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## **COMMENTS ON THE BALDERSTONE REPORT: REPLY**

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As members of the Balderstone Committee we welcome the opportunity to reply to the comments made in the August 1983 issue of the *Journal* by a number of distinguished luminaries in the agricultural economics profession on the discussion paper *Agricultural Policy: Issues and Options for the 1980s* (Balderstone Report). To repeat, the Committee saw its task as the preparation of a discussion paper, and the fact that some of the issues and options are still being discussed in the *Journal* indicates that at least that objective is being achieved. Since the various discussants have treated the discussion paper chapter by chapter we shall reply in like vein.

### *Agricultural Policy: Commonwealth-State Issues*

Mauldon, in his comment on Commonwealth-State relationships, made the point that we placed more emphasis than other agricultural policy papers on the role of the states in policy formulation. We would certainly agree with that comment. It was a conscious decision to give that degree of emphasis as a recognition of the importance of the states as action agencies in a federal framework in which agriculture constitutionally resides with the states. However, we did discuss a number of policy issues and options where the Commonwealth government was deemed to hold the initiative. Mauldon takes up three of them, namely rural assistance, marketing and international trade.

On assistance, Mauldon highlights the problem of even-handed treatment of the agricultural industries in different states of the Commonwealth; for example, providing assistance to horticultural and viticultural industries in the South Australian Riverland while not doing the same for Victoria or New South Wales. However, by contrast, Mauldon points out that there is embedded in the constitution an egalitarian value that no area of activity should develop a pronounced disadvantage relative to others. The latter may not be so powerful a concept as the former; witness the movement of dairying from Queensland, Western Australia and South Australia to Victoria, and tobacco growing from Queensland to Victoria.

We would agree that greater regional specificity in providing assistance from the federal government is desirable if the constitutional difficulties could be overcome. Perhaps we are less optimistic about this than Mauldon's (1983, pp. 127-8) quote at the conclusion of his commentary would suggest. If the constitutional difficulties affecting the degrees of freedom the federal government has cannot be overcome, then individual state governments will, directly from their own resources, or indirectly

from federal grants to the states, take their own policy action. This poses jurisdictional problems in defining policy objectives and designing the relevant policy instruments.

On marketing, Mauldon highlights the conflict between the desire for free trade between the states and the alleged need for 'orderly marketing'. Old memories of the role of some of the private merchants in marketing agricultural products die hard but, as Mauldon points out, public control of anti-competitive practices has substantially improved and the rationale for the exemption of some state marketing agencies from trade practices legislation is now much more difficult to justify.

Mauldon reinforces the Group's position that the states, despite the constitutional power that the Commonwealth government has over imports and exports, still exercise—even though indirectly—a substantial influence over international trade. While recognising the financial clout of the Commonwealth government through the special purposes grants, states still have a major role in agricultural policy within a federal system. With the desire to make any policy suggestions implementable the Group consciously addressed the issues and options which might be taken up at the state as well as the federal level.

#### *Agricultural Trends and General Economic Policy*

Lloyd in his comments suggests that the Group showed some complacency with regard to two issues; first, with respect to agricultural productivity and, second, with respect to capital formation on farms. The Group was certainly far from complacent on both these issues and rejects the criticism. A consistent theme of the Report was to choose a set of policy instruments that would improve farm productivity in a changing world. In paras 5.73 to 5.79 increasing capital intensity in agriculture and the measures needed to facilitate that phenomenon are specifically addressed.

Lloyd also suggests we were complacent on international trade issues, in particular that we did not deal with the failure of multilateralism and the dangers to Australia of increasing bilateralism. In reply, we were not hopeful that in the eighties multilateral trade would expand. Page (1981) clearly indicates that since 1974 the share of 'managed' trade in total world trade has increased substantially. We clearly indicate, however, that efforts to free up world trade should continue. But, the realities would seem to be that bilateralism will continue to grow and Australia should not, and could not, stand idly by, seeking multilateral solutions while our competitors shut us out of markets with bilateral deals. Our emphasis would seem to be vindicated by the recent proposed reorganisation of the Department of Trade 'to change the present emphasis of the department on multilateral issues to a more target oriented approach' (*The Australian Financial Review*, 7 March 1984). It is particularly in the area of international trade that one might feel some sympathy with Dell's (1979) proposition that it is arguable that liberal economics focuses almost exclusively on what economists have decided is relevant rather than dealing with the realities of commercial transactions.

Lloyd (1983, p. 129) has succinctly paraphrased our philosophical position in his fourth paragraph but we suggest he is in error in his comment that our 'specific suggestions have aroused some hostility in farmer

organisations'. In fact, the National Farmers' Federation listed some ninety-two specific recommendations. They 'totally agreed' with forty-two, made 'supportive comment' about twenty-seven, gave 'qualified support' to nine, withheld comment on eleven and disagreed on three. It is somewhat ironic that, in other quarters, the Balderstone Committee has been berated for following the National Farmers' Federation (1981) too closely.

Lloyd devotes a substantial part of his comments to the tariff compensation problem, even though it is a relatively small part of our total report. The Group consciously did not focus on a single policy regime since we were influenced by the findings of Just, Rausser and Zilberman (1983, p. 132) that 'the pursuit of a single policy will generally result in a trade-off between efficiency and equity while a combination of policies may attain enhanced efficiency and equity simultaneously'. In the original formulation by Harris, Crawford, Gruen and Honan (1974) and the subsequent debate in this *Journal* (Harris 1975, 1979; Lloyd 1975; Warr 1978, 1979), tariff compensation was couched in a resource allocation/efficiency context. Briefly, the argument was that tariffs distorted relative prices and, assuming that we started from a Pareto efficient situation, would lead to resource misallocation. In raising policy issues and options the Balderstone Committee began with a real world context where there would be incomplete realisation of the Pareto optimal conditions at the start. The Group also gave explicit recognition to equity considerations and a simple taxonomy of policy options can be set up.

- Option 1—Actions which result in efficiency 'gains' in the sense of moving toward Pareto optimal positions and also result in equity 'gains' as income is distributed in a more equitable manner.
- Option 2—Actions which result in efficiency 'gains' but increase inequities in income distribution.
- Option 3—Actions which result in efficiency 'losses' but also result in inequity 'gains' in income distribution.
- Option 4—Actions which result in efficiency 'losses' and increase inequities in income distribution.

Clearly option 1 is a preferred action, option 4 is not, while options 2 and 3 involve trade-offs. The Group's basic philosophy (para. 1.14) recognised that options 2 and 3 would be the most likely situations in practice and attempted to use policy options which reflected their collective judgment on the equity/efficiency trade-off. It is simply incorrect to say that the Group made an 'explicit rejection of the resource allocation argument for tariff compensation'.

Lloyd makes the point that the redistribution of income as a result of policy actions affects individuals and not some amorphous being called an 'industry'. He then poses the question about inequities to purchasers of land in the 1920s—such purchases being made on the then existing set of tariffs, now increased—so capital losses are sustained. For the argument to be symmetrical, should we also include the potential losses for generations yet unborn as a result of current policy actions to give equal treatment to the dead and the yet to be born? Clearly, some time frame is required for policy choices and that time frame need not be constant in all policy contexts. The Group did not have such a constant time frame.

In some contexts, we clearly had the current generation of farmers in mind, in others, for example, the chapter on resource management, we had not only the current generation of farmers in mind but the current and future generations of all users of the nation's resources.

### *Marketing and Trade Policy*

Richardson and Standen summarised the Balderstone Committee's position on the possible legal forms for marketing agencies—co-operative, private corporation and statutory authority. In an aside we were gently chided for our support of the Queensland Graingrowers Association given that organisation's recent liquidity problems. However, it is our understanding that such problems serve to reinforce the Group's preference for a wide range of commercial skills at the board and executive levels for all marketing agencies.

These two authors clearly captured the Group's collective philosophy of identifying 'arguably desirable and potentially obtainable shifts from sub-optimal policy positions'. For any policy adviser the hard choice is often between an optimal (from some point of view) position—which is non-attainable because of various constraints, often political—and a sub-optimal position which is attainable. While 'half a loaf is better than no bread', the latter position clearly poses dangers for professional economists.

We agree with a general proposition in this commentary that the professional contribution to critical analysis of market performance is not great. Marketing issues are often discussed as descriptions of functions rather than specifically assessed on performance criteria. Given the plethora of statutory marketing authorities, and the time constraints, the Group could deal with but a few, and those on a broad basis only. We did not have the universal principle to apply, perhaps mechanically, for every marketing authority. Rather we looked at current institutional arrangements and sought ways of remedying some of the perceived gaps in performance. For the Australian Wheat Board, the Group did see some merit in providing competition in the domestic market as a basis for comparing performance, a recommendation subsequently adopted by the Australian Agricultural Council with the exception of Queensland. The Group's support for the retention of a margin of up to 20 per cent for the domestic price of wheat relative to the export price was highly qualified but Richardson and Standen ignored those qualifications. With respect to the Australian Meat and Live-stock Corporation, the Balderstone Committee did see some marketing deficiencies in the inability of the Corporation to act as a single seller in certain markets.

It is interesting to compare Lloyd's position on multilateral trade with that of Richardson and Standen. The latter have a strong view on 'resource diplomacy'. They suggest Australia should not persist with reliance on GATT but should 'aggressively' combine with other selected commodity exporters in an attempt to counteract the impact of the EEC as an exporter of food and fibre products in third markets. One cannot escape the impression that trade policy as seen by the academic economist may not rest easily with trade policy as seen by those actually engaged in trading.

### *Transport Issues*

The two transport economists Taplin and Gallagher are, in general, supportive of the Balderstone Committee's position on transport issues and options, although they suggest we were longer on issues than on options to deal with the issues. While supporting the Committee's position on the problem of liner conferences *vis-à-vis* the shippers of agricultural exports, they suggested that some of the 'minor' issues as seen by the Committee were 'major' ones, namely charter shipping possibilities, pricing of rail freight services and the possibility of air freight. Taplin and Gallagher argue, convincingly, that the pricing of rail services is more important than revitalisation of Australian shipping on the grounds that only about 3 per cent of Australian exports are carried in Australian flag vessels and that any proposed designation of 40 per cent of such cargoes is a long way off. However, they did not address the question of the level of charges on Australian wharves whether cargoes were carried in Australian flag vessels or not. The two authors deplore the Group's rather weak negotiating stance on freight rates and argue that Australian exporters have been disadvantaged despite their representation on relevant shipping councils.

We are also taken to task for our failure to mention excess capacity in transport, storage and handling systems. It is a little difficult to accept this criticism in the light of our comments about peak load problems (paras 8.61-8.62) but Taplin and Gallagher are helpful in drawing attention to excess capacity in the liner trade. These two authors also broaden the discussion on transport issues beyond those with a purely agricultural dimension to transport policy in general. These comments are a useful addition to those made in Chapter 8 of the Balderstone Report but within the constraints of space and time, the Group, while acknowledging the importance of the issues raised by Taplin and Gallagher, was unable to devote more attention to the particular specialised issues raised by them.

### *Rural Communities: Some Social Issues*

Musgrave, in his comments on some of the broader issues of agricultural policy, namely those involving rural communities as distinct from farms, makes a number of useful suggestions. We agree with the distinction he makes, with respect to the Rural Adjustment Scheme, that the strictly welfare related aspects of the scheme where families self-select should be distinguished from other Rural Adjustment Scheme payments where externally imposed selection criteria are employed.

The difficulties of estimating the net disadvantage of living in relatively isolated areas, which we recognised, are also stressed by Musgrave. Moreover, he is aware that the world we live in is not the 'stable, competitive world in equilibrium' but 'a dynamic, imperfect world which is out of equilibrium' and that cases could be made for assistance to particular disadvantaged groups. This contrast is a recurrent theme in the Report and we cannot accept Musgrave's comment that our discussion is 'couched in static terms'. It was precisely our concern with disequilibria in making policy recommendations in a dynamic world that led us to choose policy options which, in our view, would be acceptable on both efficiency and equity criteria but which would also, in the longer term, increase farm productivity.

The rationale for our stance on the impact of a declining economic base for some rural communities came from a number of submissions from farm supply industries, service industries in rural areas and from direct experience. We agree that the linkages between farm and non-farm sectors are inadequately researched and, particularly in the context of regional problems, for example, the Riverland area of South Australia and Victoria, are deserving of greater research effort in the profession.

Musgrave is correct to point out that the linkages farm/non-farm are symmetrical and do not run unilaterally from farm to rural community. We accept that improvements in roads, transport and communications have all had an impact on farm living even though the result has been the decline of the smaller country towns and the rise of larger urban regional centres with a fuller range of social amenities. However, our brief was predominantly farm oriented and as such we may have focused on the effect of changes in agriculture on adjoining regions to the relative neglect of the other factors mentioned above.

#### *Agricultural Policy and Innovation*

Longworth takes us to task on a number of issues, occasionally with justification. The first comment concerns underwriting schemes and we are criticised on two counts; first, we had 'nothing of substance to say about the detailed operation' of such schemes and, second, we 'did not pass judgement' on them. Whether our comments were of substance is a moot point but a number of important operators in the field have commended the section on marketing. For example, John Elliott (1982, p. 27), Managing Director of Elders-IXL, commented:

Although some have argued that the Report is not radical enough, if the government were able to implement most of the important recommendations over the next three or four years we would have a fairly radical change in Australia's agricultural policies. I see the marketing section of the Report as a breath of fresh air, and I have not heard one adverse remark from those who work in marketing agricultural products.

We reject the second criticism outright. We have stated in para. 5.34 that 'The Group supports the principle of underwriting schemes'.

Longworth's next comment related to what he saw as the lack of detailed comment on measures designed to reduce farm input costs. In particular, he commented that the Group did not seem aware that the fertiliser subsidy could be shared between manufacturers and farmers. In a footnote Longworth stated that the Group 'claimed that *all* (his italics) of the tractor bounty should be treated as assistance to manufacturing (para. 5.59)'. We can accept neither of these criticisms. The logic of para. 5.52 in extending the fertiliser subsidy to imported fertilisers was that such an action would facilitate more of the subsidy going to farmers than to manufacturers, by providing some additional competition from imports. On the tractor bounty, the point was made in para. 5.56 that farmers would benefit if the bounty lowered tractor prices although in para. 5.59 the distribution of the bounty between farmers and manufacturers is not mentioned. However, in para. 5.59 it is stated that 'To the extent that the Government wishes to maintain a local tractor industry then continuing the bounty appears to be necessary'.

On a number of other options which have the effect of reducing input costs, Longworth felt so strongly that he took us to task for not pouring 'enough cold water' on some of them. This comment is of a piece with the statement that we were not radical enough. Obviously, Longworth has his own held views about policy issues and options and would act, given the authority to do so, to produce considerable structural changes in agriculture. Our more gradualist approach clearly did not appeal to him, but, as Standen (1983) pointed out in his Presidential address, gradualism may well be more effective in achieving policy changes than the more radical restructuring that Longworth clearly favours.

Longworth reserves some of his strongest language for the comments on rural research and its funding. The decline in real terms of Commonwealth and industry funding has been offset by increased expenditure by the states. This is not merely a 'claim' by the Group but a matter of fact. Longworth takes a pessimistic view of the likelihood of this continuing and intrudes a political view that state Labor governments in all but two states will not continue funding on this level although the evidence for this position is far from clear.

Longworth was suffering from a 'drought syndrome' in saying that proposals for increased industry funding for research would have little support in the bush 'given the parlous financial state of many farm businesses'. In reply, we can simply point out that, at the time of writing the Report, the research levy on wheat growers was 25 cents per tonne for a commodity whose value was then approximately \$180 per tonne and is currently approximately \$150 per tonne. Moreover, since then wheat growers have raised the research levy to 30 cents per tonne while growers in South Australia have raised additional levies for research without any additional federal funds.

There appears to be a little special pleading in Longworth's commentary for more funds for research, particularly economic research from the Australian Meat and Live-stock Corporation, for universities and for CSIRO. While individual members of the Balderstone Committee would undoubtedly agree that universities should have more funds for research, both rural and non-rural, the collective view of the Committee would be that all institutions undertaking rural research should be assessed on performance criteria and that accountability to the agricultural industries needs to be strengthened by a wider range of skills on research allocation committees, in particular, by greater farmer input into setting of research priorities in applied research in agriculture.

The Balderstone Committee gets some left-handed compliments about the extension issues and options. Longworth comments that it 'would be difficult to quibble with our extension suggestions'. He then goes on to castigate us for not disaggregating farms into fewer categories to be target extension groups and for failing to recognise the social welfare aspects of extension. The process of disaggregation is a research task in itself and was beyond the Committee's terms of reference and the time frame for reporting to the Minister for Primary Industry. Whether extension agents should be agents for social change with the implied need for counselling skills is largely related to the particular agricultural industry. In some regional areas, the social problems of adjustment may outweigh the technical problems of inefficient management, small farm sizes, inadequate demand for the commodity, and environmental problems (such



as salinity) but clearly such areas are relatively small in the total agricultural picture while obviously important in a regional sense.

Longworth again comments on our apparent conservatism, 'as with research and extension, the Group was reluctant to make controversial suggestions (on agricultural education)'. We cannot accept this label. On research we supported a universal levy on farmers' incomes to fund research and farmers paying for some types of extension advice, both of which suggestions have produced some debate. On agricultural education the Group did suggest that existing resources were inadequate at the level of farmer training but to suggest a 'national enquiry into post-tertiary (did Longworth mean post-secondary?) agricultural education' would seem merely to re-cultivate ground already ploughed, harrowed and seeded by a number of such reviews at the state level.

### *Agricultural Resource Management*

Dumsday opens with a broadside at the agricultural economics profession for its failure to come to grips with some of the 'real world' problems of resource use. The Balderstone Committee does not escape criticism in this context despite its basic approach of attempting to delineate resource management problems and possible ways of solving them. The Group was well aware of the debate about 'polluter pays' and 'user pays' in environmental economics and perhaps even more aware of the debate about the policy implications of these principles which are themselves not unambiguous. For example, one version of the polluter pays principle would be to fix a charge for the use of the resource (air, stream) and have potential polluters react to this charge by adjusting pollution levels in some optimising manner. Another version would be to fix the total amount of pollution to be allowed and to auction pollution 'rights' to determine a price for such rights. The two versions do not necessarily produce the same outcomes and, in an uncertain world, a trial and error approach may be very costly.

The Group was also aware of Coase's (1972, pp. 127-8) view that 'the failure of economists to reach correct conclusions about the treatment of harmful effects cannot be ascribed as simply due to a few slips in analysis. It stems from basic defects in the current approach to problems of welfare economics'. As practising members of the profession, we must express some unease as to why the enunciation of simple guidance principles in the resource management area has not resulted in them being widely taken up by the policy makers. There is still a substantial reliance on legislation and it was in this context that we argued for greater participation by both state and Commonwealth governments in the area of resource management.

However, we did emphasise (paras 10.14-10.17) that better farm management techniques, many of which would benefit individual farmers, should be encouraged by the extension services of state departments responsible for agriculture. Reliance should not be placed solely on large public works programs to mitigate environmental evils (such as erosion, salinity and flooding) but clearly such programs would contribute to better use of the nation's resources.

Dumsday makes an important point in linking soil and water. South Australians who live at the lower reaches of the Murray do not have to be

made aware of water quality problems. However, Dumsday seems to be of a different view on the funding of soil conservation measures. Our view (para. 10.16) was that, to the extent that an individual farmer will benefit from conservation, he should bear some of the costs. This is not to say that a one-to-one correspondence between benefits and costs should exist; indeed our view was that state assistance in this area should be one of the instruments used in achieving the increases in farm productivity which the Group saw as essential for an efficient Australian agriculture. In Dumsday's view, the carrots of economic incentives offered to farmers to undertake soil conservation are not appropriate and, drawing on US experience, he states 'It is time to place more emphasis on coercive measures to control land degradation and its associated pollutants, largely salt and sediment'. Whether US experience, in both soil conservation and water use, translates directly onto the Australian federal scene is a moot point but the Committee's view would be that incentives should be offered before consideration is given to introducing coercive legislation.

On the issues of quarantine, Dumsday shared our concern about the allocation of resources to pest and disease control. The issue of the likely role of the Australian National Animal Health Laboratory is still clouded, with the scientists still in disagreement on basic scientific issues. On land use and animal welfare issues, Dumsday is reasonably supportive but his propensity for coercion is further revealed with his view that in the animal welfare field voluntary systems will have to give way to mandatory regulation.

### *Concluding Comment*

We would like to thank all of the commentators on the discussion paper and we are happy, in the interests of public debate on agricultural policy issues, to accept the brickbats as well as the accolades that have been directed at the Balderstone Report.

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