British views of Australia. Against the new-found optimism of those who saw Australia as a safety valve for the excess population of the British Isles and as a useful economic partner to Britain was the pessimism of those who saw gold as the instrument for the further degeneration of the Australian population.

The 'nineties constituted another watershed in British attitudes to Australia. The depression was seen as vindicating the views of those who for the previous forty years had decried the social deterioration and democratic excesses of the Australians. The evils of 'state socialism' and of the power of trade unions were regularly commented upon in the British journals and only occasionally did a commentator, usually a long-time resident in the Antipodes, write favourably of the Australian scene and prospects.

It is not Goodwin's intention to pass judgement on the validity or otherwise of these assessments. The images presented here are those of Englishmen in England with their inadequate information, prejudices and preconceptions. At times these read as quaintly as would an account of Australian perceptions of Asia during the same period.

This book will be of immense value to historians and social scientists of all kinds, but it should also prove of interest to the general reader. Its thorough documentation makes it an invaluable source of reference.

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