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Comment 2 on ‘National and global price- and trade-distorting policies’ by Anderson

Roger Mauldon[†]

Kym Anderson has given a thorough review of developments since the 1930s in the theory and measurement of price and trade distortions, and of their sectoral, national and international impacts. Australian economists have figured prominently in this story, and Australia has been in the vanguard in reforms of price and trade distortions. Australia’s rates of assistance to both manufacturing and agriculture have fallen radically since the early 1970s, the decline being more bumpy for agriculture. The international story is more complex, but my comments here will be restricted to Australia.

Kym tells us *what* has occurred at Australia’s manufacturing and agricultural sectoral levels, but not *how*. Although the micro-detail is beyond the scope of what Kym set out to do, there is a rich history of involvement by Australian economists in the micro-detail. In the 1950s and 1960s, its locus for agriculture resided in the universities with individual academics critiquing price supports based on costs of production and the equalisation of high and stable domestic prices with generally lower but more unstable export prices.

This had little impact on policy at the time, but set the tone for changes initiated in the mid-1970s when the locus of critique shifted from individuals at universities to organisations within governments. The newly formed IAC provided a platform for transparent industry policy reviews undertaken under a set of sector neutral policy guidelines that stressed resource efficiency as a means of improving broadly based community well-being.

As Kym notes, the then BAE and state departments of agriculture are pivotal in this story. During the 1960s and 1970s, they were progressively staffed with graduates trained by the academics who had led the debate on pricing and marketing reform. With the advent of the IAC, the emphasis of their work shifted to policy analysis, and the inquiry processes of the IAC provided a platform for them to expose their work to the public. The relatively more independent BAE was also a conduit for micro-economists moving into other policy departments and agencies.

The IAC successfully promulgated the doctrines that assistance to one is a cost to another, that benefits of assistance captured by the few can be far less than the aggregate of costs widely dispersed among the many and that irrespective of actions taken by other countries unilateral reforms by Australia are in its national interest. Through published effective rates of assistance, it was able to demonstrate where priorities for reform lay, and

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through the ORANI CGE model it was able to display the likely impacts of various policy options.

What actually drove reform is, however, a mixed story. As Kym suggests, the formation of the National Farmers Federation in the mid-1970s was fortuitous. It helped break down walls between rural industries, and the economists it employed were able to demonstrate that assistance to one rural group can be a cost to another.

This said, pathways of reform within agriculture were tortuous. Although micro-economists were united on the goal, there was a significant debate over how to get there, especially prior to the Commonwealth Government's commitment in the early 1980s to reduce assistance across the board and during a period when monetary instruments were still centrally controlled. Some tariffifications of import embargoes and decouplings of interventions supporting home consumption pricing and price equalisation were made, but progress was small and uneven. Exigencies of the political cycle and some large bailouts for wool, sugar and wheat all stymied systematic reform.

It was not until into the 1990s, with a deregulated finance market, exchange rate flexibility and finally the adoption of National Competition Policy, which required that interventions restricting competition be removed unless shown to be in the public interest (rather than retained unless shown not to be in the public interest) that a sustained assault could be made to fully expose the agricultural sector to the disciplines of markets, albeit with some safety nets decoupled from prices. Following NCP reviews, several at state level and undertaken by economists working for private consultancies, interventions separating state dairy markets and compulsory acquisitions by single desk exporters had to go. This began at the end of the 1990s and was largely achieved by 2010-2011 when agriculture's overall effective rate of assistance was around 3 per cent.

This is a rich story that needs fleshing out. It is not all about the activities of agricultural economists, but their strong logical reasoning, their rigorous empirical analysis, the transparency of process and public reporting all eventually won the day.