

The Political Economics of Rural Policy

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A discussion paper presented at the Rural Forum

“Is Exceptional Circumstance Enough”

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Abstract

In understanding rural policy direction, it is important to understand underlying orders within society. The political order comprises those relationships in society concerned with making authoritative decisions. The economic order is concerned with the organization of production and distribution system of an economy. Together they interrelate to comprise the political economics of an economic system

This paper discusses rural policy in terms of political and economic orders operating in the Australian economy. Contemporary issues of rural income distribution, drought policy, rural structural realignment, and rural development policy are empirically examined and related to underlying political and economic philosophies that determine policy direction.

Current regional development policy based upon empowerment of communities represents a particular political philosophy. In the early 1990's empowerment was considered “trendy” in OECD circles. By the late 90's, empirical evidence suggests that most OECD countries appear to place more emphasis upon income distribution than empowerment of communities.

It is concluded that unless there is change to the political order within the Australian society there can be no directional change in rural policy. The concerning problem is that all major political parties fit comfortably into the same fundamental philosophical position in both orders of society. Unless underlying political philosophy changes, rural policy differentials can be only at the margins and in emphasis.

A strong rural voice in the political process will be needed if policy directional change is to be achieved. How to achieve this is the major challenge facing rural Australia

The Political Economics of Rural Policy

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“Contrary to their fashionable phrases about the need to face change, those who proclaim themselves to be in the vanguard of new thought prove to be in the iron clutch of economic dogma, much of it provided by famous economists of the past as a guide to policy in a world different from our own”

Mishan

“Cost of Economic Growth”

Penguin, 1973,p.17

1 Introduction:

It matters not whether one looks at protectionist policies of Europe and America or the free market approach of Australia; rural sectors are in decline in mature economies. Orthodox economic theory appears unable to provide an analytical framework that can explain this phenomena in the real world of mature growing economies.

For almost three decades, Australia has pursued ad hoc rural policy underwritten by market economic theory advocating increased efficiency, raising productivity, and free international trade. The legacy of this policy approach is a battered and debilitated rural sector characterized by industry crises, volatile commodity prices, inadequate farm incomes, declining services, rising levels of poverty, suicide rates of international significance, and population relocation, and a decade of severe sporadic drought

Over the past few years, a group of us has been involved in researching the decline of the rural sector as a proportion of GDP and its impact upon rural communities. Most of this research has addressed underlying economic theory and policy direction driven by market economics. In a diversity of forums, we have argued for review of free market policies pursued now for almost three decades. All to no avail.

What I proposed today therefore is to move the debate to a different plane and relate policy to prevailing political economics.

Political Economics: a Brief Overview

Failure of policy makers to respond to hard documented research seems inexplicable. But it can be explained within the field of political economics. To date research has been confined to explaining theoretically the way in which policy decisions have structured the production and distribution of goods and services i.e. the *economic order* of an economy.

The reason why major political parties and the agro-political movement have chosen to ignore documented research lies in another order of society i.e. the *political order*. The *political order* of society refers to relationships responsible for making authoritative decisions for the whole of society.

Both the political order and economic order affect, influence, and impact upon each other. One cannot be separated from the other in policy development. To understand the

policy making process, the two orders must be considered together. This merging of the orders produces the recognized field of study known as political economics.

Objective

My brief this afternoon therefore is

- Introduce the field of political economics
- Explain theoretically why farm incomes have not maintained real purchasing power
- Explain why the economic order cannot change without political order modification

Structure

- Outline two major policy issues for an empirical illustration of political economics
- A time series analysis of the farm situation
- An alternative economic analytical framework to market economics
- Discuss briefly existing policy
- Political Economics Analytical Framework
- Conclusion

2 Major Policy Problems

Commodity Real Price Decline

The current improvement in cattle and wool prices is being heralded by the metropolitan media as evidence of a booming rural sector; and, the success of free market economic policies. Analysis of purchasing power discloses that in terms of national income distribution, rural Australia is not booming. Indeed, real income of broadacre agriculture has markedly declined over time.

Purchasing Power Decline: Rural Prices

Year	CPI	Cattle (c.kg)		Wool (c.kg clean)	Wheat \$/t	
		Yearling	Ox	Cow	Eastern Indicator	
1980	47	84.4	83.4	73.4	462	153
2000	131.3				(projected)	427
					(actual)	174
2001 (projected)	132.7	238	235	207	1304	432
2001 (actual)		150/190	170/180	120/134	796	n/a

Source: 1 1980 Commodity data from; ABARE Commodity Statistical Bulletin 1977; 2000

- 2 2001 wheat price unavailable; year 2000 substituted
- 3 Cattle Prices Actual data based upon daily media reports July 2001.
- 4 CPI; RBA Bulletin Table G2 March 1980 & June 2001
- 5 Wool based upon Eastern Indicator

Drought Policyⁱ

Prior to 1991, Government assistance for drought was provided under national disaster relief arrangements. In 1991, drought assistance was brought under Part B of the Rural Adjustment Scheme (RAS) Exceptional Circumstance provisions pending a report from a Drought Policy Review Task Force 1992. Financing arrangements were initially a dollar for dollar basis between Federal and State Governments until 1992 when funding moved to a 2:1 footing

A National Drought Policy announced in August 1992 confirmed drought assistance under RAS. Consistent with the move to market economic rural policy, Exceptional Circumstance provisions reflected a less interventionist rural policy direction. Certain characteristics of free market philosophy are inherent in EC provisions

- Risk management should be part of farm management practices and planning
- Commonwealth Government recognized exceptional situations such as severe drought that were beyond normal risk assessment
- Federal Minister for PIE may determine the existence of EC
- January 1993, EC existed under the following circumstances

1. commodity price fall for specialist wool producers
2. unseasonally heavy rain across eastern Australia
3. severe drought conditions in Queensland and NSW

The Rural Adjustment Act of 1992 although containing Exceptional Circumstance provisions provided no specific definition of drought conditions under which EC would become available. The *RAS 94 Report* recommended that this shortcoming be corrected in terms of severe drought. RAS 94 also recommended that the drought definition of the Cattle Council of Australia presented to the 1992 *A National Drought Policy offered "a useful framework"*ⁱⁱ for consideration. This was

- application for extreme drought status by shire concerned
- Use of an objective measure
- A subjective assessment by a tripartite drought committee comprising State, Commonwealth and local producer representatives

The Commonwealth representative body is now NRAC (2001). The quantitative condition (severe drought definition) adopted was a statistical analytical methodology of a one in twenty year rainfall event. A drought application is considered by examination of farm rainfall data; and, district records at the nearest official recording station. Other

considerations pertain to assess farm management risk competency; and, on ground assessment by local drought committees.

State drought assistance remained; but, adopted rainfall criterion of a one in ten year event.

Over the 2000/2001 season, south-eastern Queensland finds itself in a severe drought situation based upon empirical evidence and recorded rainfall data. But an EC application has been rejected following an appraisal by NRAC. Subsequent to the NRAC decision, political reality has forced the Commonwealth Government to announce emergency relief for drought affected farmers along with a review of EC.

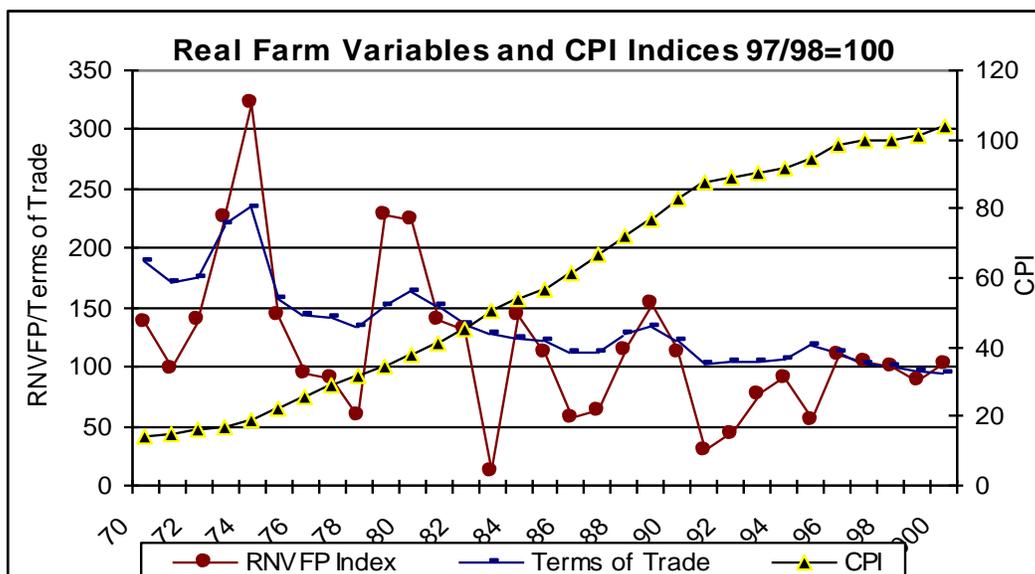
The question

How could such inappropriate policies come to be?

3 The Farm Problem ;Income Distribution

The farm problem is basically one of decades of inappropriate policy, declining real farm income, international over supply of commodities, and rising levels of debt. The following graphical evidence illustrates the policy problem

Graph 1



Source:
Graph compiled from ABARE Commodity Statistical Bulletin 2000 p.17

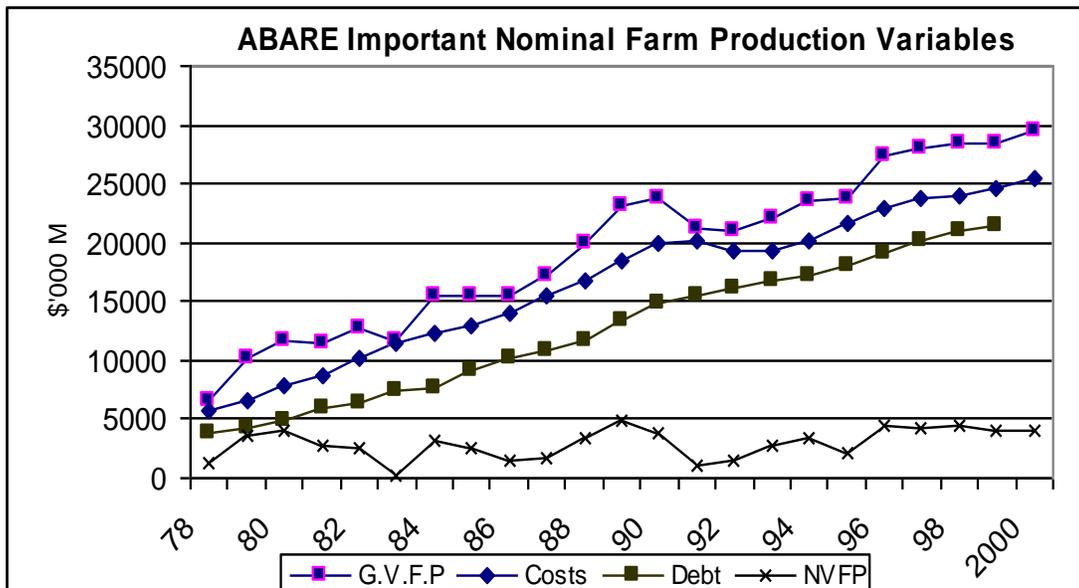
Graph 1 identifies the long term decline in rural industry terms of trade (ratio of index prices received to index of prices paid). Over the long term, there are periods in which terms of trade have improved; and, times when they are below a long term trend line.

The terms of trade is almost in itself a trend line for the real net value of farm production which before tax is an approximation of real farm income. The CPI curve demonstrates how prices in the wider community have risen whilst terms of trade declined. This infers that prices for farm production have risen more slowly than prices measured by the CPI.

Graph 2, below, illustrates the relationships between costs, production, debt, and nominal farm income. It can be inferred that costs drive production that is debt financed. Simple correlation analysis will confirm a linear relationship across the three curvesⁱⁱⁱ.

Also demonstrated is that policy directed to increasing efficiency and rising productivity has made little difference to net value of farm income that remains in farm hands. The increasing divergence between GVFP and NVFP confirms the rising proportion of farm production that is being redistributed to the wider community. It suggests that policy directed to rising efficiency and increased productivity has not improved the relationship between GVFP and NVFP.

Graph 2



Source:

Graph compiled from ABARE Commodity Statistical Bulletin 2000; p. 17& 91

The policy response under market economics has been to reduce the number of farmers. This way NVFP is shared amongst fewer and fewer farmers. Mathematically average farm income should rise. From Graph 2, an alternative interpretation is that the increasing divergence between GVFP and NVFP represents discretionary policy redistributing

income from the farm sector to underwrite incomes and living standards in the wider community.

4 *Rural Policy : Some Background*

Jonathan P Sher and Katrina Rowe Sher^{iv}

Sher and Sher published a paper in the Journal of Research in Rural Education in 1994. It was based upon work they had been commissioned to undertake for the Australian DPIE in 1993. They are highly credentialled rural educators with an international reputation. Their paper carries no high powered economic analysis. It is a narrative outlining their findings and conclusions drawn from wide international experience.

The DPIE requested Sher and Sher in 1993 to prepare a paper focussed upon a strategy for rural development based upon rural education and entrepreneurship. When they began to review existing Australian literature on the subject, they were astounded to find that very little was available. There was very detailed material on specific rural places, rural groups and individual industries. They could not source a single convincing contribution that addressed the reality of life beyond cities and suburbs. They came to the conclusion that in 1993 for Australia, there existed no rural development strategy at all

They changed their original task from rural education and entrepreneurship to one of writing a program for rural development. They used their experiences from OECD work and observations of applied empowerment strategies to compile their contribution to Australian rural development policy.

What can be inferred from their paper is that the Australian agro-political movement and major political parties enthusiastically embraced market theory from the early 1980's without a substantive rural development plan or understanding of likely outcomes. It appears Ideology was the driving force. Reality came somewhere else.

Empowerment of Communities

Empowerment of communities first appears in the Sher and Sher 1994 paper^v. They^{vi} criticize OECD nations for considering rural development as “*something to be done to rural areas or for rural communities*”. They argue further that this approach destroys rural ethos that encourages rural development by rural people for themselves. They go on to say “*self government is always better than good government*”

Sher and Sher admit that “*self reliance and empowerment have become trendy concepts*”; but, they would like to believe that self reliance and empowerment are a “sea change in attitudes” from objective analysis of actual OECD experience^{vii}. Empowerment should not be understood as a policy option in which governments have no role. Governments need to develop empowerment-promoting policies and accept a role as a partner in rural development

Empowerment of communities^{viii} is based upon some central concepts

- All involved parties agree on some important fundamentals
- A common conceptual agreement
- Agree on an operational strategy
- Each stakeholder must be empowered to contribute.
- Each stakeholder accepts responsibility to contribute their specific skills
- Activity must be appropriately funded

5 Current Rural Policy Direction

Market economics with its commitment to deregulation, increased efficiency, rising productivity, international competitiveness and free international trade has dominated Australian economic policy for almost three decades^{ix}. Over the past three to five years, constructive discussion on rural policy appears to have waned. Politicians have effectively fragmented the rural voice and managed dissent by arguing that rural communities know best their own solutions (empowering of communities)

The policy position that local communities are responsible for their own destiny carries a number of interesting implications.

- Rural policy accepts responsibility only for positive economic outcomes such as deregulated labor markets, competitive exchange rate, low inflation and interest rates, vibrant industries, and communities that are growing
- Negative economic outcomes affecting industries, communities and regions are not the consequence of policy. They are stand-alone situations determined somehow within communities lacking a sense of “community” and quality local or industry leadership.

By shifting responsibility for perverse policy outcomes back to community level, individual communities feel somehow to blame for their plight. Consequently, every small community seeks to demonstrate responsibility for its situation by chasing individual solutions such as local tourism, retirement housing; local market days, and some promising industry. Effectively, each community competes against its neighbor to secure their own small portion of any available project or dollar.

This is an *enclave theory* of rural renewal based upon a philosophical position.

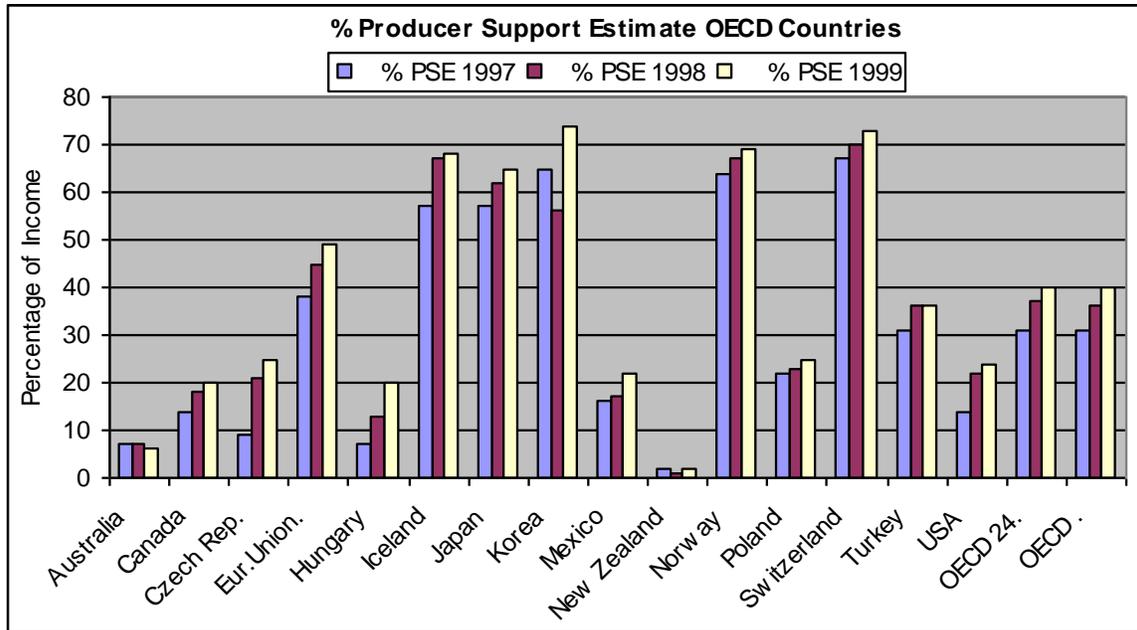
Some reality is provided by *The Interim Report “ Impact of Competition Policy Reforms on Rural and Regional Australia; Draft Report ”*^x that tells us the majority of small rural communities continue to grow. The problem lies in a percentage (31%) of inland communities based upon grazing, wheat and mining. These towns comprise the service centers for major industries in inland rural Australia; and, herein lies the policy problem.

The Productivity Report dispels other myths about rural population decline. Overall, rural population is growing in absolute numbers; but, the distribution is shifting producing such phenomenon as sponge cities and coastal drift.

Statistical analysis of the problem produces surprises. For example, politicians point to particular towns as policy success stories in terms of population growth and business activity. This in no way contradicts; but , confirms the pattern of change identified in the Productivity Report. But, closer examination of these growing small towns often discloses that whilst the town population expands, the surrounding regional population contracts.^{xi}

6 OECD Rural Policy: The Evidence

Graph 3



Source:

Agricultural Policies OECD Countries Monitoring and Evaluation 2000 Table iii.5; p. 163

The percentage producer support estimate (%PSE) is the monetary value of all farm assistance expressed as a percentage of farm gate revenue. It is important to understand that the measure is based on farm revenue and not income i.e. revenue less costs.

What is apparent from the graphical analysis is that rural policy based on community empowerment appears to have become less important over the latter years of the 90's. From 1997 to 1999, all OECD member countries except Australia and NZ increased the %PSE. Australia continued to reduce support from 7% to 6% whilst NZ remained constant at 2%. This suggests that OECD member nations considered farm revenue support a more important policy mechanism than empowerment.

7 Alternative Analytical Framework :

Engel's Law

“ *Engel's Law states that as income grows, the demand for food grows less than proportionately. This is a Law of pervasive importance in economic growth* ”

Kindleberger^{xii}

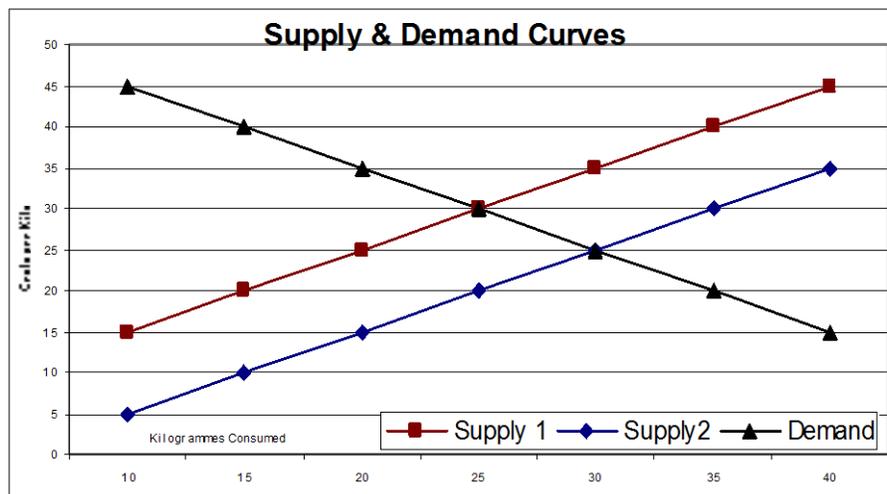
Engel's Law is an established law in economics^{xiii} with profound implications for economic analysis. Its presence can be demonstrated whether considering the behavior of an individual, a nation or several nations^{xiv}. Engel's Law explains why as an economy grows and incomes increase, demand increasingly shifts away from food with low-income elasticities of demand e.g. grain and other staple foods^{xv}. Consequently, the relative price of food declines compared to expenditure on manufactured goods and services. These effects of Engel's Law occur across both domestic and internationally traded goods and services.

In the real world, Engel's Law can help explain the structural realignment of agricultural sectors in economies as they grow over time. An important point is that Engel's Law does not disappear at some given level of economic maturity. It is a continuous process; and, mature economies such as Europe, America and Australia continue to experience ongoing structural realignment of agricultural sectors in their economies. The presence of Engel's Law in Australia has been demonstrated by Rees in previous research papers^{xvi}.

It is important to remember that whilst agriculture declines relatively in an economy, in absolute terms agricultural output continues to grow. Engel's Law challenges directly market economics and its belief in an international free trade solution; and, establishes the case for managed trade. The political agenda that restricts Australian trade policy debate to a position of either fortress Australia or free trade says more about the quality of politicians and ideology than about the breadth of economic theory

Conventional Supply and Demand Theory

Conventional supply and demand theory explains price determination under market forces through business cycle activity. There is an optimum price level determined in the market when the level of supply equals the level of demand. From the price elasticity of demand for food implied in Engel's Law, it follows that production beyond the optimum level will see prices decline disproportionately to the increase in output.



The above graph illustrates the fundamental concepts of supply and demand theory. Price changes are reflected in movements along the curves be they supply or demand. Fundamental changes underlying supply or demand determinants will move/shift the curves depending on the direction of changes. Main underlying factors influencing supply curve stability are: price, alternative products produced by the firm or industry, input prices, technology, degree of market power. Similarly, factors underlying demand curve stability comprise price, substitute product price, income and wealth distribution, tastes and preferences.

The current buoyancy of cattle prices poses an interesting exercise in conventional supply and demand conditions.

Supply

- Drought in Queensland south east
- Price
- Factor transfer from cattle to other agricultural activities during low price periods
- Technology
- Input prices
- Alternative international supply sources for international customers

Demand

- low national currency value
- disease status of alternative international suppliers
- Price
- Price of substitute protein
- Availability of protein substitutes
- Wealth and income distribution
- Tastes and preferences of consumers both domestically and internationally

Engels' Law ; Supply and Demand Theory

Consider Engel's Law and conventional supply and demand theory ; and, rural decline become a problem of structural realignment of a rural sector in a growing mature economy. Engle's law explains why under rising incomes food expenditure falls proportionately in overall expenditure patterns. Structurally this implies rural production will decline as a proportion of overall aggregate output in a mature economy

Supply and demand theory explains the volatility of the price over a trade / business cycle. Supply and demand theory explains also the oscillations of the terms of trade curve around the long-term trend curve at any given moment in time

Market economic theory with its emphasis upon increased efficiency and rising productivity cannot solve the long -term decline in real farm prices. Continued adherence to market theory is more likely to reinforce trade cycle momentum than produce desired

stability. Indeed, in time of international oversupply, increasing efficiency and rising productivity will have the perverse policy effect of exacerbating the oversupply problem and exert increasing downward pressure upon already inadequate prices.

The solution lies in management of structural realignment; and, not increasing production

8 *Political Economics*

Within an economic system, two different but interacting orders exist simultaneously. These are the political and economic orders. Both have underlying philosophies. The political order ranges across the full spectrum from conservative to socialist beliefs; and, their understanding of individual freedom and the authoritative decision making process. The economic order concerns itself with the organization and distribution of production in an economic system and embraces the full spectrum from competitive capitalism to a command economy.

It is the underlying interaction of these two philosophical orders that determine the final shape of an economic society. For example, a conservative political philosophy would be incompatible with a command economic system; and conversely; no socialist would accept a laissez-faire/ competitive capitalist economic system. Across this spectrum, there exists in reality no pure form of either economic system. Economic systems are therefore categorized in terms of dominant characteristics. The same can be said for the political order.

For the purposes of this discussion interest is in the political and economic spectrums of contemporary conservative / competitive capitalism; and, modern liberalism/ mixed capitalist economic systems. The radical /command economic system is not relevant to the Australian situation or this paper.

Understanding one order of society either political or economic is not enough to explain economic policy and its direction. There needs also to be an understanding of both orders and their interaction to fully comprehend economic policy. To substantively change the economic order, it becomes necessary to modify or change the political order. This is likely to be more involved than voting for a different political party. Another political party might simply have a different set of priorities, support groups and different rhetoric. It is not as simple as media name calling or labeling of political parties would have us believe

Contemporary Conservative^{xvii}

Contemporary conservative philosophy is identifiable by the following characteristics:

- Maximizing individual freedom
- Maximum individual freedom requires a laissez-faire/ competitive market economy
- Private ownership of the means of production
- Abuses of economic power best addressed by a competitive market system

- Government intervention promotes monopoly power
- Competitive capitalism guarantees a highly stable, efficient and egalitarian economic system
- Increasing government power promotes authoritarianism
- The best government is the one that governs the least
- Inherent dangers in a system that deviates to far from a laissez-faire system

Early architects of competitive capitalism were Adam Smith, David Ricardo and John John Stuart Mill in his early years. In his later years, Mill recognized deficiencies and abuses evident in laissez-faire nineteenth century Europe; and, came to support a more aggressive role for government to moderate the worst features of competitive capitalism.

It is important to note that a pure laissez-faire economic system has never existed. Nonetheless, Adam Smith's *Wealth of Nations* provided the theoretical framework for classical economists of the early nineteenth century. By the middle of the nineteenth century Britain was close to a laissez-faire industrial economy. However, by this time it was becoming apparent that competitive capitalism carried with it abuses and excess that required modification. Economists of this view began to demand reform of the prevailing laissez-faire system

Free trade, a competitive market system and parliamentary reform had been the agenda of early nineteenth century classical economists in their fight to reform the established mercantilist economic system^{xviii}. For this reason early nineteenth century classical economists promoting a laissez-faire economic order were considered liberal reformers. Measured against contemporary benchmarks they would be classified as contemporary conservatives.

Noted twentieth century contemporary conservatives are Friedrich Hayek and Milton Friedman. Hayek's *Road to Serfdom* is considered an important extension of Adam Smith's philosophy^{xix}. Friedman is also a prominent contemporary conservative and is considered to owe Hayek an intellectual debt. In his noted work *Capitalism and Freedom*, he considers that competitive capitalism is synonymous with individual freedom^{xx}

The policy direction expected under contemporary conservatives would be a market driven competitive economic order. Policy emphasis would be supply side emphasis to remove impediments to the operation of market force and increase competitive behavior. International free trade is traditional for competitive capitalism. Minimal government involvement implying low taxation and expenditure requirements.

Modern Liberalism

Modern liberalism began with the nineteenth century economists who recognized abuses and excesses in competitive capitalism. From the mid nineteenth century economists arguing for change ranged from moderate interventionists to radicalism i.e. Marx

Modern liberalism has similar basic tenants to contemporary conservatives except that they stress a positive role for government in expanding and guaranteeing individual freedom. Thus modern liberalism is identifiable by the following characteristics

- Basic institutional structures of competitive capitalism
- A role for government to correct abuses of competitive capitalism
- A mixed economy comprising private ownership of the means of production existing alongside public ownership where necessary
- Individual freedom
- Curtailment of freedom of some individuals to raise overall freedom of society
- Acceptance of a welfare state system
- Leading role for intellectuals in society rather than dominance of business

The economics of Keynes is the theoretical basis of mainstream modern liberalism^{xxi}. The experience of the Great Depression had lead to an acceptance of demand management policies. In America, movements such as: New Dealism, Progressivism and the Great Society are all examples of modern liberalism's response to the inability of competitive capitalism to deliver a modern just society. Leading twentieth century liberal writers of note are John Kenneth Galbraith and Joseph Schumpeter.

Under modern liberalism important policy objectives would be: humanization of the competitive market, equitable distribution of income, range of welfare programs, full employment and economic growth

Conclusion

Political economics would identify the Australian economy as a competitive capitalist system. All the major political parties easily meet the characteristics of contemporary conservatism except for a more recently formed party. They all philosophically support low taxation / small government, free international trade, competition policy in some form; and, empowerment of rural communities regional development

Party policy positions differ only in degree and rhetoric. In other words their political orders are remarkably similar whilst their economic orders differ only at the margins. Specific policy issues of rural income distribution, drought policies and regional development comply with the central tenants of contemporary conservatism and competitive capitalism

9 The Universal Solution: Regional Development

The Productivity Commission Draft Report (May 1999) identified rural towns in decline as primarily support centers for dryland grazing, wheat and mining industries. These major rural industries comprise broadacre agriculture accounting for approximately 60% of gross value of agricultural output. In these towns, protracted commodity price

dislocation and volatility has undermined income stability, saving; investment, industry confidence, regional development and stability.

Recently, commodity prices have recovered somewhat. However over time, purchasing power of commodity prices remains below real price movements in the wider community. Given the cyclical nature of commodity prices, it is uncertain how long the current relief will remain

Rural and regional development through infrastructure expenditure has become the solution slogan for politicians and market economists to address these underlying rural problems. Rural and regional development however implies establishment of new industries to rebuild declining towns or regions. Infrastructure, by itself, is only one aspect of the underlying problem. Deepening the industrial base, skill enhancement and income distribution will still remain important policy priorities.

Some Reality

To attract industries to new locations, certain characteristics are required

- A core population base necessary to deliver services
- Capacity to service markets
- A skilled workforce

Competitive business does not welcome unnecessary hardships when selecting a new location. They are more likely to select towns offering established service centers and required work skills.

The rural workforce is poorly educated relative to urban workers where 15% of breadwinners hold a university degree at pass or higher level compared to 8% in rural areas (Productivity Commission Draft Report). Moreover, only 25% of Australia's farm workforce have completed secondary school, holds a trade or tertiary qualification. The figure for New Zealand is 50% and Europe 90% (NFF, New Horizons)

Real world industries looking to relocate are more likely to seek out vibrant and viable towns possessing the necessary attributes. Whilst it is fine to include tourism and retirement industries in a balanced development program, over reliance on these low-income industries could prove self-defeating. Low income, aged communities characterized by entrenched poverty traps are unlikely to attract modern expanding industries. Older type industries seeking low waged workers to survive will transfer their own problems to debilitated towns.

10 What Needs to be Done

Economics is about choice; and, market economics concentrating on efficiency and microeconomic reform is only one option. Solutions are available; but they lie beyond narrow market theories and embrace income distribution, sustainable economic growth, full employment, rising standard of living, and equality of opportunity. Solutions must be

two tiered: short term and long term; and, the overall policy objective of rural and regional development broken into two major economic target areas:

- Stem the disproportionate flow of GVFP to the wider community
- Reality based regional development for declining broadacre service towns.

Short term

Work with existing industries to lift farm incomes and improve the viability of the service towns by

- Addressing overproduction of farm output
- A just price for a farmer's labor in a mature and wealthy economy.
- Return basic services to communities

Long term

- Address the educational gap between urban and regional workforce
- Communication technology necessary to support industrial development
- Halt the brain drain of our brighter young people.
- Brain based industries encouraged to relocate
- Development of rural environmental service industries
- Research to identify new agricultural industries

11 A Suggested Approach

Income Distribution

- deficiency payment and income bond system to smooth farm incomes

In the short term, there is little option but to structure a system of deficiency payments to fairly value some rural output. A more permanent program could be structured using a deficiency payments scheme in conjunction with an income bond scheme to smooth income flows. In times of high commodity prices tax incentive income bonds could provide a savings mechanism a deficiency payments program would support farm incomes in times of depressed commodity prices

Regional Development

- New industries to broaden the rural industrial base

Establish new industries to service environmental objectives of the wider community. Because there are no markets for rural environmental service industries, a system of transfer payments will be necessary. Remuneration for these industries must be competitive with alternate returns from established farm production options.

The advantages for the wider community are many:

Deepen industrial base

Meet green house objectives
Encourage sustainable resource use
Address the problem of over-clearing
Repair damage to national waterways
Establish wild life corridors and habitats

- A national *industry establishment fund* for infrastructure development; and, directly assist and support necessary industrial establishment in disadvantaged urban and rural areas. The fund could be structured through government indexed bonds carrying a real rate of return available to superannuation funds on a taxation relief basis
- Establishment of *an ethanol industry* to deepen the industrial base of rural communities. It would contribute to community environmental concerns over reducing dependence upon fossil fuels.

At the moment, ethanol proposals appear limited to stabilizing the sugar industry. A wide range of crops from diverse agricultural regions is suitable for ethanol production. These regions and their communities should not be denied deepening narrow industrial bases simply to advance political interests in cane electorates

- Encourage professional *consultancies* to establish themselves in regional areas
Governments, local governments, and rural industries should encourage consultancies interested in rural research to locate their activities in rural towns by preferential support with research projects.
- *Skills problem addressed through migration*

To overcome our dependence upon international trade, it is generally conceded that Australia needs to increase its population base to 40m-50m people. Exports should then become a marginal activity for industry rather than the main game. As industrial expansion is encouraged into rural areas, skilled labor shortages could be addressed by actively recruiting skilled migrants.

- *To retain young people*

Income and career prospects in rural areas need to be comparable to those available in urban centers. Recent research confirms that rural workers are among the lowest paid workers in the Australian workforce. Young rural people with a modern high school education will not accept remaining in low paid, low skilled communities; and, accept joining, the army of working poor as their lot in life.

12 Conclusions

- Market economic policies have failed rural Australia
- A more pragmatic approach to rural structural realignment is needed
- Structural realignment can be managed through rural and regional development
- The educational disadvantage of rural Australians relative to urban dwellers addressed

- A fair and just price for farm output
- A structured income smoothing system
- Income and employment opportunities comparable to urban centers to retain the young

Development of a comprehensive regional development strategy will require a “sea change” from the popular empowerment thesis. Policy will need to simultaneously address twin economic targets comprising income distribution and regional development. Political economics tells us that no directional change in rural policy will be possible without change in the established Australian political and economic orders

This will require a strong rural voice in the political process; and, the development of a third way for Australia lying somewhere between competitive capitalism and over zealous modern liberalism. Without a directional change in rural policy, substantive rural renewal will not take place. Established commodity price volatility will continue to undermine income stability, saving and investment patterns, industry confidence, regional stability and development.

ⁱ Report, Rural and Regional Affairs Committee, *Rural Adjustment , Rural Debt and Rural Reconstruction*, Dec. 94.,p.3

ⁱⁱ RAS Dec. 94 op cit. p. 55

ⁱⁱⁱ Refer Rees ,Ben research Rebuilding Rural Australia Project, (QUT, Dr. M. Mc Govern), 1994-96

^{iv} Jonathan P Sher and Katrina Rowe Sher, Beyond the Conventional Wisdom: Rural Development as if Australia’s Rural People and Communities Really mattered, *Journal of Research in Rural Education*, Spring 1994, Vol.10, No 1

^v Jonathan P Sher and Katrina Rowe Sher, Beyond the Conventional Wisdom: Rural Development as if Australia’s Rural People and Communities Really mattered, *Journal of Research in Rural Education*, Spring 1994, Vol.10, No 1 p.32

^{vi} Sher and Sher op.cit.

^{vii} Sher and Sher ;ibid

^{viii} Jonathan P Sher and Katrina Rowe Sher, Beyond the Conventional Wisdom: Rural Development as if Australia’s Rural People and Communities Really mattered, *Journal of Research in Rural Education*, Spring 1994, Vol.10, No 1 p.32

^{ix} For a detailed discussion refer Rees, Ben, “ Economics of the Rural Sector” Matching Rural Needs and Policies Symposium, Office Rural Communities (Qld.) July, 1996

^x Impact of Competition Policy Reforms on Rural and Regional Australia” Draft Report May 1999 p 23

^{xi} *Issues In Rural Policy* , Rees, Ben ,paper presented to Economic Society of Aust. Qld branch function, Sept. 2000

^{xii} Kindleberger, C.P, “ International Economics”, Richard D Irwin, 1973,p.77

^{xiii} Kindleberger and Lindert,”International Economics”, sixth edition, Richard D Irwin 1978,p. 60

^{xiv} Kindleberger and Lindert, op. cit. P.60

^{xv} Kindleberger and Lindert, op. cit. P.60

^{xvi} refer; p.p. 6-7

^{xvii} Romano, Richard; and, Leiman, Melvin; *Views on Capitalism*, Glenco Press,1970,p.2

^{xviii} Romano and Lieman op.cit. p. 3

^{xix} Romano and Leiman op.cit p. 3

^{xx} ibid p. 3

^{xxi} Op. Cit.p. 99

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