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Comment 1 on ‘Risk and uncertainty’ by Quiggin and Anderson

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Congratulations to John Quiggin and Jock Anderson (this issue) for taking on a mighty challenge – their topic plays a role in every aspect of agricultural and resource economics! As a consequence, I think they are entirely justified in making the caveat ‘Inevitably, we have been selective, and our inclusions and omissions reflect our own perspective on the field’ (p. 1).

The authors identify two main parts of the relevant literature. The first concerns the economic analysis of production decisions under price and/or yield uncertainty, and in this context, they focus on two particular subthemes: (i) the specification of risk/uncertainty (including such issues as additive vs multiplicative risk and the specification of probability distributions) and (ii) the specification of producer attitudes to risk (including expected utility analysis, as well as alternatives such as Rank Dependent Utility). Put together, these two themes enable the economic analysis of the impact of risk/uncertainty on production decisions. Moreover, amongst Australian agricultural and resource economists, the authors themselves have been giants in this literature, with Jock’s contributions particularly dominant in the context of the first subtheme and John’s in the second subtheme.

The second main element is primary production policy in an uncertain world, where again the authors identify two main strands of literature: (i) individual industry policies (including the important roles of the Wool Industry’s Reserve Price Scheme and the Wheat Industry’s Guaranteed Minimum Price Scheme) and (ii) sector policies (including food security, drought policy and (partly as a development of drought policy) climate change policy, especially in relation to water). As they point out, Australian agricultural economists have made important contributions to both these subthemes of economic analysis over the last 60 years, with the emphasis in the literature shifting over time away from analysing individual industry policies towards analysing broad sectoral policies.

As an agricultural and resource policy economist, I was particularly interested in the policy-related material, where John and Jock appear to have overlooked the significant academic contributions made by Australian economists in the context of minerals and energy policy. In particular, the

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debate over the ‘resource rent tax’ has its conceptual foundations ‘in an uncertain world’, where volatility in prices is a core consideration. Interestingly, the earlier contributions in this policy context were not published in the *AustJAE* – for example Garnaut and Clunies-Ross (1975, 1979), Emerson and Lloyd (1983) and Fraser (1993) – but after our society changed its journal name to the *AJARE*, this situation changed – for example Fraser (1999) and references therein.

Have the contributions of Australian economists to resource policy been as influential as their contributions to agricultural policy ‘in an uncertain world’? Unfortunately, I think not. Beginning in the mid-1970s, the contributions referenced above were united in their support for resource taxation based on profits rather than the quantity or value of production. Nevertheless, we were well into the 21st century before this advocacy manifested itself in the policy arena with the introduction of a profit-based approach to mining taxation in Australia – an introduction that was speedily followed by a termination! So in my view, and I expect in the views of all Australian resource policy economists, we continue to be able to describe Australia’s mineral taxation policy as ‘an inexcusable folly for the nation’.

Finally, I think Jock and John are right in noting a positive shift over time of the economic analysis of agricultural policies away from ill-fated individual industry policies and towards more justifiable broad sector policies. In my view, these broad sector policies represent the biggest research challenges in the future for agricultural economists. There is no escaping the importance of water in agricultural production, an importance which will only grow with further climate change. And the increasing globalisation of production and trade (influenced by climate change) brings with it an increased concern about biosecurity – a risk which is currently being under-resourced in terms of economic analysis, especially in Australia, where it is a particular policy concern.

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