THE IAC'S APPROACH TO AGRICULTURAL POLICY*

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The main recommendations contained in the IAC's reports on rural references are outlined. The Commission's reasoning on four issues that are widely viewed as important to the formulation of rural policy is examined. The four issues are: assistance to industry; terms of trade; uncertainty and instability; and adjustment policy. Criticisms are made of the IAC's argument on these issues, and some inconsistencies between reports are indicated. It is concluded that the IAC has made a valuable contribution to the discussion of rural policy in Australia even though its recommendations are sometimes sounder than the argument offered to support them.

The Industries Assistance Commission (IAC) has now released reports on more than 30 references concerned directly with agriculture. It is not too soon, therefore, to take an overall look at the IAC's work in the agricultural policy area.[1] Reviews of this type should, I suggest, be seen as an essential part of the 'public scrutiny of the process whereby governments decide how much assistance to give to different industries'. Such scrutiny was given as the 'first and most important reason for establishing the Commission' (Whitlam 1973, p.1632).

My approach will be to start with a broad classification of the reports and a description of the IAC's *recommendations.* Attention will then focus on the *reasoning* contained in the reports. Some might argue it is only the recommendations that influence policy and that the supporting argument is irrelevant. However, the outcome of the evaluation procedures that occur between the time a government receives a report and the time it makes a decision can be influenced significantly by the argument in the report. In his report on which the IAC legislation is based, Crawford (1973) was forthright on the need for the Commission to give '. . . full and clear explanations of the reasons for (its) recommendation'. Failure to meet this requirement in its reporting would mean that the Commission 'will contribute little to the decision-making process' (p.4). The IAC itself has said it views as an important task the improvement of community understanding of industry assistance in all its forms and of ways of reducing the costs of assistance. Logic and clarity in reporting would appear to be essential to this.

The IAC is not a monolithic body. The rural reports mentioned in this paper were signed by a total of 29 commissioners, including 19 associate (external) commissioners. Two people (Lloyd and Mauldon) have occupied both roles. Mauldon's name appears on more rural reports (14) than that of any other commissioner. Boyer and Rolfe (6 reports each) share second ranking. But, even if quality differences are disregarded, big

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[1] See Mauldon (1977) for an interesting, primarily descriptive, account that precedes this one.

differences in the size of reports and differences in the number of commissioners assigned to individual references mean that the inputs of individuals to the policy advising process cannot be compared just by counting signatures. No systematic attempt is made to answer the interesting question 'can recommendations (or reasoning) be predicted from knowledge of who is conducting an inquiry?' However, the commissioners responsible for most of the reports are identified in the paper; a complete listing is given in the first section of the references.[2] Another interesting question is 'how much influence do IAC *staff* have on reports?' My impression is that this is sometimes considerable, depending on the relative abilities and determination of the commissioners and staff concerned. No further elaboration is attempted.

The Reports

Of the 36 reports examined, 16 were concerned primarily with assistance for products; 11 with assistance for inputs; 2 with assistance for research or promotion; 4 with long-term adjustment assistance; 1 (*Beef*) with emergency situations; and 2 with reducing income fluctuations. Interestingly, 9 of the 36 reports are not oriented to a specific rural industry or a particular input. This contrasts with the almost exclusive industry orientation of IAC reports on manufacturing.

The Recommendations

Product reports. The major recommendations of these reports are discontinuation of the traditional price stabilisation schemes for manufactured dairy products (Crawford*, Mauldon*, Fisk*), dried vine fruit (Boyer, Mauldon*), apples and pears (Boyer, Mauldon*) and wheat (McKinnon, Mauldon, Komoll*).[3] Adoption of the recommendations for these products would mean that world market forces would be reflected much more directly in producer prices for marginal production. For dairy products and dried vine fruit, nationally negotiable quotas were recommended for the domestic market (or domestic plus 'preferred' export markets). The recommendations for these two industries accord with a lynchpin in the conventional wisdom of the agricultural economics profession: resource allocation will be improved and adjustment encouraged by confining assistance to intramarginal production and by pricing marginal production according to its value to the national economy. (The IAC's attitude to the 'second-best' or 'tariff compensation' qualification to this piece of conventional wisdom is discussed later.) The recommendations for wheat would ensure that producer and consumer prices for domestic sales were linked to world prices also, though the proposed 'potholing' scheme would mean that, in the case of producer prices, the linkage would be weakened when world prices fell drastically. In contrast with the recognition of the primacy of international prices in the reports mentioned, the report on sugar (McKinnon,

[2] The presiding commissioner or associate commissioner is listed first. An asterisk indicates associate commissioner.

[3] In an earlier report on dairying, prepared by the same commissioners, the IAC recommended legislation for a levy on dairy products to support whatever system of marketing was agreed upon by governments and the dairy industry. (The Commission, however, preferred a modified equalisation scheme.) The failure of the industry to reach agreement led to a second reference on marketing arrangements.

Harris*, Livingston*) accepted the continuation of stabilisation through equalising producer prices from domestic and overseas sales. The majority approach to changing the domestic price of sugar was to adjust the initial price for movements in costs.

The other product reports dealt largely with small import-competing industries. The recommendations would tend to encourage the lightly assisted potato, olive and mushroom growing industries. The recommended reductions in the high protection for citrus juice and for wine production would tend to reduce resources in citrus growing and in grape growing, respectively. The tomato and almond growing industries could be adversely affected by the importing under by-law of peeled tomatoes and tomato paste and of almonds. Producers of oilseed crops would tend to be disadvantaged by the reduction of protection for the oilseeds crushing industry and the removal of the requirement to colour margarine imports pink; they would tend to gain from the recommended removal of the prohibition of exports of oilseed meal.

Reports on inputs. The IAC recommended that the bounty on superphosphate use be reinstated as an interim measure and in a subsequent report (Pekin, Robinson*, Parish*) that it be paid, at an unchanged dollar amount per tonne, for five years to 30 June 1982. For nitrogenous fertilisers (Rolfe, Robinson*), however, the recommendation was for phasing out the bounty over three years. The different recommendations for the two fertilisers hinged on differences with respect to the 'in principle' and practical relevance of second-best issues. The IAC recommended against assistance for the *manufacturing* of nitrogenous fertilisers (Pekin, Grace*) and superphosphate (McBride, Robinson*).

The Commission recommended phasing down (and rationalisation) of the high effective protection accorded the manufacture of agricultural tractors. Because assistance is given by bounty, this recommendation meant higher costs for tractor users. The recommendation (McKinnon, O'Connor*) that concessional by-law import of most types of self-propelled harvesters be not permitted ('suitably equivalent' Australian machines being considered to be 'reasonably available') will also raise farmers' costs. In *Animal Foods etc.* (Boyer, Collings*), the Commission recommended minimum (consistent with international obligations) rates of duty for imports of animal foods and the removal of regulation of most exports. *Export Inspection of Rural Products* (Lloyd, Brett*, Lang*) contained the recommendation that the Government pay the costs of inspecting meat for export. This meant removal of the meat export charge. In *Brucellosis and Tuberculosis* (Conron, Rolfe), government compensation was recommended until the end of 1983 to owners of cattle compulsorily slaughtered under programs to eradicate these diseases. Two other recommendations may be mentioned here. Negotiability of water rights was recommended in *Dried Vine Fruit*, the IAC considering that this would improve the allocation of water resources and facilitate adjustment. In the report on the citrus industry Mauldon*, Atkin*), the recommendation was made that the Fruit Industry Sugar Concession Committee (which sets minimum prices that processors must pay for fruit to qualify for the sugar rebate) 'report to Parliament the reasons, as well as the bases for its price setting decisions' (p.41).

Reports on financing research and promotion. These reports were concerned essentially with investment in shifting supply and demand schedules. The IAC accepted that the social rate of return from rural research was high and greater than the private return, and recommended that, in general, federal funding allow real levels of research effort to be maintained (Lloyd, Dun*, Melville*). The Commission favoured institutional arrangements that encouraged competition for limited research funds. In this context it viewed the rural industry research funds as an effective application of the customer/contractor principle. Changes intended to encourage the building of reserves by the research funds were recommended. Other recommendations in this report included the creation of an Agricultural Research Committee to advise the Standing Committee on Agriculture on general issues in rural research and a Bureau of Rural Research with functions including improvement of the review of rural research.

In *Financing Promotion of Rural Products* (Lloyd, Brett*, Lang*), the IAC concluded that 'the optimal level of wool promotion is probably considerably higher than the current level' (p.5) and recommended that the subsidy for wool promotion in export markets in the 6 years to 30 June 1983 average about the same in real terms as the subsidy in 1976/77. But it tentatively concluded that, because of its depressing effect on world prices, a subsidy for promotion could not be justified as long-term assistance, and viewed an increase in grower-financed promotion as desirable. For products other than wool the IAC envisaged two possible situations where a subsidy would be justifiable. One was where the tariff compensation argument applied. The other was where the promotion was for a new product or market 'and insufficient promotion would be undertaken by producers in the absence of a subsidy because some of the benefits would flow to Australian producers other than the promoters' (p.69). A discriminatory approach, with the rate of subsidy varying between 25 per cent and 50 per cent of promotion spending, depending on the merits of individual promotion projects, was recommended. Government funding of promotion of rural products on the Australian market was opposed.

Reports on rural adjustment. The IAC has made some obvious and some imaginative recommendations concerning adjustment assistance. It concluded, as have many others, that the provision of reconstruction money at interest rates well below market levels 'has led to long-term concessional finance being built into the notion of farm viability' (*Rural Reconstruction* (Crawford*, Mauldon* and Fisk*) p.4), and recommended that the basic interest rates for adjustment loans be the long-term bond rate. Other important recommendations in *Rural Reconstruction* included: abandonment of the requirement that interest rates be lower on debt reconstruction loans than on loans for farm build-up; build-up assistance should cover adjustment involving any farm resource, not just land; the provision of carry-on finance for viable farmers (and on a limited basis to farmers whose viability is unclear) experiencing temporary liquidity problems; and provision of three forms of assistance for applicants assessed as not viable in farming—relocation assistance, rehabilitation assistance (initially a maximum of $5000 for people with zero net worth, falling to nothing for people with net worth $15 000 or more) and household support equivalent to unemployment benefit for those expected to earn 'inadequate' household income in the next year (payable for one year only).

A novel feature of the rural reconstruction report is that the proposed general Rural Adjustment Scheme (which would incorporate all rural adjustment assistance measures) be capable of recognising situations where special area or industry-specific action was needed. The significance of this proposal was made clearer in a report signed three days after the general reconstruction report, *Fruitgrowing Reconstruction* (Boyer, Mauldon*). That report recommended that 'Area Redevelopment Authorities (ARAs) be established in designated areas to co-ordinate and guide the changes taking place and to influence the rate at which they occur' (p.23). Within areas covered by such authorities, a fruit growing adjustment counselling service was recommended. In contrast with the support for more commercial rates of interest in *Rural Reconstruction*, distinctly concessional finance was advocated for the redevelopment areas (including a holiday from principal and interest repayments for at least three years and use of an interest rate equal to half the long-term bond rate for calculating accrued interest in the first three years of a loan). This finance was seen as an instrument with which ARAs could guide and co-ordinate adjustment, and as much cheaper than government payments for price support; the IAC proposed that these cease for apples and pears and dried vine fruit. ARAs were recommended for the apple and pear growing areas of the south-west of Western Australia, southern Tasmania, and the Stanthorpe area in Queensland and for the main dried vine fruit growing regions of New South Wales, Victoria and South Australia. Discontinuation of the tree-pull scheme was recommended, this being considered unnecessary if the proposed provisions were adopted. The adjustment needs and possibilities for a particular region were studied by the IAC in *South Australian Riverland* (Boyer, Mauldon*) and recommendations intended to facilitate debt reconstruction or re-establishment of Western Australian farmers allocated conditional purchase leases after 1 April 1959 were made in *New Land Farms* (Rolfe, Robinson*). Review of the adjustment scheme criteria as they apply to fruit growers was proposed in *Grapes and Wine* (McBride, Mauldon, Atkins*).

The Report on Emergency Assistance for Beef. This report recommended carry-on finance for producers assessed as viable by reconstruction authorities but in danger of losing their properties because of inability to obtain short-term finance from normal sources. Interest rates consistent with those then extant for the general debt reconstruction program were recommended. The beef report also recommended household support for nonviable producers, subject to conditions the same as those for carry-on loans.

Reports on income fluctuations. In its interim report, *Certain Taxation Measures* (Crawford*, Mauldon*, Fisk*, Hogan*), the IAC recommended an income equalisation deposit scheme to help primary producers cope with fluctuations in incomes. It also recommended retention of the then existing system of income averaging for tax purposes; however, it supported removal of the $16 000 limit on incomes eligible for the averaging benefits. The Government's decision to abandon that system and to apply averaging only when it was to a primary producer's benefit was called into question in *Rural Income Fluctuations* on both equity and efficiency grounds.

Rural Income Flucuations (Lloyd*, Mauldon), is notable more for its attempt to find principles that could guide those considering the need for and methods of 'stabilising' the rural sector than for its specific recommendations. The IAC was wary of arguments that uncertainty was itself sufficient justification for governments to assist agriculture. 'It should not be assumed that farmers' evaluations of the benefits and costs of alternative risk reducing strategies are inadequate or that the social costs of risk reduction could be reduced by intervention' (p.62). However, it concluded that governments could sometimes increase efficiency by helping producers manage their own risks more effectively and, to this end, recommended trial of a variable amortisation scheme, investigation of rainfall insurance and review of IEDs (the scheme that had been introduced favoured high-income producers more than the one envisaged in *Certain Taxation Measures* and, by diverting funds from private sector financial institutions, was considered possibly to reduce their rural lending).

The IAC's Reasoning

In this section I look at the argument used by the IAC in support of its recommendations concerning rural industries. I do not attempt the formidable task of examining in detail the argument in each report. The approach adopted is to choose four issues that have been viewed as important in discussion of rural policy in the past decade and to make a cross-sectional (across reports) examination of the IAC's reasoning in respect of each of them. The four issues are: assistance to industry; terms of trade effects; uncertainty and stabilisation; and issues in adjustment policy. It is not surprising to find that argument on each of these has played an important part in the IAC's advice on rural policy.

Assistance to industry

It is convenient to comment on this issue under two headings: positive analysis and normative arguments.

Positive analysis. The need to look beyond the direct effects of economic events and policies to general equilibrium ramifications, emphasised in IAC annual reports, has sometimes been neglected in reports on specific references. Thus the two reports on dairying and the main report on rural reconstruction point to the adverse effects of high inflation on rural export industries but do not acknowledge any resultant offset in the form of an exchange rate movement favourable to export industries. (The offset was recognised in *Export Inspection.*) On the other hand, reference was made in *Rural Reconstruction* to the unfavourable indirect effects on rural exports, through the exchange rate movement, of the growth in mineral exports. Balanced discussion and public understanding both suffer when those general equilibrium effects adverse to an industry are selected for consideration while those favourable to it are ignored. Again, while the IAC has highlighted the way Australia's protective structure, via exchange rate effects, reduces selling prices received by producers of internationally competitive export (and import-competing) products, it has helped to perpetuate an apparent misconception concerning the effects of tariffs on the costs of inputs used in farming (e.g. *Annual Report 1975-76*, p.25, *Nitrogenous Fertilisers Subsidy*, p.26, *Assistance for the Consumption of Phosphatic Fertilisers*, p.25, *Wheat Stabilisation*, p.22). The misconception is that farmers pay higher prices for tradeable inputs under the current protection regime than they would pay under free trade. The evidence does not support this. The increases in the average price of tradeable inputs due to tariffs have been estimated at 9.5 per cent for the dairy industry, 11.7 per cent for the wheat industry and 12.7 per cent for the sugar industry.[4] These estimates lie below estimates of the devaluation equivalent of protection (15 to 20 per cent, Lloyd 1978). It would seem, therefore, that the effect of protection, when allowance is made for the consequently higher external price of the Australian dollar, is to reduce the average price for tradeable inputs used in farming below their free-trade levels (see also Lloyd 1975; Edwards 1975; Edwards and Watson 1978). The presumption that tariffs have led *indirectly* to higher labour and other costs is open to serious questioning also (Edwards 1975; Edwards and Watson 1978).[5]

Another widespread misunderstanding concerning exchange rates is not allayed by the bold assertion that Australian revaluations in 1972 and 1973 'effectively raise(d) the cost of Australia's exports on overseas markets' (*Rural Reconstruction*, p.3). While this is correct for exports whose prices are set in Australian dollars, Australian currency changes in themselves have no effect on prices paid by overseas buyers of the bulk of rural exports for which Australia takes the going foreign currency price.

Finally, a surprising feature of *Dairy Marketing* may be noted. This is the hesitancy shown in accepting that dairy farmers (and processors) would respond to the marginal price rather than to an average of quota and over-quota prices under a market entitlement scheme. This contrasts with the usual ready acceptance (in other IAC reports as well as elsewhere) that supply responses in Australian agriculture are 'normal'.

Normative arguments. When value judgments about objectives differ as much as they probably do on protection, total agreement on what policies *should* be followed would not be expected even if positivist arguments about the consequences of adopting different policies were resolved. In practice, the main debate concerning rural assistance has centred on policy for low-cost rural industries. This 'tariff compensation' debate flourished following the publication of the Green Paper (Harris et al. 1974) and gave rise to opposing views on both the desirability and feasibility of using policies of assistance for low-cost rural industries to advance the goal of efficient resource use. The general debate on tariff compensation has been summarised elsewhere (Edwards 1977; Edwards and Watson 1978; Lloyd 1978). The IAC's initial reaction was to oppose tariff compensation and to announce that its general strategy was to encourage efficient activities 'by decreasing high levels of assistance, rather than by increasing low levels of assistance or providing assistance to industries which at present have none' (*Annual Report 1973-74*, p. 121). However, the IAC has since modified its stand. Subsequent statements on its assistance strategy involve concessions to second-best arguments,

[4] The figure for dairying is an average for the years 1971/72 to 1973/74 (BAE 1975), for wheat an average for 1973/74 to 1975/76 (*Wheat Stabilisation*) and for sugar an average for 1975/76 to 1977/78 (*Sugar Industry*). The figure for sugar covers the growing, milling and refining activities.

[5] It must be borne in mind that, because producers' spending on tradeable inputs is small in relation to their revenue, revenue gains to lightly assisted industries from a move to free trade would be expected easily to outweigh any increase in the costs of tradeable inputs.

though to what extent is unclear (*Annual Report 1974-75*, p.25, and *Annual Report 1975-76*, p.11).[6]

The IAC's reports on rural references also show differing views on the provision of tariff compensation. Interestingly, tariff compensation arguments have not been used to support assistance on *output* in a report on a major rural product. The raising of prices received for their products is the form of assistance to rural producers most likely to be required to give a genuine second-best (or *n*th-best) resource allocation when protection causes divergences between price and marginal social cost elsewhere in the economy.

The first report on dairying noted the BAE view that there could be a second-best case for raising marginal returns to the industry above export prices. The IAC did not comment on this or use it in support of its recommendation to retain equalisation and, hence, producer prices in excess of export prices. Disregarding a statement of belief that could be interpreted as reflecting a very crude tariff compensation philosophy in the second report on dairying, this report and the reports on apples and pears, dried vine fruits and sugar do not consider second-best arguments for raising producer prices above world levels.[7] However, the first three of these reports implicitly reject such assistance by recommending prices for marginal production equal to world prices. Only in the report on wheat stabilisation was the IAC explicitly critical of tariff compensation for low-cost industries. As well as reiterating objections which had been raised in annual reports, it advanced a new argument.

> 'Delayed restructuring and raising of assistance to some high cost industries are, in effect, decisions by the community to maintain or increase differences in relative levels of assistance. They are decisions to favour some high cost industries at the expense of the development of, and incomes from industries such as wheat. While additional assistance is made available to high cost industries to maintain their relative position, improvements in the efficiency of resource use will not be achieved through compensating assistance to low cost industries. The provision of such assistance would simply necessitate further assistance to high cost industries in order to maintain their position' (p.23).

This argument merits serious consideration. However, it is possible to accept the internal logic of the final two sentences while questioning the relevance of the scenario. Is it not possible that a government, unwilling to cut high protection directly, is willing to reduce it indirectly, especially if that goes generally unnoticed? Governments frequently reduce the relative assistance of favoured high-cost industries by raising protection for other industries. The Prime Minister seems to have approved this ap-

[6] In what seems to be the one specific example given in the annual reports of circumstances when assistance would be justified on efficiency grounds for a low-cost industry, the IAC says 'short-term assistance may be justified in order to hold resources which are necessary for the long-term development of an industry which is on average and over the long term likely to be low cost' (IAC 1975, p.25). See Freebairn (1978) for a critical examination of this argument.

[7] The statement of belief is 'that returns from domestic sales should not be in excess of that which would be available if the local industry were afforded a level of protection not in excess of the average level of protection afforded Australian industry' (*Dairy Marketing*, p.40). Given elimination of price equalisation, recommended in this report, the statement says nothing about raising producer prices for exports.

proach. Referring to the pressures from rural interests for lower tariffs he commented:

> 'I tend to think that rural industries would be well served if some of the attention that has been devoted to that particular question were devoted to other policies—to compensating policies—for rural industries so that they can operate within the Australian environment on a proper and competitive basis' (Fraser 1977, p.803).

Apart from the crude argument in relation to dairying referred to above, second-best arguments also played no role in the discussion of appropriate *consumer* prices in the major product reports.[8]

Notwithstanding the fact that tariff compensation through *input* subsidies is especially prone to criticism (Warr 1977, 1979), it is in the reports on inputs that tariff compensation arguments have been employed. This occurred first in *Export Inspection*. That report recommended that the Government meet the full costs of meat export inspection because 'export inspection imposes a significant cost burden, the removal of which could be justified on efficiency grounds as assistance to a low cost industry' (p.3). Implementation of this could be held to be output-oriented assistance as it involved eliminating an export levy on meat. In *Agricultural Tractors* the Commission's desire not to add to the difficulties of low-cost industries was given as a reason for assisting the tractor industry through a bounty rather than a tariff. In *Phosphatic Fertilisers* the IAC majority report spelt out the real-world considerations leading to the recommendation that the superphosphate bounty be continued. It argued that the bounty assisted mainly low-cost rural production, especially in the wool-wheat-meat group of industries. While the 'obvious' way to encourage low-cost activities would be to lower high assistance, 'this will not be achieved quickly' (p.35). The Commission recognised the disadvantages of affording assistance through subsidising phosphatic fertilisers but said:

> 'Finally, the Commission believes that the desirability of a particular form of assistance should not be judged by reference to some ideal configuration of the economy, or ideal form of assistance, but rather by reference to the existing situation and the likely practical alternatives . . . it has no evidence that demonstrably more efficient measures than a phosphatic fertiliser bounty will be found easily or quickly . . .' (p.38).[9]

As noted earlier, the report on promotion gave 'low cost industry' as one criterion for deciding whether assistance for export promotion is justified. This report treated the resulting attraction of extra resources into woolgrowing as a valid, and the most compelling, argument for long-term subsidisation of wool promotion (but see also the next section). The product reports on potatoes and olives also pointed to the low-

[8] The belief expressed in *Dairy Marketing* has implications for consumer prices but, because the argument is in terms of effective protection rather than nominal protection, it is not relevant to the establishment of a genuine second-best consumer price.

[9] One Commissioner, Robinson, dissented from the view that retention of the bounty for five years was desirable. One reason for this was his view that acceptance of a compensation principle, 'far from improving the efficiency of resource allocation will stultify such desirable changes as the lowering of assistance to high-cost industries and the adaptation of the nation's economy to an increasingly dynamic world economic environment' (p.45).

cost nature of those industries in making recommendations that would encourage the growing of these items. In *Financing Rural Research* the IAC accepted that, *ceteris paribus*, there was a theoretical case for varying the rate of research subsidy inversely with an industry's rate of assistance but it did not consider that this principle could be applied successfully, partly because the returns from research in high-cost industries could sometimes be high.

The concern with the real world shown in *Phosphatic Fertilisers* and *Financing Rural Research* contrasts with an argument put in *Nitrogenous Fertilisers Subsidy*, in which tariff compensation was rejected.[10]

> 'To the extent that it (the removal of the subsidy) would reduce direct financial assistance to some producers engaged in low cost activities, the Commission considers that the reduction would be outweighed by the more positive and direct encouragement which could flow from its suggestions concerning crop insurance, grain pool discount facilities and the desirability of an inquiry into the dissemination and application of the results of rural research' (pp.3-4).

The first-best economic cases for the measures *suggested* (not recommended) in this report are independent of whether the fertiliser subsidy is paid and the economic cases for them in the actual non-first-best situation seem likely to be substantially independent of it. This efficiency point aside, many may make the value judgment that the 'more positive and direct encouragement' should be provided *before* other assistance is removed.

Terms of trade

In the Green Paper the view was expressed that, of Australia's rural exports, a significant inverse relationship existed between trade and world price only for wool. The IAC has discussed terms of trade effects for wool and for several other rural products.

The reports on promotion and phosphatic fertilisers differ in the views taken on the significance of the terms of trade effect for wool. In *Promotion* it was said that:

> 'The weight of evidence suggests that overseas demand for wool is only moderately responsive to price changes[11]; this evidence . . . suggests that the own-price elasticity of global wool demand is probably in the region of -0.5 to -1.5' (p.58).

This led the Commission to come down tentatively against a long-term subsidy for wool promotion even though it considered this 'a suitable form of compensatory assistance' (p.6). In *Phosphatic Fertilisers* it argued that:

> 'Wool is only one industrial fibre and, if substitution possibilities could be allowed for, the price elasticity of export demand in the longer run may be higher than suggested by available econometric studies. If so,

[10] The rejection of tariff compensation in this report was under the heading 'Assistance to compensate for cost increases attributable to the tariff' (p.26) rather than in terms of the second-best problem of determining domestic relative prices for particular items when *all* domestic relative prices cannot be equated to world relative prices.

[11] It was stated specifically that this applied 'even in the long run' (p.6).

the potential to exploit a monopoly supply situation would be only small. The Commission's judgment is that in the long run the efficiency gains[12] from improved resource allocation could outweigh any adverse terms of trade effects' (p.28).

In this report the Commission concluded that the terms of trade effects of either providing or removing subsidies on phosphatic fertilisers were not likely to be significant.[13] Resolution of the difference in views on elasticities and hence in terms of trade effects in the two reports is a problem to be grappled with empirically on a continuing basis.[14]

Two further observations may be recorded here on the reasoning in *Promotion*. First, readers may be puzzled (as I was) by the tentative conclusion that the current level of promotion is nationally profitable in the long term if funded by a levy on growers' production but not if funded by the government. The basis for this view is made clearer in Appendixes 9 and 10. Because growers are assumed to respond to the price of wool net of any promotion levy, the levy raises the industry supply curve. Production is thus lower, and the world price higher, if any specified outlay on promotion is financed by an industry levy than if it is financed by a government subsidy. This difference in the national profitability of publicly and privately financed promotion would disappear, however, if the optimal wool export tax (the tax that equates producer price with national marginal revenue) were imposed. The Commission said it was not advocating an export tax on wool. But the implication of its concern with the likely terms of trade losses from a promotion subsidy is that it considers an export tax would increase efficiency.[15] Moreover, a shift from government funding to funding via grower levies, favoured by the IAC in the longer run, would amount to an export tax from the view of producers.[16]

The second observation concerns the conclusion that 'unless the export industry in question would otherwise under-promote, the introduction of a promotion subsidy would lead to a small deterioration in the terms of trade for Australia' (p.56). This conclusion appears to depend on the questionable statement made in Appendix 9 that the terms of trade should be defined as net of overseas selling costs. With optimal promo-

[12] The reports on promotion and phosphatic fertilisers both treated changes in the efficiency of resource allocation and in the terms of trade as separate effects of assistance. But, if national marginal revenue is always taken to be the gain from a unit of exports (rather than doing this only when national marginal revenue and average revenue coincide), the terms of trade effect is a *determinant of* allocational efficiency and the latter cannot be defined independently of the former.

[13] This conclusion was reached after considering terms of trade effects for cereals (likely to be very small) and for meat ('in the longer run, and presuming increased market access . . .' unlikely to be significant) as well as for wool (p.28).

[14] In *Promotion* the IAC acknowledged that the elasticity of demand for wool *could* be considerably higher than the elasticities it assumed. It recommended that further investigations be made of elasticities and of the relative magnitudes of the terms of trade loss and the resource allocation gain from a promotion subsidy. The Commission suggested that this work be undertaken by a new branch (Promotion Evaluation) that it proposed be set up in the BAE. It also said that, 'if in the long run demand for wool were *extremely* elastic to price, promotion would be considerably less profitable and increases in sales could be achieved more economically by small price reductions rather than by promotion' (p.72, emphasis added).

[15] This needs to be read as a tax in excess of the implicit tax on wool ('perhaps of the order of 10-17 per cent' (p.58)) represented by assistance to other industries.

[16] The levy would not keep prices of wool to Australian buyers lower than prices to overseas buyers as a tax on exports would.

tion, a subsidy will still be expected to increase the world price gross of selling costs for the product if industry funded promotion is not reduced. Complying with the IAC's strictures and allowing for world price rises for *other* rural products when resources are diverted to producing the item for which promotion is increased makes it more likely that excessive promotion will improve the terms of trade as usually measured. Of course, a terms of trade gain which did not meet the promotion costs of obtaining it would involve a reduction in national welfare.

The two reports on dairying contain conflicting views on the significance of terms of trade effects. In *Dairy Industry* it is said that 'Australian exports have had very little influence on prices of dairy products traded internationally' (p.29). In *Dairy Industry Marketing Arrangements*, however, the problem raised by Australia's influence over prices for dairy products in some export markets was briefly considered. The Commission said 'the Australian Dairy Corporation will need to make appropriate arrangements to control sales to such markets' and proposed that industry quotas include 'sales into export markets for which the Australian Dairy Corporation considers that Australian exports may have some influence over prices' (p.28). Given the Dairy Corporation's power to regulate export marketing, the control of sales to those overseas markets where demand is price inelastic should be independent of the relationship between quotas allocated and size of the domestic market. The approach proposed seems in reality to be directed to a separate problem caused by the existence of more than one export price: making producer returns from over-quota production as close as possible to prices in *low-price* (marginal) export markets in stages 1 and 2 of the IAC's proposed marketing scheme (during which sales of a product in all nonquota markets would be pooled).

In the case of sugar, the IAC accepted that Australia had 'received a price advantage in some markets and in some periods' due to the control exercised over the level and timing of exports (p.44). No attempt was made to assess the extent to which these gains derived from control of sugar *production* rather than from the existence of a sole exporter (CSR Limited). In the case of wheat, the IAC said there *could* be gains in some situations from vesting control over exports in the Australian Wheat Board, though in this case there appeared to be confounding of terms of trade effects with cost advantages due to closeness to particular markets. The IAC's support for export monopolies for wheat and sugar appeared to be based not on any conviction that terms of trade (or other economic) reasons dictated this, but on maintaining the *status quo* in the absence of a clear indication of gains from increased competition in export marketing.

In its report on promotion, the IAC argued that, while foreign demand for Australian meat was price elastic when international trade was free, it was much less so when access of meat to foreign markets was subject to nontariff measures such as import quotas and variable import levies. 'Thus, any judgment about terms of trade effects is influenced by the view taken about the permanence of such trade barriers' (p.45).

Uncertainty and instability

The most comprehensive discussion of uncertainty and instability in the context of Australian agricultural policy is contained in *Rural In-*

come Fluctuations. Policywise, the most significant feature of this report is the rejection of the proposition that uncertainty and instability experienced by farmers or others provide a general justification for government intervention. In reaching this conclusion the IAC reviewed the conflicting theoretical literature on the scope for governments to improve resource use when there is uncertainty. At the theoretical level the Commission remained agnostic. But it argued that:

> '. . . even if it could be established that governments should encourage risky investments, the conceptual and practical problems involved in applying such a policy would make it infeasible. Some element of uncertainty attaches to every walk of economic life and it would be desirable to relate the amount of subsidy (or whatever form intervention might take) to the amount of uncertainty. Thus it would be desirable to obtain some ordering of degrees of risk across all possible ventures and across all sectors. Besides the large conceptual problems involved, in practical terms such a rating would be extremely difficult to obtain' (p.20).

As noted earlier, the IAC saw scope for governments to act, 'for example, by providing more information or by helping the development of additional options in the capital, insurance and futures markets' when this was warranted on efficiency grounds (p.62). The traditional industry-wide approach to income stabilisation the IAC saw as a source of resource misallocation, as ineffective in stabilising individual incomes and as involving the undesirable characteristic *compulsion.*

It is of interest to follow this outline of the IAC's argument in the one report directed specifically to uncertainty and instability in agriculture with an examination of views expressed on these issues in its other reports. It is convenient to consider the arguments in relation to producers and consumers separately.

Producer uncertainty. Of the industry-specific reports, the one which accords most closely with the approach espoused in *Rural Income Fluctuations* is *Wheat Stabilisation.* This report concluded that:

> 'Past wheat stabilisation measures have had little impact on the stability of prices or incomes received by wheatgrowers. Cash flows of individual growers may even have been destabilised as a result of delays in finalising pool payments . . . To be effective, income stabilisation efforts should be directed at individual incomes, as each grower's income pattern and preferences are largely unique' (p.i).

Past price stabilisation arrangements were considered to have possibly discouraged more desirable farmer adjustments to risk. Notwithstanding its criticisms of wheat price stabilisation and its preference for nonprice measures oriented to individuals for dealing with problems due to rapid drops in prices (the carry-on and household support provisions of the Rural Adjustment Scheme being cited as examples), the IAC was concerned that removal of the back-stop component of stabilisation (provided through the Government undertaking to maintain viability of the buffer fund) 'may not improve the efficiency of resource use as it could have the effect of further disadvantaging one of Australia's more efficient industries' (p.34). Given the confidence expressed in individuals' capacities to tailor their actions to their individual risk situations and preferences, one might have expected the IAC to favour offsetting the industry's disadvantage (due to the general protective structure) with output-based assistance rather than through a scheme to reduce risk. But, as noted earlier, such overt 'tariff compensation' was opposed in *Wheat Stabilisation*. The rationale for the potholing scheme recommended thus appears to be essentially a modified version of the 'existence principle': a new risk-reducing scheme is substituted for the old one.

In *Sugar Industry* the IAC reported the view of industry witnesses that the import embargo and the administered domestic price 'provides a predictable and reliable amount of revenue to the sugar industry which is essential for the maintenance of its stability and viability' (p.65). While it appeared to agree with the counterview that an industry which exports 75 per cent of its output at world prices would not be expected to contract sharply if domestic prices reflected world prices, the IAC favoured continuation of the administered price and import embargo. The majority recommended that the domestic price be adjusted by an index of costs (growing, milling, refining and marketing) net of productivity. McKinnon (IAC chairman) disagreed with this approach and favoured basing movements in domestic prices on export returns (averaged over three years) plus Sugar Board costs in Australia.[17] McKinnon, unlike the majority, upheld the *principle* espoused in *Rural Income Fluctuations* and *Wheat Stabilisation* that an export industry should not be insulated from world price signals on its domestic sales and that any problems resulting from this were best dealt with by individuals or governments by other means. Although the policy preferred by McKinnon is significantly less *laissez-faire* than the free trade approach recommended for domestic wheat pricing and *does* involve significant sheltering of the domestic market from world prices, it contrasts with the pure isolationism of the majority's approach to adjusting the domestic price.[18]

In its reports on dairying, the IAC argued that government intervention was necessary to reduce a particular type of risk – 'the risk of breakdown of a voluntary marketing scheme' (*Dairy Industry*, p.ii). Underlying this reasoning was the efficiency argument[19] 'if the scheme were to collapse, extensive disruption and financial hardship could occur to the detriment of the longer term viability of this export-oriented industry which requires relatively low levels of assistance' (p.59).[20] In *Apples and Pears* yet another type of uncertainty played an important role. That report refer-

[17] McKinnon's formula also incorporated an 'arbitrary' 10 per cent increase to average export returns 'to compensate for the inflation factor in relation to prices which are up to three years old' (p.78). This seems to have no economic rationale. The explanation may bear on the coincidence reported in the following footnote.

[18] McKinnon's approach to adjusting the domestic price would determine the initial *level* of the price also. The majority's recommendation on price level was made after 'taking into account' industry and Sugar Board costs, export returns over the past five years, the target price under the International Sugar Agreement, returns to sugar producers in other countries, income transfers from the sugar industry to consumers over the past five years and trends in the consumer price of sugar relative to the overall Consumer Price Index and other food components of the index. By coincidence (?), the majority's recommended price ($370/t for refined IXD grade sugar) was virtually identical with the price favoured by McKinnon ($373/t).

[19] There were also arguments deriving from factors other than efficiency.

[20] The IAC's assessment of the industry as low cost is surprising in view of the BAE estimates presented on rates of effective protection in the industry. For the 3-year period 1971/72 to 1973/74 these ranged from 25 per cent to 90 per cent, depending on the assumptions made in their estimation.

red to the unfavourable and unstable future facing exporters of apples and pears and said:

> 'The resulting insecurity for individual producers is such that the Commission does not believe it should recommend measures that encourage dependence on such markets or that it can responsibly avoid recommendations designed to help the industry adjust out of exports to whatever extent this may prove to be necessary' (p.69).

The view that uncertainty experienced by producers is itself a reason for removing (or not giving) assistance is at odds with the approach in the later reports on *Rural Income Fluctuations* and *Wheat Stabilisation* of accepting individuals' adjustments to uncertainty as generally appropriate.

Consumer uncertainty. In none of the reports on major rural products has the IAC said that reduced uncertainty for *users* was an important reason for its recommendations. In *Wheat Stabilisation* two reasons were given for rejecting arguments put by flour millers and bread manufacturers for a stable domestic wheat price. First, users of wheat have preferable avenues for handling wheat price instability (e.g. forward purchasing and equalisation of price fluctuations within their businesses) while consumers of wheaten products can switch between these and other items in response to price movements. Second, stable wheat prices were an indirect and ineffective method of providing welfare assistance to low-income consumers. Consistently with these arguments, the IAC rejected a BAE proposal that government payments in years when potholing assistance was given should apply to export sales only, with *consumers* providing the assistance on domestic sales through maintenance of domestic prices at the guaranteed level.

It is not so easy to determine the role assigned to user price stability in reaching the recommendations on sugar. Evidence was cited from the sugar industry and manufacturers indicating, as one would expect, that users *preferred* stable prices. McKinnon said that this evidence, together with producers' preference for price stability, was the reason for his minority recommendation that domestic prices be based on average export returns over three years. The IAC also noted the Australian Federation of Consumer Organisations' argument that stability in sugar prices was *unimportant* to consumers and its questioning of 'whether it was worth insulating the domestic market from fluctuating world prices' (p.46). This question was not subjected to examination, a surprising omission in view of the recommendation in the earlier report on wheat that domestic user prices reflect world prices. This omission seems particularly unfortunate, given that the domestic price stabilisation has been achieved at the cost of substantial price support. On a raw sugar basis, the administered domestic price has exceeded the average export price 'in all but 10 of the last 52 years' (p.47). The notion that users gain from price stabilisation is also called into doubt by an advantage seen by some witnesses in retaining the Queensland Government as the sole seller of sugar on the domestic market: that is, 'greater account being given to the interests of growers and millers in the market' (p.52).

The reports on the dairy industry do not consider what benefits price stabilisation confers on consumers. This is so in spite of the considerable cost of that stabilisation to consumers. The real consumption cost for domestic butter and cheese consumers was estimated to average $5.6m in the three years to 1973/74; transfer payments from consumers averaged $55.4m in the same period, and from taxpayers $7.2m. In *Dried Vine Fruit* also there is no account of the benefits of price stabilisation to Australian consumers, though the significant transfer costs borne by them are shown.

Further considerations. Uncertainty has played a variety of roles in other reports. In *Brucellosis and Tuberculosis* the removal of a risk to taxpayers (the risk that they would have to contribute to the cost of reconstructing the beef and dairy industries if export markets were lost because of the diseases) was seen as a reason for government assistance to eradicate the diseases. But, in *Promotion*, the IAC rejected the International Wool Secretariat's argument that government contributions to wool promotion could be viewed as insurance to protect resources in wool growing and to reduce calls on taxpayers for rural reconstruction activities.

Together with external economies (including public good externalities), uncertainty was seen as providing the rationale for government assistance for rural research. In *Financing Rural Research* it was argued that, because of the uncertainty about the result of research projects, 'producers who contribute through rural industry research funds are uncertain as to whether the direct benefits they receive exceed their contributions to research funds' (p.65).[21] While this is correct, it is not clear that it represents an efficiency argument for a government subsidy to rural research. It would appear more consistent with the confidence expressed subsequently in *Rural Income Fluctuations* in the ability of each individual to cope with his unique risk situation to emphasise that a uniform levy cannot be gauged to each producer's view on the desirable research effort. Moreover, the IAC did not consider the *risk-reducing* features inherent in an industry approach to research. When an industry acts collectively, as it does when growers finance research through an industry fund, the large risks borne by one producer financing a particular research project become small risks when borne by a large number of producers. Risks can also be pooled over projects. Perhaps the reason for ignoring this was that, although the IAC talked of 'uncertainty', it meant ignorance of available information rather than nonavailability of information. This would be consistent with the IAC's acceptance of a high rate of return to rural research. If this is what the IAC meant, the improvement of information available to producers on the gains from research could be superior to direct government assistance to research *from the view of the 'uncertainty problem'*.[22] Of course, external economies would remain as a resource allocation basis for a research subsidy. In *Promotion* it was made explicit that wool growers' ignorance of the high return from promotion, rather than uncertainty about the size of the return, was a crucial factor in the recommendation that the

[21] The IAC also said that some rural research has increased specialisation in production, resulting in *increased production instability*. It supported the direction of some research to diversification into new crops but said such research 'involves high risk and is unlikely to provide a high benefit-cost ratio, because the returns to research are considerably dependent on the size of the industry' (p.40).

[22] Some of the recommendations (mentioned earlier) in *Financing Rural Research* would result in better extension of existing knowledge and in production of new knowledge on the gains from rural research.

Government's promotion subsidy be maintained temporarily. In that report, the Commission favoured educating growers on the benefits of promotion and opposed continuation of a government subsidy in the long term to offset suboptimal promotion by the industry.

Issues in adjustment policy

The *Industries Assistance Commission Act* 1973 requires the IAC to have regard to the Government's desire to 'facilitiate adjustment to changes in the economic environment by industries and persons affected by those changes'. The legislation necessarily leaves much unsaid about the adjustment objective. *How much* regard does the Government wish the IAC to have for it? Is it only adjustment that yields a net economic gain that the Government wants to encourage, or is adjustment to be assisted for noneconomic reasons also? I will not speculate on what the legislation really means. Rather, I will look at the IAC's approach to the justification of adjustment assistance.

In *Rural Reconstruction* the IAC trod both efficiency and equity grounds in putting support for the claim that 'Government intervention is necessary to facilitate adjustment in certain circumstances' (p.4). The efficiency case for intervention was not, in my view, demonstrated. The approach in *Fruitgrowing Reconstruction* was more openly pragmatic. Here there was no attempt to make out an efficiency case, in the conventional sense, for the recommended package of measures—concessional finance, area redevelopment authorities and adjustment counselling.[23] Rather, the argument was in terms of improving on current assistance measures for the industry—that is, getting better value for money with people-oriented adjustment assistance than with the industry price stabilisation and tree-pull schemes.

It is true that, 'if it is in the community's interest that resources should transfer from low rewards to higher rewards then such an objective might be enhanced by assistance to change occupation and/or location' (*Rural Reconstruction* p.53). But this is not very helpful. Further, contrary to what is claimed, the fact that real income (however that is defined) of a farmer is increased by re-establishment does not constitute an efficiency justification for adjustment assistance. The cost must be considered. In the subsequent report on *Rural Income Fluctuations* the point was made that the objective of relocating low-income people out of farming was separate from the goal of reducing rural poverty. In that report, criticism was levelled at the provision (not recommended in *Rural Reconstruction*) in the household support scheme for payment of a lump sum of $3000 to a farmer assessed as nonviable who disposes of his property. The effect on occupational choice was seen as reducing efficiency.

Rural Reconstruction referred to some other issues of dubious relevance to the case for reconstruction assistance (see Edwards 1971). In the case of 'redundant assets' it was said that 'grants to cover . . . losses sustained in the disposal of assets included in the purchase price of the property but which are of little use to the built-up property . . . are a very indirect way of assisting land transfers' (p.44). This is correct and the endorsement of the approach (stipulated in the legislation) of keeping these

[23] However, the IAC said that its discussion of the fruit growing industries needed to be considered in conjunction with that in the broader report on *Rural Reconstruction*.

grants to a minimum is commendable. My only complaint is that the Commission did not take a direct swipe at a hardy red herring and say that, if a farm does not change hands because certain assets have a value that is greater to their present owner than to a potential purchaser, the transfer generally should not take place. The discussion of economies of size deserves stronger criticism. There seems to be no reason to accept economies of size *per se* as a 'rationale for farm build-up assistance' (p.42). The important issue is whether the achievement of these economies requires government intervention. On the basis of a superficial discussion it seemed to be accepted that there *was* a 'gap' in long-term rural credit facilities.[24] However, no reason was given for thinking that the alleged capital market imperfection took the form of under-provision of finance for farm build-up that generates size economies.

An interesting suggestion contained in *Rural Reconstruction* is that re-establishment (relocation, retraining and rehabilitation) assistance may be viewed 'as offsetting some of the costs of movement such as nondeductibility for tax purposes of job search expenses, stamp duties on land sales and conveyancing costs' (p.53). There is a parallel to the tariff compensation argument here. The Commission apparently envisaged these movement costs being tax deductible in a first-best world: in the meantime it saw a second-best case for adopting policies that offset the effect of the existing impediments to efficiency.

Although the general rural reconstruction scheme was introduced in 1971 (to the acclaim of agricultural economists), a convincing resource allocation rationale for the scheme is, in my opinion, yet to be provided. The question whether the rest of society can gain by subsidising a person to the extent necessary to induce him to make adjustments which leave him better off, in his own assessment, than he was initially remains a challenging one in the context both of rural reconstruction and of structural adjustment policy generally. The IAC's widely comprehensible delineation of issues concerning structural adjustment is valuable. However, if we accept the 'broad conclusion . . . that government intervention in the adjustment process should be primarily aimed at improving the economic efficiency of the economy' (*Some Issues in Structural Adjustment*, p.41), adjustment assistance will need to be subjected to more fundamental questioning.

Concluding Comment

The IAC has to analyse and report on two broad resource allocation problems. First, there is the problem of making relative domestic prices for tradeable manufacturing, mining and rural products closer to relative prices in world trade. The IAC's stated approach to this problem is to reduce high rates of protection. But, in spite of its general rejection of tariff compensation, this has been used to justify the provision of new assistance to a low-cost industry (removal of the meat export charge), the retention of existing assistance (the superphosphate bounty) and the

[24] In its brief consideration of this crucial issue, the IAC relied on a report on rural credit (BAE 1972) which concluded that there were gaps in the rural finance market, especially in the area of long-term finance. Since *Rural Reconstruction* was published, another report on rural credit (BAE 1977) concluded that there is no rural finance gap.

substitution of one form of stabilisation assistance for another (in the report on wheat).

Of the recommendations for the main rural products, those for wheat involve the least interference with market prices. Domestic consumer and producer prices would in general both be based on world prices, with temporary collapses in producer prices being limited by the proposed potholing mechanism. For dairy products (according to the IAC's second report) and dried vine fruits, domestic consumer and producer prices for quota production would be set independently of (and one would anticipate in excess of) world prices. However, under the recommended market-share quota schemes, producer prices for over-quota production would be equal to export prices. For sugar, the IAC majority's approach involves moving prices to consumers and producers without reference to world prices. Of its recommendations on rural commodities, those on sugar are easily the hardest to reconcile with the general principles espoused by the IAC. The explanation for this appears to lie in political considerations which made it unlikely that the report would be of the quality sought by Crawford (1973).[25] Interestingly, although the recommendations for the four industries mentioned above ranged from something akin to free trade for wheat to prohibition of imports and adjustment of the domestic price on the basis of cost movements for sugar (majority report), they represent four of the more important instances where the Government has not acted in accordance with the IAC's recommendations.

The second broad problem concerns resource misallocation other than that caused by differences between relative prices in Australia and in world trade. Unlike its reports on the manufacturing sector, which have been concerned fundamentally with the protection of domestic production against imports (the level of domestic prices relative to world prices), the IAC's rural references have been directed substantially to problems arising from external effects (*Financing Rural Research*), from instability and uncertainty (especially *Certain Taxation Measures* and *Rural Income Fluctuations*), from Australia's influence over world prices for its exports (especially *Promotion*) and from perceived problems in the adjustment process. While I have offered criticisms of some of its reasoning on these matters, and pointed to inconsistencies between reports, I believe that the IAC has made an important contribution to our understanding of the problems. The contribution has not been even: the assessment of price and income stabilisation is much better than the discussion of rural adjustment—though IAC recommendations have led to big improvements in rural adjustment policies.

I am confident that the level of economic and social literacy in Australia and the quality of policy making would both suffer if rural assistance were again to be determined without IAC analysis and the public inquiry and public reporting processes.

[25] The associate commissioners for the sugar inquiry occupied the positions of Secretary of the Department of Northern Territory (Livingston) and Chairman of the Sugar Board, Queensland (Harris). These people would not, in my view, have and be seen to have the freedom to examine policy options on their merits from a national view. Furthermore, the usual practice of issuing a draft report as the basis for discussion and a second round of hearings was not followed in the case of sugar.

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