THE AUSTRALIAN JOURNAL OF AGRICULTURAL ECONOMICS

VOL. 14 DECEMBER 1970 NO. 2

SOME CURRENT POLICY ISSUES*

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A number of current policy issues are discussed which illustrate serious confusion and economic illiteracy in the minds of many influential farm leaders. The issues discussed are: the cost-price squeeze in agriculture; the embargo on the export of merino rams; promotion of farm products; land policy; and tax concessions for agriculture. In some cases policies are followed which run counter to both farmer and national interests. Along with farm management extension, there is a growing need for agricultural policy extension.

I propose to discuss some current issues in agricultural policy. My concern is with 'policy extension' aimed at a better understanding of the relevant economics by farmers, farm leaders, politicians and the general public. Our profession has an obligation to clarify important policy issues and raise the level of debate. This obligation is underlined by two circumstances:

(1) the large amount of economic illiteracy and irrationality served up to farmers by farm leaders and politicians; and

(2) the 'McEwen doctrine', which lays down that farm policy should be settled by farmers acting in agreement, at least as far as the Treasury will let them. Not surprisingly, farmers frequently disagree, and so we have a recipe for inaction. This abrogation of Government leadership has thrown on to farm leaders tasks they are not staffed or equipped to handle.

I am aware that the above comments, and many of those to follow, will not contribute to the popularity of the profession, but this is an inevitable occupational hazard. It has been said that a popular economist can be likened to a popular tax-gatherer in some of the less developed countries; he is probably not doing his job.

I have selected issues which are currently being debated, are of national importance, and exhibit the confusion and irrationality to which I have referred. These issues are:

The cost-price squeeze in Australian agriculture.
The merino export embargo.
Promotion of farm products.

* Presidential Address to the Fourteenth Annual Conference of the Australian Agricultural Economics Society, Melbourne, February 1970.

Land policy, in relation to closer settlement and the creation of new farming areas.
Tax concessions for agriculture.

The Cost-Price Squeeze

Until the nineteen sixties Australia was 'the Lucky Country' in that it had no serious 'farm problem', defining this as *a situation in which average farm income is markedly lower than average income in other sectors*. The disease has spread. We now seem to have an emerging farm problem, generally referred to in Australia as 'the cost-price squeeze', although, if we define it as above, in terms of relative income, it is a minor problem compared with overseas.

Let me set out briefly some points about the farm problem in Australia, on which I believe there would be virtual unanimity amongst agricultural economists. Clearly it stems from the same four long-term causes that have affected the farm sector in all other developed countries; since we sell a large and increasing proportion of our output overseas we could hardly expect to remain insulated. In common with the other developed countries, but to a lesser degree, we have a surplus of farmers, resulting from:

(i) rapid technical progress, with many of the new techniques calling for larger farms;
(ii) a slowly expanding demand for farm products at home and overseas—a demand which is increasingly price-inelastic and income-inelastic and is increasingly being met by substitutes;
(iii) changing relative prices for resources. This trend would require structural adjustments even in the absence of (i) and (ii). With labour becoming dearer relative to capital goods such as machinery and fertilizer,[1] and with new and improved forms of capital being developed, farm labour must either move out, or be disadvantaged or subsidized:
(iv) resource fixity and particularly immobility of labour impede this moving out process, though to a lesser extent in Australia than overseas [13]. Highly specific assets, such as buildings, fences, and machinery, have few alternative employment opportunities outside agriculture, and therefore remain in agricultural use despite low returns. In a full employment economy this is not so true of farm labour, but then there are the added problems of reluctance to change jobs when this also involves a drastic change in the way of life, and in many cases educational disadvantages.

The above explanation of the farm problem, with its implications for the future, may be elementary conventional wisdom to agricultural economists but to what extent is it understood by farmers and farm

[1] The BAE's index of prices paid by farmers for March 1969 shows that since the 1960-63 base period, the price level for 'Equipment and Supplies' rose by 12 per cent. This category includes plant and machinery, replacements, chemicals, motor vehicles, fuel and electricity, building and fencing materials, and seed fodder and fertilizer. These items have fallen in price, in 'real' terms, since the consumer price index over the same period rose by 19 per cent. And these items have become much cheaper relative to labour, since farm wages in the BAE index rose by 27 per cent.

leaders? My impression after years of contact with them is that most have not yet heard or understood the message. Some adopt an ostrich attitude, ignoring it and hoping that it will go away. Some treat it as defeatist ('The Government could fix these problems if it really wanted to'; 'The starving millions will have to be fed'). Many seek an alternative explanation of the farm problem which offers more hope, the most commonly chosen scapegoats being the arbitration court-tariffs-inflation complex, the predatory 'corporation farms', and the lack of 'organized marketing'. (I do not mean to imply that these alternative explanations offer easy solutions, but clearly it is easier to alter, say, tariff policy than it is to raise the elasticities of demand for food or to stop productivity increases).

The ostrich attitude can perhaps be illustrated by the fate of a widely-publicized residential school at U.N.E. in 1968 on 'Adjustment Problems in Australian Agriculture', aimed largely at farmers' parliamentary representatives, and grower organizations. Amongst the 61 attending, only one political party (Labor) was represented, by one man, and three grower organizations, two in wool and one in sugar, sent a total of five delegates. A similar conference for farm leaders which I organized in Melbourne in 1962 probably helped to put them off [9].

In fairness, it should be added that, to my knowledge, all political parties except one have made recent approaches to groups of academic economists seeking objective analysis on agricultural policy issues. The exception, ironically, is the Country Party.

It is understandable that the economists' gloomy account of the farm problem, when it is not ignored, should arouse antagonism, and be branded as 'defeatist'. It is not so long ago that couriers bearing bad tidings were, on occasions, executed. The economists' diagnosis, prophecies and prescriptions are interpreted by many as an attack on a hallowed set of values, verbally enshrined in phrases like 'the family farm' and 'sturdy independence'. As Mr Al. Grassby, M.H.R. for the Riverina warned recently, 'People won't vote themselves out of existence'. I found that a recent gathering of farmers was not unanimously amused by my story that a U.S. economist had done a light-hearted extrapolation of the fall in the number of U.S. farmers and the proliferation of agricultural economists, and had found that the economists would outnumber the farmers in a few decades.

Another reason for the economists' lack of credibility is that farmers, and city-dwellers too, find difficulty in reconciling their prophecies and predictions with the flood of material from the mass media about 'The Population Bomb', and 'The Starving Millions'. Even before 'The Green Revolution', there was good evidence that the less developed countries *could* expand food production as fast as population. But quite apart from this, until there is more evidence of progress in increasing purchasing power in the less developed countries, Australian farmers would be well advised to regard increased demand from these sources as potential only. They might help realize this long-run potential by pressing for more Australian development aid. I have heard some wheat farmers complain that they are suffering from Asia's recent agricultural success. But this success, if continued, should eventually result in a large Asian market for Australian farmers, as Japan has exemplified.

Farm leaders and rural politicians naturally are reluctant to publicly endorse the economists' diagnosis of the farm problem, with its flavour of historic inevitability, when there are more palatable explanations that are reasonably plausible. The most popular explanation of the 'cost-price squeeze' in Australian agriculture is that it results from inflation, instigated by an irresponsible Arbitration Court and a suicidal tariff policy. This is linked with the proposition that everybody else can pass on cost increases on the local market, whereas farmers sell on an unprotected world market. The index of prices paid by farmers is compared with the index of prices received, and it is shown that the farmers' terms of trade continually decline, with costs rising and prices received barely holding. From this it is deduced that inflation is the root cause of the problem. This is a relatively optimistic conclusion, since it is conceivable to do something about inflation.

There are cases where the magic of numbers brings about a suspension of commonsense. Farm costs reflect the general price-level—they are moving up at approximately the same rate as the Consumer Price Index. The critical point is not that costs (i.e. all other prices) are rising, but that the prices paid for farm products are virtually the only prices that are *not* rising. This, of course, reflects consumers' valuations and productivity trends. To identify rising costs rather than lagging prices as the problem, with its implication that the rest of the army should get back into step, is to divert attention from the real causes.

That anonymous economist 'Eccles', who recently commenced a weekly exercise in agricultural policy extension in the *Financial Review* (written by 'A Modest Member of Parliament') may get around to debunking the inflation diagnosis. It could be pointed out that we are certainly inflating no faster than most other relevant countries,[2] and that our non-agricultural exports (minerals and manufactures) are coping very well with our rate of inflation. This suggests that our agricultural exports are in increasing trouble because they are agricultural, not because they are exports. Many manufactures selling locally are also subject to a cost-price squeeze, which they are meeting through productivity increases [12]. This is hardly surprising when it is remembered that our rising living standard implies that wages, which are the major cost item from the producers' viewpoint, are rising faster than consumer prices. In this situation a cost-price squeeze is general. Furthermore, it is rather unrealistic for farm leaders to imply that our wage levels should be held down to what our farm export industries believe they can afford to pay. After all, our balance of payments position is certainly not critical; farm export industries employ under 7 per cent of the work force; and what they can afford to pay is geared to a world farm problem stemming

[2] Over the ten-year period ended December 1967, consumer prices increased by 57 per cent in Japan, by 39 per cent in France, Italy and Sweden, by 30 per cent in the U.K., by 28 per cent in New Zealand, and by 23 per cent in Germany and Australia. The only major trading nations which managed to restrain increases in consumer prices more successfully than Australia over this period were Canada, with a price increase of 20 per cent over this ten-year period, and the U.S. with 17 per cent (I.M.F., *International Financial Statistics*, 23(3), March, 1968, p. 33). In 1968 and 1969 our success in containing inflation was certainly better than average.

from the fact that there are too many farmers. The sort of price stability needed to bolster marginal farmers would almost certainly involve massive unemployment.

Obviously, most farmers would benefit from less inflation, and it seems likely that the economy generally, as well as farmers, would benefit from lower tariffs. Nor would I deny that attacking inflation enlists allies, and provides good public relations copy in promoting the proposition that it is 'fair' that farmers should be compensated, so that they can share in our increasing affluence. But it is important that farm leaders should not be confused by their own propaganda. Many of them genuinely do not understand that you cannot simultaneously set agricultural prices which provide 'fair' incomes, including compensation for inflation, and also expect prices to do their job of attracting labour and other resources to where they are needed, from where they are not needed. The price system, as a means of allocating resources, is admittedly very imperfect. But it becomes even more muddled if it also has to take account of welfare considerations in income distribution. These considerations surely must be handled separately, by taxes, pensions, grants etc. *on an individual basis.* You cannot do 'justice' to an industry.

In recommending direct payments to individuals in cases of acute rural hardship, in preference to industry-wide subsidies which largely go to the rich, it could be argued that the criteria used should not in fairness, depart too far from those applied to urban poverty. However, the fact that many poverty-stricken farmers are controlling important national resources which urgently need reallocation, could justify more generosity in rural welfare measures, on efficiency grounds.

Farm leaders would have a reasonable case, on both equity and efficiency grounds, if they sought policies and forms of aid which would speed up the necessary structural adjustments needed in agriculture, such as farm reconstruction and retraining schemes, and transferable quota schemes in some industries. The economists have been suggesting this for decades. However, it would be unrealistic to expect the initiative for reconstruction schemes to come from farmer organizations, since they stand to gain more for their general membership by using the poverty fringe as a justification for general industry assistance. For the same reason, and despite the efforts of the Minister for Primary Industry, the State Country Parties are also unenthusiastic about reconstruction, particularly as this is likely to mean less farmer votes and may adversely affect businessmen in country towns. Perhaps the poorer farmers need a separate organization to represent them, if they are to avoid being used. Some farm leaders are slowly coming to appreciate that the restructuring of agriculture is a necessary complement to measures aimed at hastening the discovery and adoption of improved techniques. Farmers must be brought to realize that, with increasing productivity, and no change in the number and size of farms, the benefits of technical progress will largely accrue to consumers, and to those producing storage facilities for unsaleable products. Whilst it will be open to the *individual* farmer to produce his way out of the cost-price squeeze, and many are successfully doing so, it will not be open to *all* farmers, particularly in those industries facing problems of market access.

The lightly-protected farm industries could base a reasonable case for aid on 'The Theory of Second-Best', as discussed recently by Gruen [7], seeking offsets to tariffs and to restraints of trade in secondary and other primary industries. Compensation for tariffs is certainly more defensible than compensation for inflation. One of my main reservations about a wool subsidy based on these grounds would be the terms-of-trade effect, in a country which supplies about 40 per cent of the world's apparel wool.

Of course, if farmer organizations did drop the inflation argument, and switched the basis of their case, they should and would continue to fight inflationary pressures, excessive tariffs, and restrictive practices. The increased vigour recently displayed by the farmer organizations in fighting high tariffs, and the sensible and courageous new look at the Tariff Board, offer glimmers of hope. But farm leaders and economists advocating lower tariffs and devaluation have to contend with the formidable political obstacles to rapid tariff revision, and the absence of a pressing balance of payments problem with which to justify devaluation.

There remains a considerable number of farmers and some farm leaders who are convinced that the problem is lack of 'organized marketing'. The continued incantatory use of this term, together with 'average cost of production' suggests that we are still 'in stage one of the production function' as far as policy extension is concerned. Economists in Departments of Agriculture confine their extension work to farm management, though there are a few who risk being controversial by seeking to explain to farmers, through meetings, courses and newspaper articles, the economic facts of life about agricultural policy. Some academics take opportunities when they come, such as when invited to address farmers, to debunk average-cost-of-production and to explain the limitations of 'organized marketing' as we know it in Australia. However, there are few aggressive publicists in the profession, unfortunately I believe. The activity is time-consuming, does not increase the chance of getting industry research grants, and, I suspect, has little status. Publicly attacking average-cost-of-production, and some of the more extravagant claims for organized marketing, is regarded by many academic agricultural economists as a little like fishing with explosives or shooting sitting ducks.

The Merino Export Ban

The debate on the export of merino rams is one of monumental unimportance, from a national viewpoint, except that it provides further illustrations of widespread economic illiteracy in influential circles. One particular set of propositions requires special consideration, since they betray a remarkable ignorance of the process of price formation and some weaknesses in logic, and because they have important policy implications far beyond the merino embargo. I refer to the arguments below, which are extracts from the Australian Wool Board's 1968 *White Paper on the Embargo on the Export of Merino Sheep (Summary).* The *White Paper* summarizes both *pro* and *con* arguments, and the *pro* arguments below are those used by the Australian Wool Industry Conference (A.W.I.C.) to justify its recommendation to relax the embargo.

(1) 'Relaxing the embargo would be likely to help ensure the future

stability of the Australian wool industry by increasing world production of apparel wools, thus taking advantage of existing opportunities while restricting the scope of other fibres to exploit available markets . . .'

(2) 'The total market for wool and wool-type fibres is expanding much more rapidly than the rate of increase in world wool production. Twenty years ago wool held 13·5 per cent of the world textile fibre market; today it holds about 8·5 per cent. If present trends continue, wool will become a minor raw material no longer able to influence the stability of the wool textile industry. It is in Australia's interests to see that the likely increase in demand for wool, through increasing world population and improving living standards, is met. If not, its place could be taken by other fibres.'

(3) 'Lifting the embargo is unlikely to influence the price of apparel wool because any increase in production achieved through this action would be gradual. In the long term, however, ability to hold wool's price would be assisted by increased availability of supplies which would influence the stability of, and the continued use of wool by the wool textile industry . . .'

(4) 'While demand influences price, the supply/demand relationships for wool as an international commodity are not highly elastic. Short supply does not necessarily mean high price, just as adequate supply does not necessarily mean low price . . .'

Let us commence by concentrating on the global situation, before later suggesting that what might be good for the 'world woolgrower' would not necessarily be good for the Australian grower. It is almost embarrassing to have to make the following obvious points.

The notion that wool has been losing its market share over the past 20 years by default, and that synthetics have stepped in to meet the 'short-fall' left by wool, ascribes an absurdly passive role to synthetics. It ignores the explanation that, for certain end-uses, synthetics and blends were developed which manufacturers regarded as a better buy at the prices then ruling. Had world wool output increased at a rate sufficient to maintain wool's market share, world woolgrowers would have had to take a much lower price. Admittedly, the growth of synthetics would have been slowed somewhat. But the expansion of world output would have involved some increase in costs and would have depressed price; hence it is not clear that world woolgrowers would have had higher net incomes. Wool production is not an end in itself. Surely growers would prefer a goal of maximum net income for producers to a goal of maintaining wool's share of the fibre market.

The vague references in (3) and (4) imply that there would be no effect on price of increased world supplies, or that it would be insignificant. The reference in (2) to increased demand for wool through increasing population and living standards may be meant to suggest that these factors will outweigh any price-depressing effect of increased supplies. This may be true, but it is irrelevant to the question at issue, which is: 'Would increased supplies depress the wool price, *ceteris paribus?*' To farmers, the question might be better put in the form: 'Would increased supplies depress the world price below *what it would have been* without the supply increase?' Scientists and economists almost instinctively employ this method of disentangling the effects of particular variables. Indeed, starting with *ceteris paribus* and gradually relaxing the assumption is basic to logical thought. The absence of such disciplined thinking among farm leaders probably leads to more misconceptions than the lack of knowledge of elementary economics.

In (3) there is an implication, later retracted, that there could be a 'gradual' price-depressing effect. Clearly, the effects of lifting the embargo would be small and distant, but this applies exactly as much to the claimed advantages as to the disadvantages.

In (4) the propositions are either truisms or wrong. The vague first sentence seems to suggest that an inelastic demand for wool means that increased supplies will not greatly depress price, which of course is the reverse of the truth. The proposition that 'adequate supply does not necessarily mean low price' is meaningless without a definition of 'adequate', and is an irrelevant truism if it relies on the possibility of increased demand coinciding with 'adequate' supply.

Central to the fallacy is the idea that there has been and is a growing 'shortfall' in the wool market which synthetics will pre-empt. (The term 'shortage' is avoided, presumably because it would sound too implausible with wool prices at their current low levels). This has been a general view often advanced by Wool Board spokesmen, quite apart from the embargo on ram exports. What is surprising is that many of the supporters of this line were strong opponents of the Reserve Price Scheme, and their statements during that controversy lead one to expect that they must be aware that there can be no such thing as a shortage or a surplus in the 'free auction' system they admire. They have pointed out the advantages of having a price which is free to move to bring demand and supply into equality, with manufactures able to buy all they wanted at the equilibrium price. How then can they believe that those manufacturers will be willing to buy more *at the same price*, if it is made available? Furthermore, how can they fail to understand that if the anticipated 'likely increase in demand for wool' causes demand to exceed supply at current prices, a much-needed price rise will occur; and that this price rise would be reduced or eliminated if they achieved their stated aim of boosting world supply by improving genetic efficiency in other wool growing countries? True, the price rise would be accompanied by a further loss of wool's percentage share of the textile market, but is this statistic as important as the level of growers' incomes? The *demand* for wool would not have fallen, relative to synthetics, only the *consumption* of wool, which is a distinction apparently not understood by industry leaders.[3]

Without confusing growers with demand-and-supply diagrams, it should be possible to convey the following essential points. Wool has very many end-uses and faces different degrees of competition in each.

[3] Further evidence of confusion about how prices are formed is provided by the angry puzzlement of wool leaders when wool prices are falling at the same time that consumption (which they term 'demand') is rising, as has happened recently. Conversely, they are pleasantly surprised when prices rise at a time when consumption is declining, but both sets of events are regarded as 'contrary to the laws of demand and supply'. Surely it should be somebody's job to explain to wool leaders who are after all grappling with complex economic problems, the difference between a shift along a supply or demand schedule and a movement of the schedule.

With world wool production increasing only slowly (by less than 1 per cent per annum over the past decade) wool supplies are, in a sense, being 'restricted' to buyers who 'really want wool', in the sense that, for the particular end-uses in which they were interested, it has advantages which make them willing to pay certain prices. If more wool is produced, it must be sold in end-uses in which wool's advantages are marginal or non-existent, and the increased supplies will only be cleared at lower prices than would have otherwise been achieved.

We could make more sense of the Wool Board line, that additional wool production is urgently needed, if we assumed a highly elastic world demand for wool. If wool and synthetics were near-perfect substitutes in all end-uses, any reduction in world wool supply would be taken up by synthetics with little or no price change, and an expansion of wool supply could occur with little or no price penalty. But the Wool Board can hardly take refuge in this assumption, since it has claimed that wool promotion has 'broken the nexus' between wool prices, and synthetics prices; i.e. decreased the price elasticity of world demand for wool [1]. In any case, the statistical evidence would preclude us from assuming an elasticity greater than 1·0.

Shifting attention from world woolgrowers to Australian woolgrowers, and still retaining the unlikely A.W.I.C. assumption that world production would be significantly increased by relaxing the embargo, brings us to the strange proposition that Australian farmers would obtain higher prices for their wool as a result of growers in other countries producing more of the high quality wool which makes up most of our clip. How this could occur is a matter for wide-eyed conjecture. Making the fairly safe assumption that the world price elasticity of demand is less than 1·0, it follows that an increase in supply would tend to lower gross income from wool, and therefore lower net income from wool, on a world basis, even if the extra production were *costless*. Australian growers would clearly fare even worse if overseas growers increased their output of fine wool relative to ours: they would receive a lower price with less benefit from extra sales.

Not only is the reasoning from the assumption incorrect (i.e. the assumption of an increase in world wool supply); the assumption itself is very suspect. The evidence of the geneticists and sheep husbandry specialists removes any firm basis for believing that other woolgrowing countries would significantly improve the quantity and quality of their clip, even over decades, as a result of our lifting the embargo on ram exports. As the Wool Board's *White Paper* says:[4]

All of the genetic 'ingredients' that went into the development of the Australian Merino are available to other countries. There is now adequate knowledge of ovine physiology and genetics to allow any country to evolve quickly a Merino type of sheep suited to that country's conditions, should it wish to do so . . . It is doubtful if the type of Merino available in Australia would be widely popular in other countries; any overseas demand would be extremely selective . . . It is doubtful if the established patterns of land use and of animal husbandry in other countries would be changed quickly in response to the lifting of the embargo . . . Only the southern parts and some of the high-lands of South America could be regarded as classical 'Merino country'.

[4] *Op. cit.*, pp. 3-6.

It seems that our comparative advantage in wool rests on a combination of genes, climate, relatively cheap land and large farms, and management skills. Both sides in the debate manage to use this argument when it suits them, the A.W.I.C. supporters to show that the effects on the prices of wool and local flock rams would be negligible, and the retentionists to show that the effect on world wool production of lifting the embargo would be negligible.

It is important to discredit the A.W.I.C.—Wool Board argument for increased wool production, since it is also quoted in support of Closer Settlement and extravagant tax concessions for rural development. The Victorian Minister for Lands recently used the argument to demonstrate the urgency of developing the Little Desert. Of course I am not arguing against increased wool production *per se* (though we would doubtless benefit if other countries restricted their production). I am arguing:

(1) that Australian growers in aggregate will benefit from an increase in Australian production only if it is obtained so cheaply that it is profitable even after allowing for its price-depressing effect; and

(2) that this terms-of-trade effect should be recognized in government policy towards the wool industry. The evidence suggests that a 10 per cent increase in Australian supply would depress the world price by at least 3 per cent, *ceteris paribus*, even making the most optimistic assumptions about long-term world elasticities of demand and supply.

The arguments of those seeking the retention of the merino embargo are just as unconvincing. In particular, the 'Selling our National Heritage' bogey is a mixture of amateur genetics and emotional sloganizing. And it is most unlikely that farmers' costs would be significantly raised through higher prices for flock rams [11]. The recent intervention of the A.C.T.U. in support of the retentionists has added to the uninformed participants in what is essentially a highly technical issue.

On what is currently known, it would seem that the *insignificant* national losses through a lowered wool price, which would result from the *insignificant* increase in world wool supplies, could well be offset by two factors:

(1) a possible *quid-pro-quo* contribution to wool promotion and research by some South American countries; and

(2) profits to Australia from the sale of rams. Animal geneticists believe that top rams generally bring prices well in excess of their value-in-production. If overseas buyers are willing to pay prices for our rams which reflect an artificial scarcity value and an exaggerated idea of the benefits they can confer, we should be happy to take their money.

There is also the 'fair play' issue, which should be considered by those farmers whose attitude is determined by the possibility that they might have to pay more for flock rams if the embargo is lifted. To prevent any producer group from exporting in order to buy more cheaply from them is just not 'mateship'. True, the partial or complete lifting of the embargo would result in some slight re-distribution of income in favour of stud owners and against buyers of stud rams, including local buyers of flock rams. However, if political considerations required it, this redistribution could be avoided or reduced by a tax on rams exported.

Farmer-Financed Promotion

There seems to be considerable confusion in the minds of some farm leaders on the subject of promotion of farm products, financed by producer levies. Agricultural economists have outlined the conditions under which such expenditure might provide farmers with a net benefit and have warned that most of the profitable promotion opportunities belong to processors and retailers rather than to farmers [3, 10]. I doubt that such warnings have been heeded or even read. I also doubt that farm leaders advocating promotion and most marketing boards spending growers' money on this activity, understand the economic criteria on which a decision to promote should be based, and by which the completed campaign should be evaluated.

To judge on published claims about the 'proved' effectiveness of wool promotion [1] the Australian Wool Board seems to be ignorant of evaluation procedures.[5] This is disappointing, since the Board has access to advice from International Wool Secretariat economists competent in this field. I am not denying that wool promotion may very well be profitable to growers, but false 'proofs' should not be allowed to cloud the judgement of those making decisions on future levels of promotion spending.

Much less likely to help farmers is the recent move to promote lamb, especially spring lamb, on the *local* market. (Promotion overseas is much easier to justify). Clearly one of the main characteristics favouring 'promotability' is that the product promoted must have close substitutes, from which customers can be diverted. I am not aware of any evidence to suggest that there are close substitutes for meat, in the minds of Australian consumers. The particular types of meat—beef, lamb, chicken, pigmeats, are fairly close substitutes for each other, to judge by consumers' responses when one type of meat becomes more expensive relative to others. However, the fact that aggregate meat consumption seems to be rather unresponsive to price suggests that meat has no close substitutes.

One can envisage a situation in which say lamb producers spend heavily to induce a rise in lamb consumption, at the expense of beef, chicken, pigmeats etc. The other producer-groups then react with similar expensive campaigns, by which they regain their market, but with little

[5] The evidence presented is that fine wools have fallen in price by less than synthetics over recent years, and now sell at a premium over synthetics. This is true, but there is no justification for attributing this premium to wool promotion. Synthetics prices have also fallen relative to cotton and silk, but nobody would claim this is a pay-off from cotton and silk promotion. Further, the fall in the price of synthetics relative to wool has been going on for decades, and far predates the big increase in wool promotion. Obviously, the price you get for a product depends on how much you put on the market. Synthetics production increased greatly and to get this extra output consumed, the price had to be reduced, by competition between producers. In evaluating promotion, movements in consumption as well as price must be considered and wool consumption has, of course, fallen steeply relative to synthetics. (This is yet another example of confusion between shifts of and movements along demand curves).

or no increase in total meat consumption, the main beneficiaries of the exercise being the advertising firms. Even if total meat consumption rises, the point remains that unless people have been promoted into eating more food, this increase will have been at the expense of other foods, which may then start their counter attack to restore the *status quo*. We could end up with an across-the-board food promotion campaign; with the farmers paying the bill, at a time when they can ill afford it.

The recent decision to concentrate on promoting spring lamb in the export season may seem sensible, since cheapness can be used as a selling point. However, in the case of lamb, the pay-off to producers will come from diverting sales from export to the higher-price local market. But in the export season, local prices are around export parity. This means that if lamb promotion did succeed in raising home consumption, say at the expense of beef, it would yield no profit to lamb producers but possible losses to beef producers.[6] Local lamb promotion could conceivably yield a net profit to producers, if it were timed to reduce the length of the export season, at either end. Promoting at the peak of the export season would be pointless, except for any lagged response it might have. Of course, an increase in local demand for lamb outside the export season would raise producer prices, but would probably be more difficult to achieve.

Land Policy and Tax Concessions

For years agricultural economists have been attacking Closer Settlement in already settled areas, and querying the national urgency of opening up new land. [4, 5, 8]. The pioneer belief dies hard that progress can be equated with the plough, that virgin land and any trees thereon stand as a challenge to right-thinking men, and as a symbol of wasteful neglect of God-given resources. Nevertheless, a trend towards rationality is apparent, though sternly opposed by those rural politicians who have an eye to the electoral appeal of the 'dynamic developer' image. Government-sponsored Closer Settlement is showing signs of grinding to a halt, except perhaps where it can get support from the 'Irrigation Cargo Cult'. This reference provides an opportunity for the inclusion of the following poem by Kenneth Boulding [2] in the Australian literature (apparently, 'hydromania' is also a serious problem in the U.S.A.).

Water is far from a simple commodity,
Water's a sociological oddity,
Water's a pasture for science to forage in.
Water's a mark of our dubious origin,
Water's a link with a distant futurity,
Water's a symbol of ritual purity,
Water is politics, water's religion,
Water is just about anyone's pigeon.
Water is frightening, water's endearing,
Water's a lot more than mere engineering.

[6] Reduced local demand for beef could cause losses to beef producers even at a time when beef was being exported, with the export market theoretically setting a floor under the local price, e.g., when additional beef exports, in excess of the U.S. quota had to be disposed of elsewhere at much lower prices, thus tending to lower the exporters' bidding limits at local auctions.

Water is tragical, water is comical,
Water is far from the Pure Economical
So studies of water, though free from aridity,
Are apt to produce a good deal of turbidity.

Privately-financed new-land development has been expanding rapidly over recent years but happily there are increasingly effective checks on Government-financed or Government-sponsored 'anti-development', at least where the Commonwealth Government is involved.

One would expect that grower organizations would realize that it is in the interests of existing farmers that they take a 'closed shop' attitude to schemes aiming to create more farmers. It is surely obvious that additional farmers would bid up the prices of some farm inputs, especially livestock, and provide extra competition in the sale of produce. Some industry organizations seem to be recognizing this. Dairy farmers' organizations are certainly unenthusiastic about more dairy farmers. Of course they have the example of dairying in the E.E.C. where the latest quip is: 'The only good cow is a dead cow'.

Urban taxpayers are becoming increasingly aware that Closer Settlement, and the opening-up of unpromising new areas, is not in *their* interests either. From their viewpoint, we should concentrate on helping many existing farmers out of their difficulties, rather than creating more potential welfare cases.

Some unsatisfactory aspects of land policy continue unabated, in particular the 'give-away' approach to publicly-owned land. Settlers are commonly 'sold' land at a fraction of its market price, or given highly concessional rentals. Sale of other publicly-owned assets at concessional prices would create an immense public scandal, but in the case of land, concessional prices to a privileged few, often selected administratively, seems to carry no odium. As one example, settlers in Victoria's Heytesbury project, a civilian Closer Settlement Scheme based on dairying, are being charged only land development costs. The value of the virgin land, which is 'thrown in', has been around \$60 per acre. If the lunatic objective of creating 500 new dairy farms is achieved, the total give-away will approach \$6 million, excluding absurdly low interest rates and other concessions.

Tax concessions provide a considerable incentive for the uneconomic development of virgin land, and, perhaps less seriously, of existing farms. As an example, the proposed 'anti-development' of the Little Desert in Victoria probably would have yielded a negative return on capital, before tax, but could have been quite profitable with tax savings included in the evaluation. We are a long way away from a tax system which does not distort investment decisions, to the detriment of national income [6]. Perhaps a completely 'neutral' tax system is neither feasible nor desirable, defining 'neutral' as imposing the same effective rate of tax on all investments. But surely our agricultural tax system needs re-examination. The objective of 'encouraging agricultural investment' which is still used to defend some of our tax concessions, is no longer compelling. To create misallocation costs, as well as a burden on taxpayers, in order to expand output which then must be subsidized a second time, is not obviously desirable. Nor is the tax loop-hole that is created; a loop-hole which many regard as a flagrant social injustice.

Conclusion

A considerable number of influential farm leaders and politicians representing farmers are frequently confused as to what is in the best economic interests of farmers, and how the farmers' interest relates to the national interest, as well as we can judge it. Where farmer and national interests diverge, the farm leaders' duty as an advocate is clear, but nevertheless better policy could result if they had a better understanding of the divergence. I believe I have provided some examples of policies which run counter to both farmer and national interests.

Many of the farm leaders are highly intelligent and dedicated men, who lack the educational background, supporting staff and time to brief themselves properly on complex economic issues. Most of them have the practical man's scorn for a rigorous analytical approach, particularly when it comes up with unpalatable answers. Any policy extension efforts directed towards farm leaders must allow for this hostility as *the* major problem.

Neither the Public Service economists dealing with farmer organizations in policy formation, nor the few economists employed by the farmer organizations, are well placed for this pedagogic role, though over the long run their influence will be valuable. Over recent years many large business organizations have come to accept the necessity of intensive courses in management economics for executives, usually for three to ten weeks. This approach could assist farm leaders towards a better grasp of 'policy economics'. At such courses the learning process would be 'two way'; economists need an understanding of the political constraints on agricultural policy, to devise 'second best' solutions which accommodate those constraints.

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