

Rural Debt & Viability

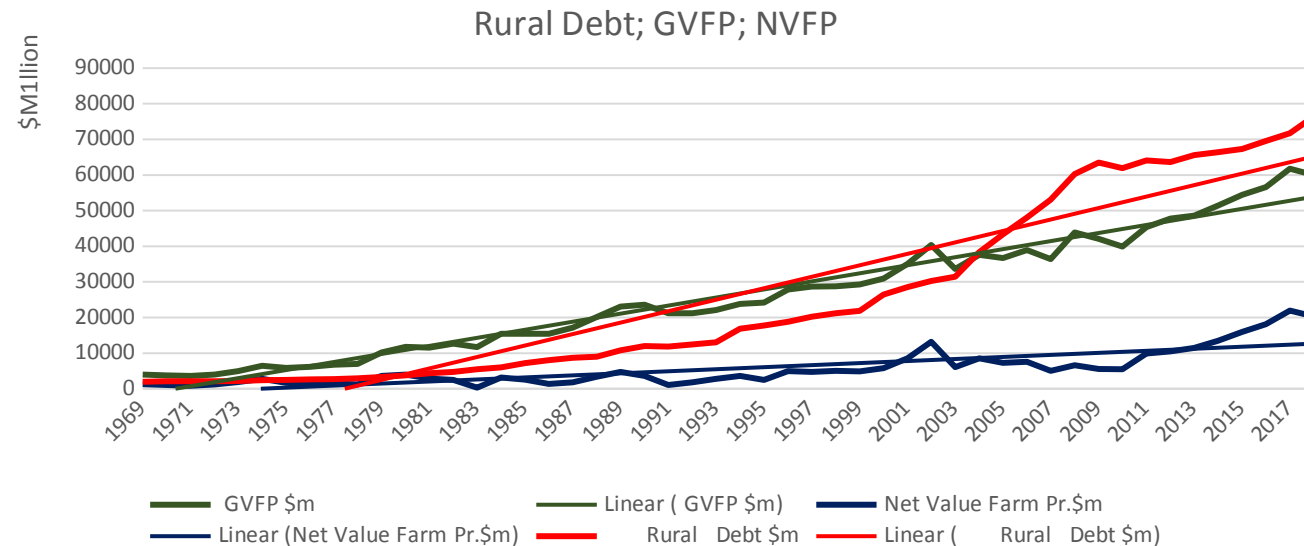
(Economies of Scale the Magic Pudding)

Ben Rees B. Econ.; M. Litt. (econ.)

Rangeland Conference,

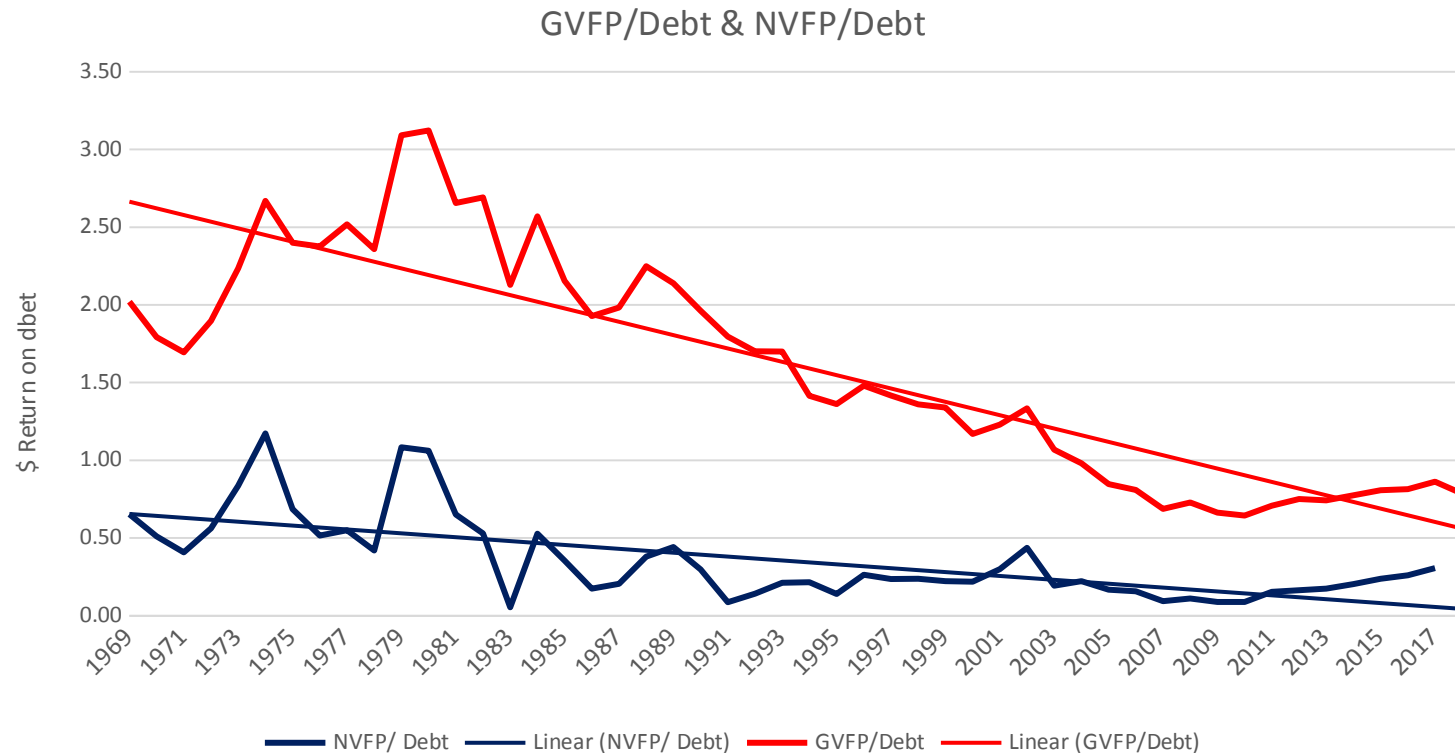
Brisbane, 1st July 2019

Policy Questioned : Four decades of rural adjustment “shipping ‘em out”



Policy Outcome: Key Performance Indicator

Debt & Production

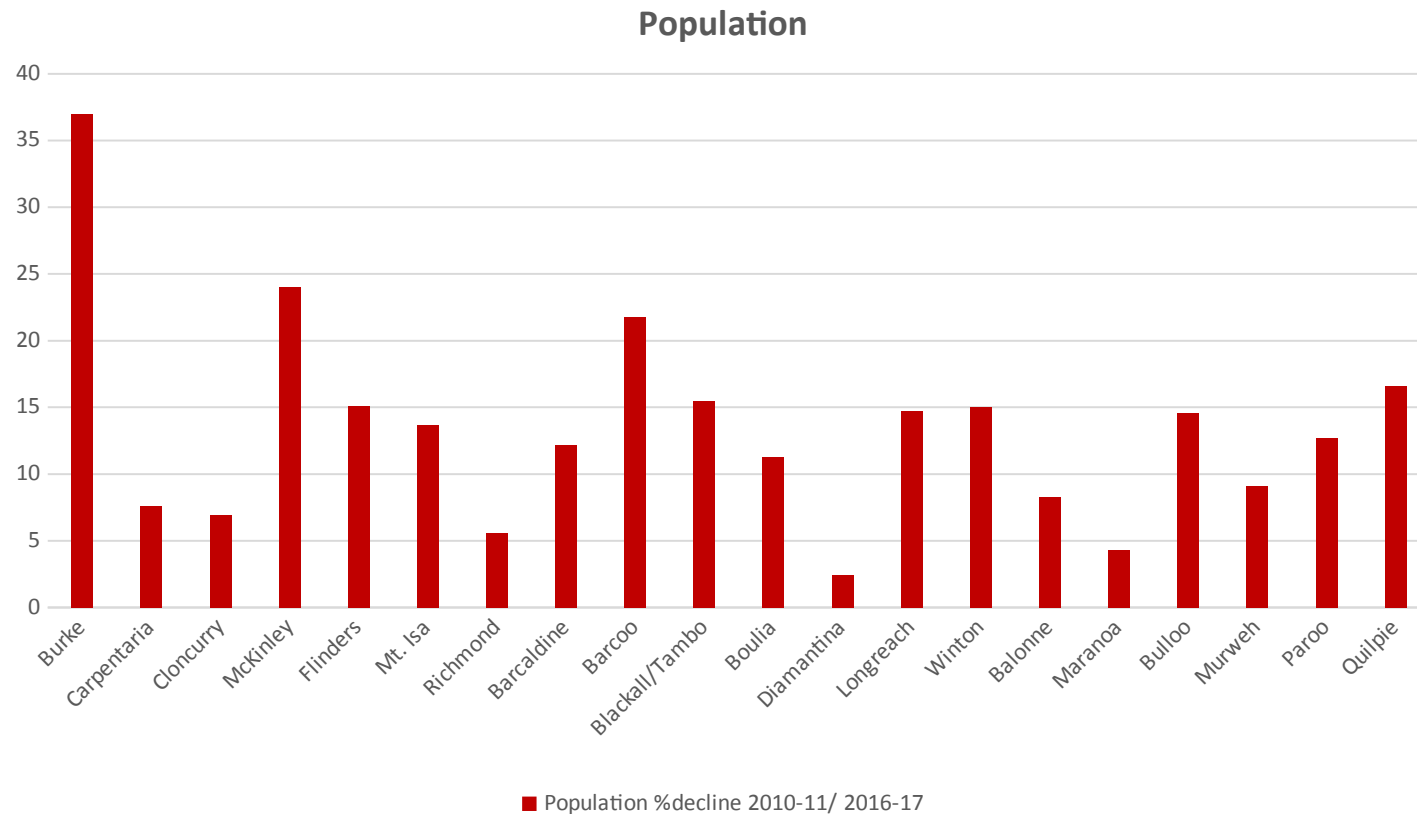


Calculated from ABARES commodity statistics Australian farm returns and costs & RBA Rural Debt Table D9 online

- **Sectoral Decline**
- **1980, GVFP :\$1 debt produces \$3.12 output**
- **1980, NVFP: \$1 debt produces \$1.06 farm gate return**
- **2003-04 GVFP: \$1 debt produces \$1 output**
- **2004: NVFP , \$1 debt produces 19cents farm gate return**
- **Only 3 times does \$1 debt produce \$ NVFP or above: 1975, 1980, 1981**

Policy Outcome: Key Performance Indicator

Population Decline Regional Council Districts 2010-11/2016-17

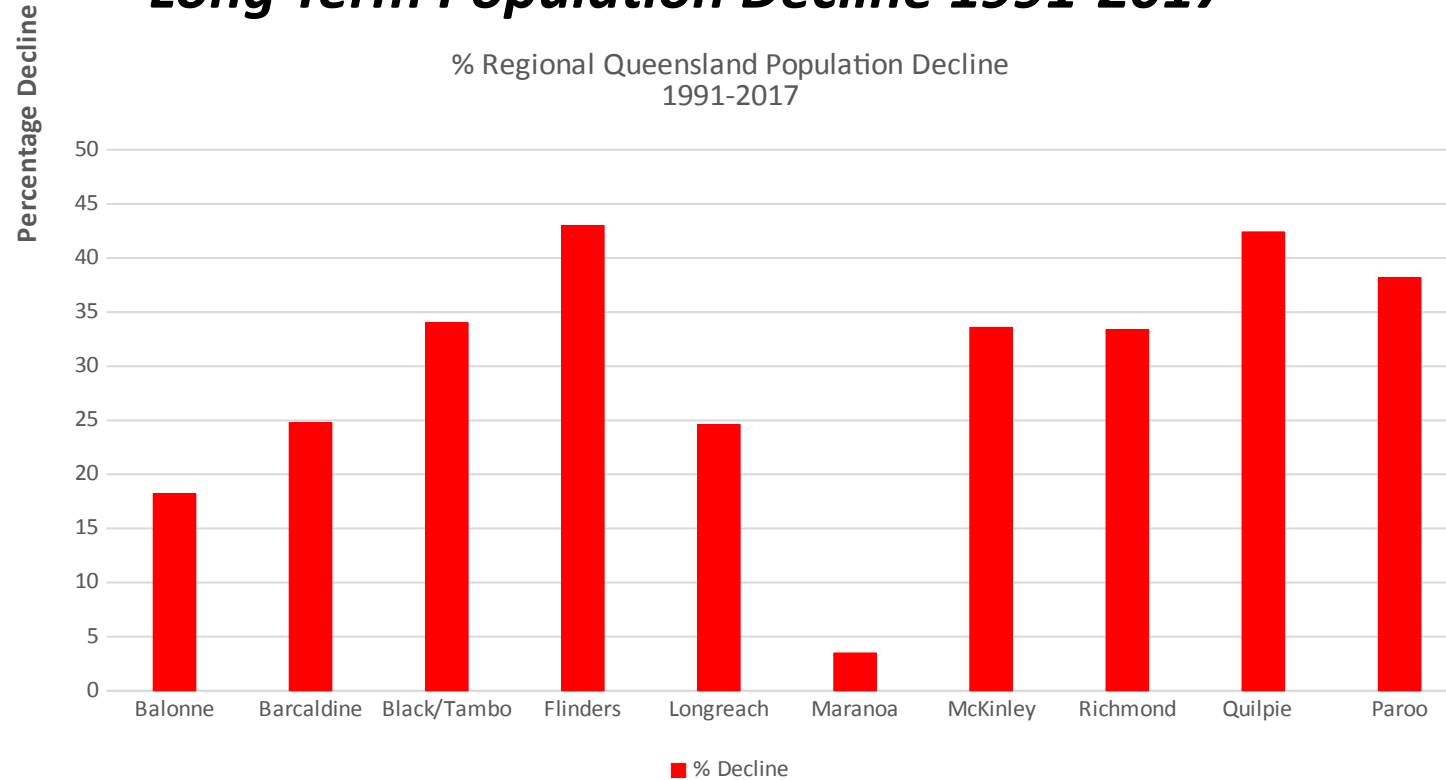


Assessment of Financial Viability of Rural and Remote Queensland Councils Table 2 page 2

- **GFC 2008-09 Dislocation**
- **Current Drought 2013**
- **Policy Failure**

Policy Outcome: Key Performance Indicator

Long Term Population Decline 1991-2017

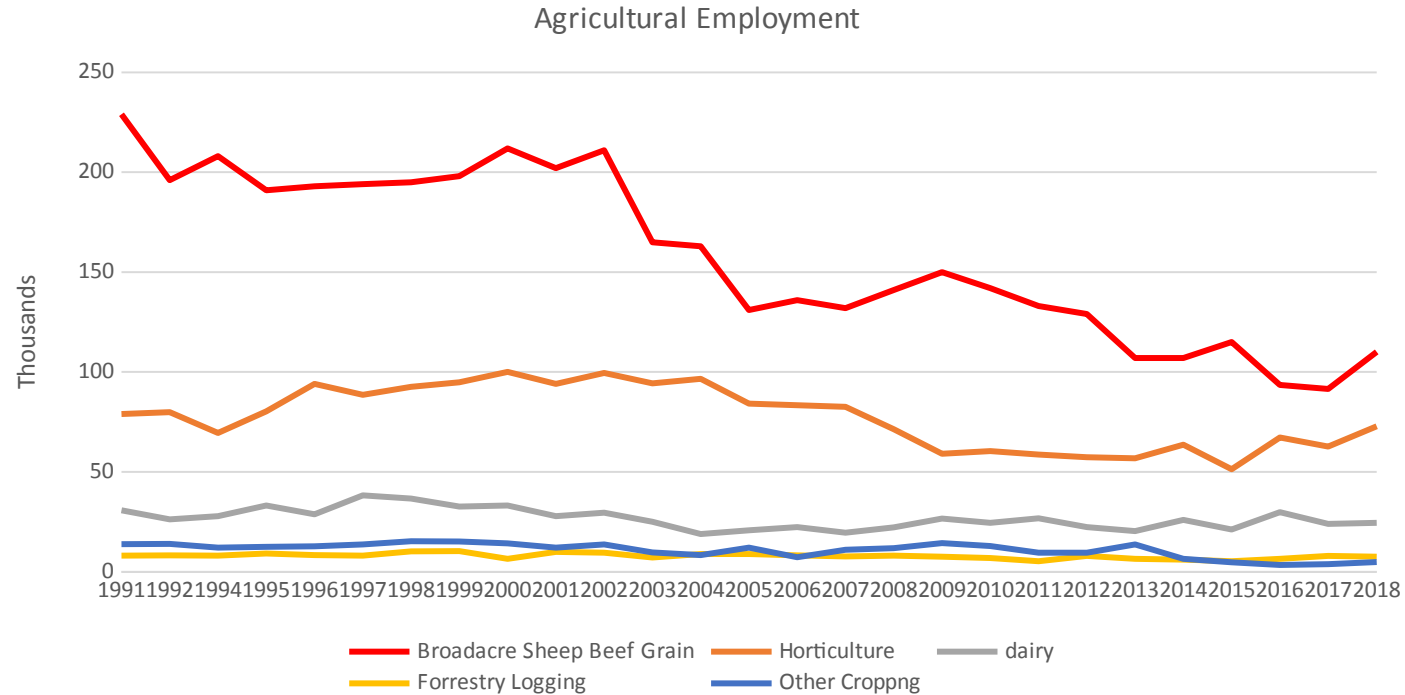


Queensland Treasury Estimated Population by LGW 1991-2017

- **Orderly Marketing of Wheat & Wool ceased 1989-90**
- **Queensland sheep numbers fall from 17.4 million in 1991 to 1.8 million in 2016**
- **National Sheep industry collapsed from 170 million in 1990 to 68 million 2015**
- **Loss of shearing industry large itinerate labour force disbanded**
- **National Cattle herd increased from 23.2 million to 29.3 million 2013**
- **Queensland cattle numbers rose from 9.7 million in 1990 to 12.8 million in 2014**

Policy Outcome

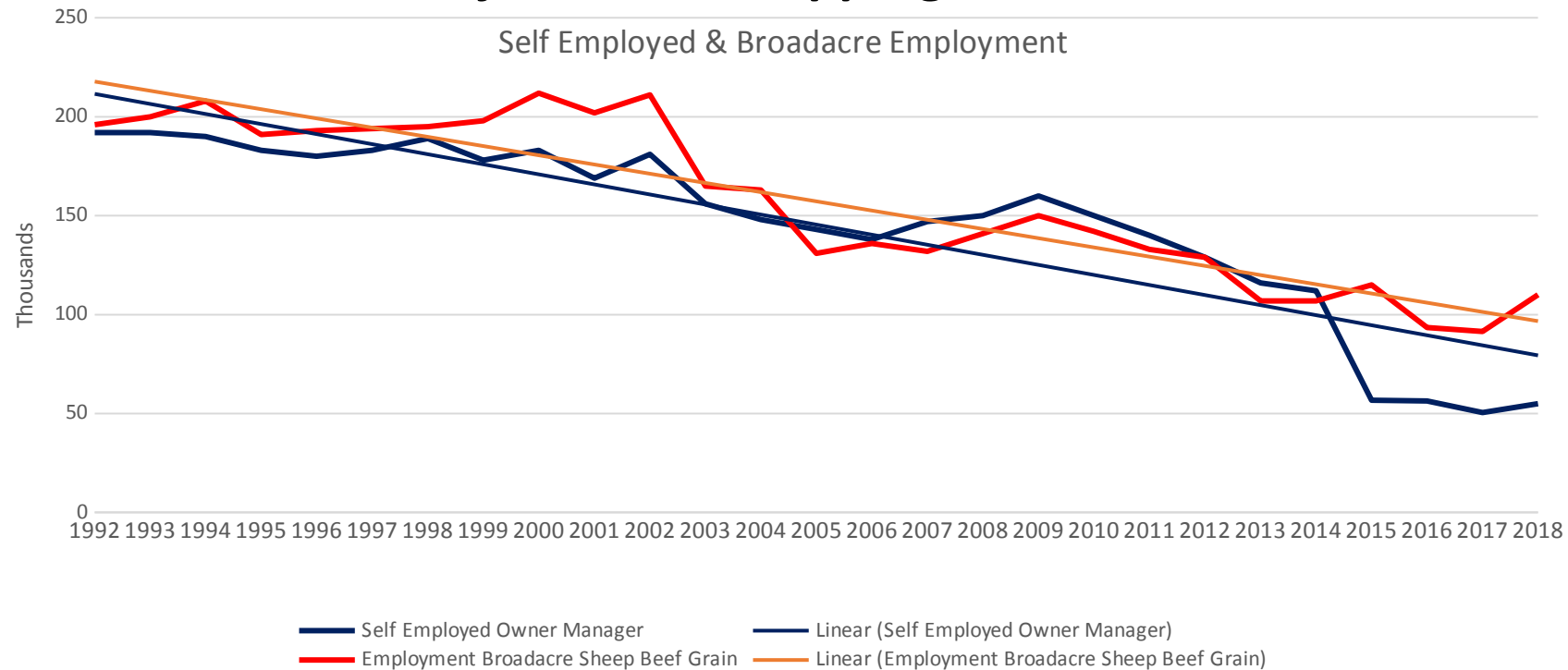
Key Performance Indicator: Employment



ABARES commodity statistics Persons employed in agriculture, fisheries, forestry, 2018

- **Broad acre agriculture severely affected 2002 onwards**
- **Horticulture affected to lesser extent**

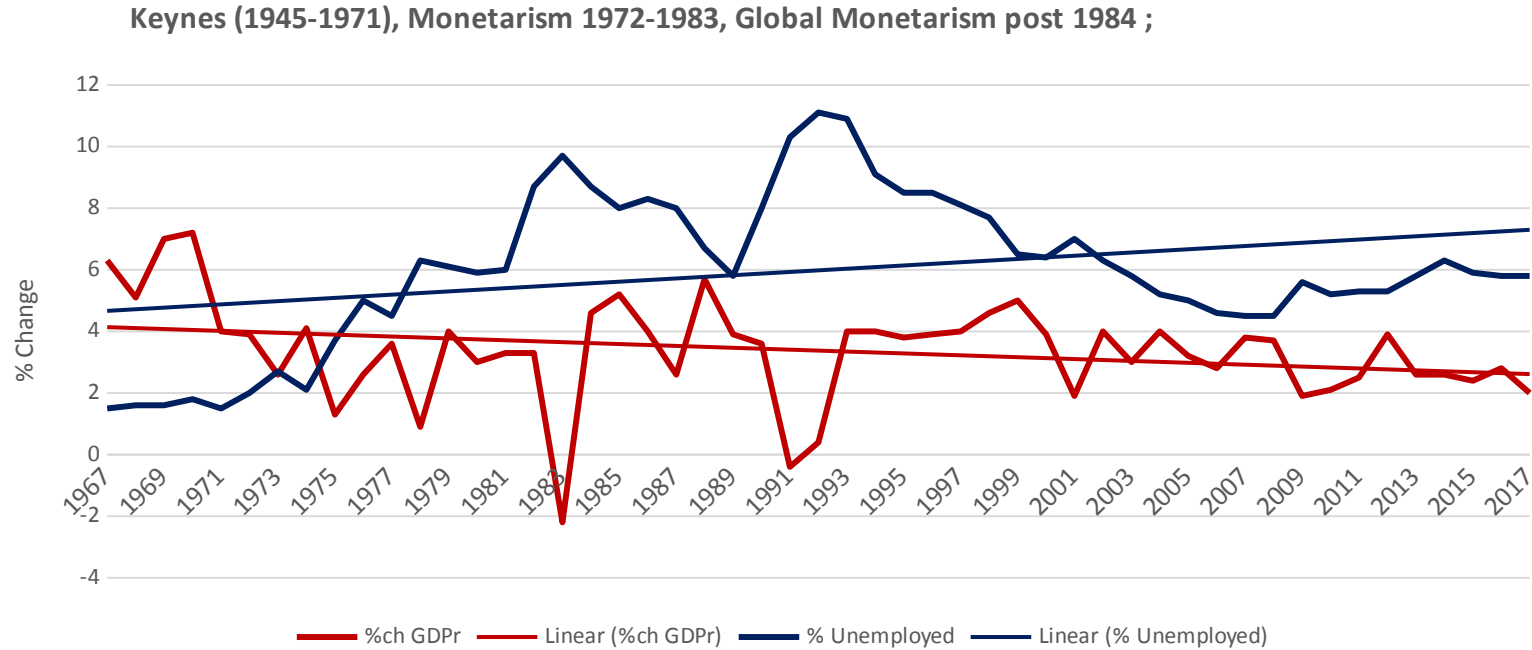
Policy Outcome: Corporatizing Agriculture ***Rural Adjustment “Shipping ‘em Out”***



ABARES commodity statistics persons employed in agriculture Table 3.2 and Farm establishments Table 3.1

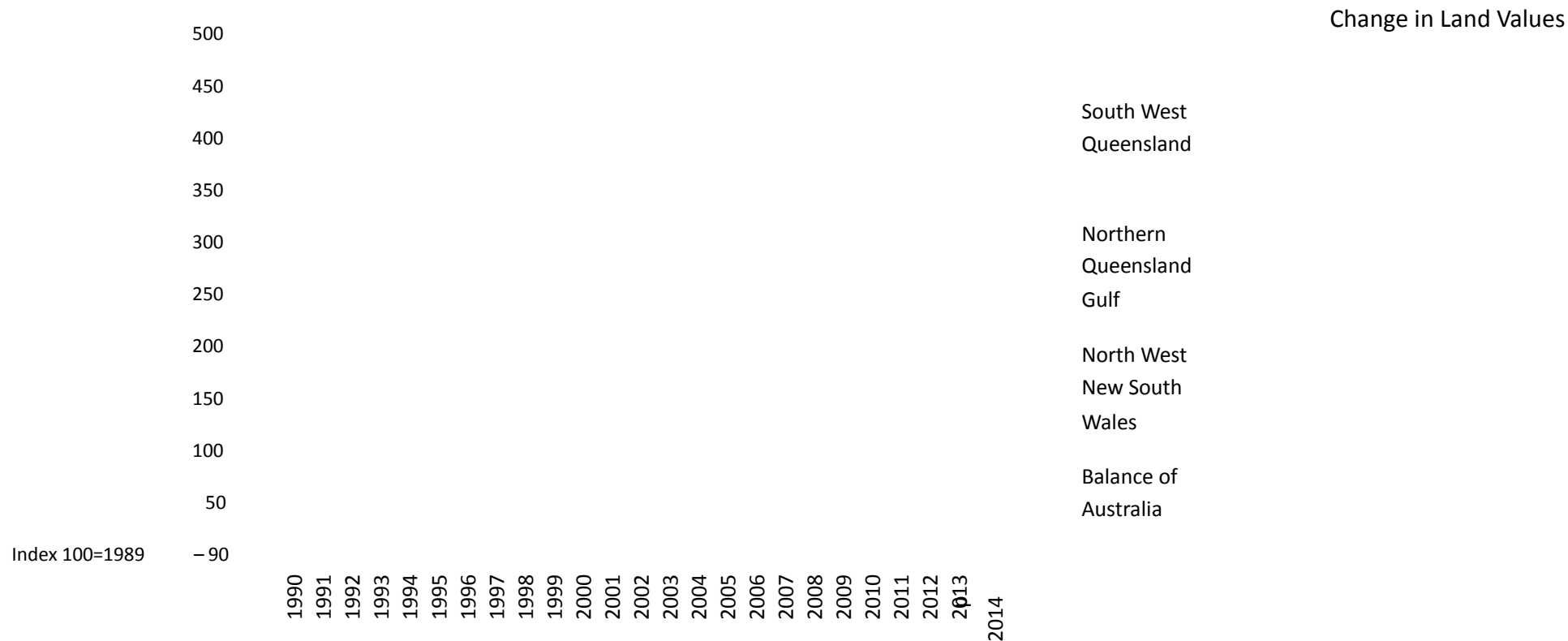
- **Rural adjustment and on farm risk management underwrite drought policy from 1993**
- **No table of drought risk probabilities ever published by any public service department**
- **Series of events: 1997-2009 Millennium Drought, GFC, current drought**
- **Self employed owner managers major component loss of skilled work force**
- **Policy derived crisis**

Economic Philosophy Underwrites Policy :Keynes to Globalisation



- ***1972-1983 Monetarism***
- ***1975 Neoclassical economics institutionalised major Commonwealth Departments***
- ***1983 Global Monetarism***
- ***1983: supply side economics composite policy framework neoclassical/monetarism***
- **Structural Reforms**
- ***Deregulation of currency and Financial sector 1983***
- ***1988; 10%-15% Tariff Reduction***
- ***1991; 5% tariffs by 1996***
- ***1996 Competition Policy***
- ***GST 2000***

Monetarism: Asset Inflation Growth Strategy



From: ABARES Regional Farm Debt Report, Northern Queensland Gulf, south west Queensland and north-west NSW 2014, p. 32

- **Monetary expansion stimulate asset inflation**
- **Taxation set to stimulate asset investment**
- **Increase personal wealth.**
- **Stimulates consumption, investment, employment**
- **GFC burst asset bubble 2008-09**

	%Ch. M3	% Ch. CPI
2003	13.66%	3.06%
2004	10.25%	2.4%
2005	8.94%	2.48%
2006	16.37%	3.1%
2007	19.28%	3%
2008	13.76%	3.42%

Policy Summary

Rural Adjustment or “ship ‘em out”

- Rural adjustment policy introduced 1977
- Rural adjustment policy extended to drought policy 1993.
- **Population decline inevitable outcome of “shipping ‘em out” policy**
- **Policy derived crisis inevitable: Millennium Drought, GFC dislocation, 2013 drought**

Monetarisms Growth Strategy

- **1983 deregulation financial sector**
- **Asset inflation**
- **Asset bubble burst GFC 2008-09**
- **Rural land price collapse**

Neo classical Supply Side Reform

- **Agricultural industry protection withdrawn tariffs 1988-1991**
 - **Orderly marketing of wool, wheat, discontinued 1989-90**
 - **1996 Competition Policy dairy & sugar orderly marketing targeted**
 - **Income redistributed away from rural sector**
-
- Political leaders need to explain five decades of failed economic philosophies .
 - A new philosophy and policy direction urgently required
 - **Recommended further reading: Rural Debt and Drought task force final Report 2016**
<https://publications.qld.gov.au/dataset/rural-debt-and-drought-taskforce-report>

Policy Failure: Explained

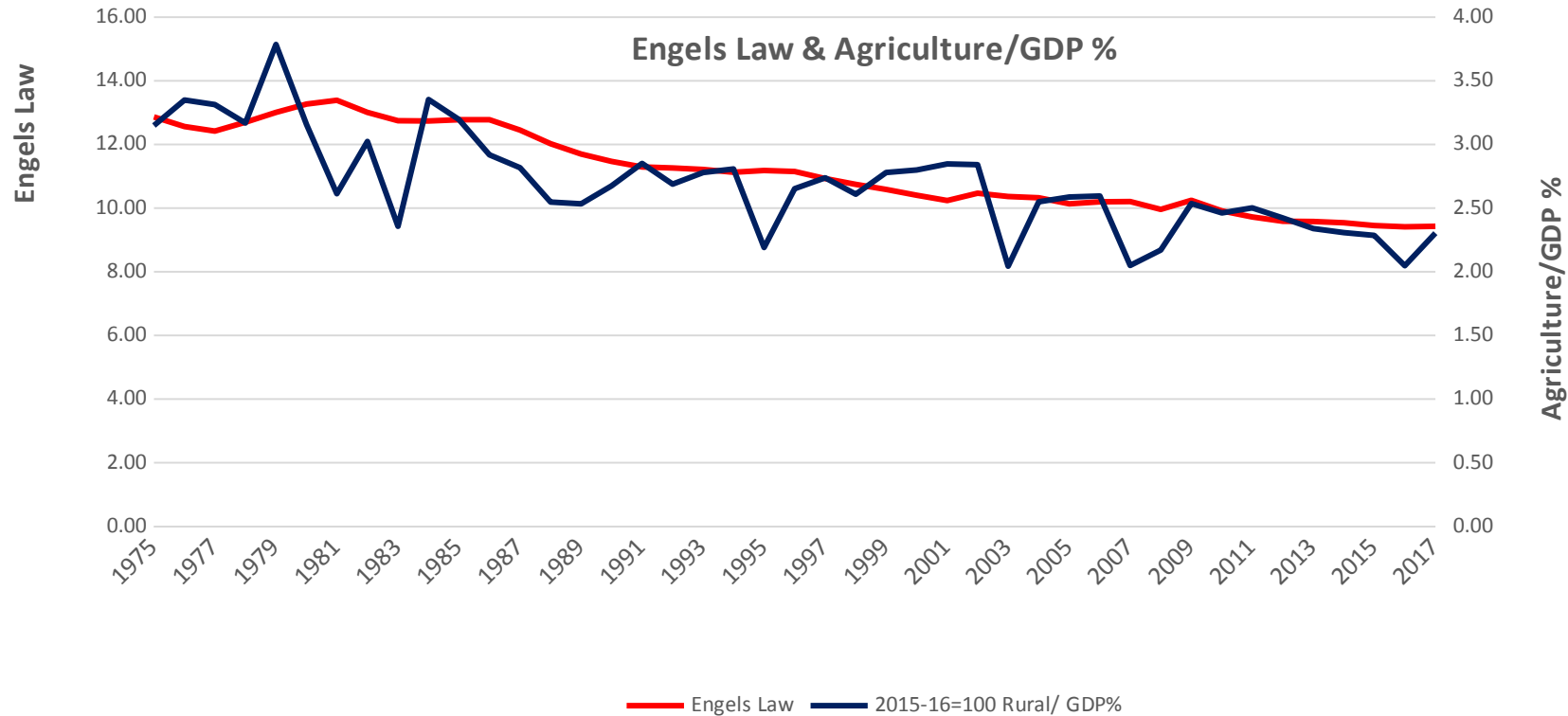
Engel's Law

- *As incomes grow, the demand for food grows less than proportionately*
- *Engel' Law of pervasive importance in economic growth*
- *Profound side effects: political importance of farmers decline with the passage of time*

(Kindleberger Charles P; "International Economics" Richard Irwin ,1973,p.77)

- **Richard Anker; University Massachusetts "Engel's Law Around the World 150 Years Later", 2011**
- **Engel's Law as relevant today as the day it was developed in 1857**
- **Applies equally to domestic and international demand for agricultural products**

Engel's Law Demonstrated



Compiled from

- Engels Law ABS Households Final consumption expenditure Food
- Agriculture/ GDP ABARES commodity statistics 2018 Table 1.1 Australian gross product by sector

- **Engel's Law trend line through contribution to GDP curve**
- **Contribution to GDP dominated by domestic expenditure on food.**
- **Adverse events structure a policy derived crisis**
- **Asset Inflation, Millennium Drought 2002-2009; GFC 2008-09; Protracted Drought 2013+**

Addressing The Engel's Challenge

- *Engel's Law explains income distribution away from agricultural sectors in mature advanced economies*
- *Explains ongoing decline of agricultural sectors in mature advanced economies*
- Neoclassical economics of markets and Monetarism reject Engel's Law
- Corporatisation has failed to circumvent established pervasive Law
- *Engel's Law must be managed over time to redress mal-distribution of income and maintain rural incomes and living standards consistent with non rural sector*
- **WTO Agreement on Agriculture, Annex 2, a policy framework forward**
- **Section 4 Domestic Food Aid to those in need**
- **Direct Payments to Producers: decoupled income support (deficiency payments)**
- **Section 8: Natural disasters payments (drought policy), Crop Insurance (public reinsurance facility)**
- **Section 12: Environmental programmes (income distribution)**

Actions Required

- **Sound Economic Policy**
- **Reject political ideology dressed up as economics**
- **Reindustrialise Regions**

Message from the Past

1945 Full Employment White Paper

- Responsibility of Commonwealth and State Governments to provide the general framework of a full employment economy
- Full employment must be achieved in ways consistent with a free society.
- Governments accept responsibility to sustain full employment
- Rural industries present a series of problems which the Rural Reconstruction Commission will publish a detailed statement of its policy in relation to primary producers in full employment economy, and set out the measures by which it is proposed to improve and stabilize their standards of living.

Droughts Since European Settlement

Droughts

1835-1840

1864-1866

1880-1886

1895-1903

1911-1916

1939-1945

1963-1968

1972-1973

1982-1983

1991-1995

2002-2009

2013+

Protracted

Droughts

1880-1886

1895-1903

1911-1916

1939-1945

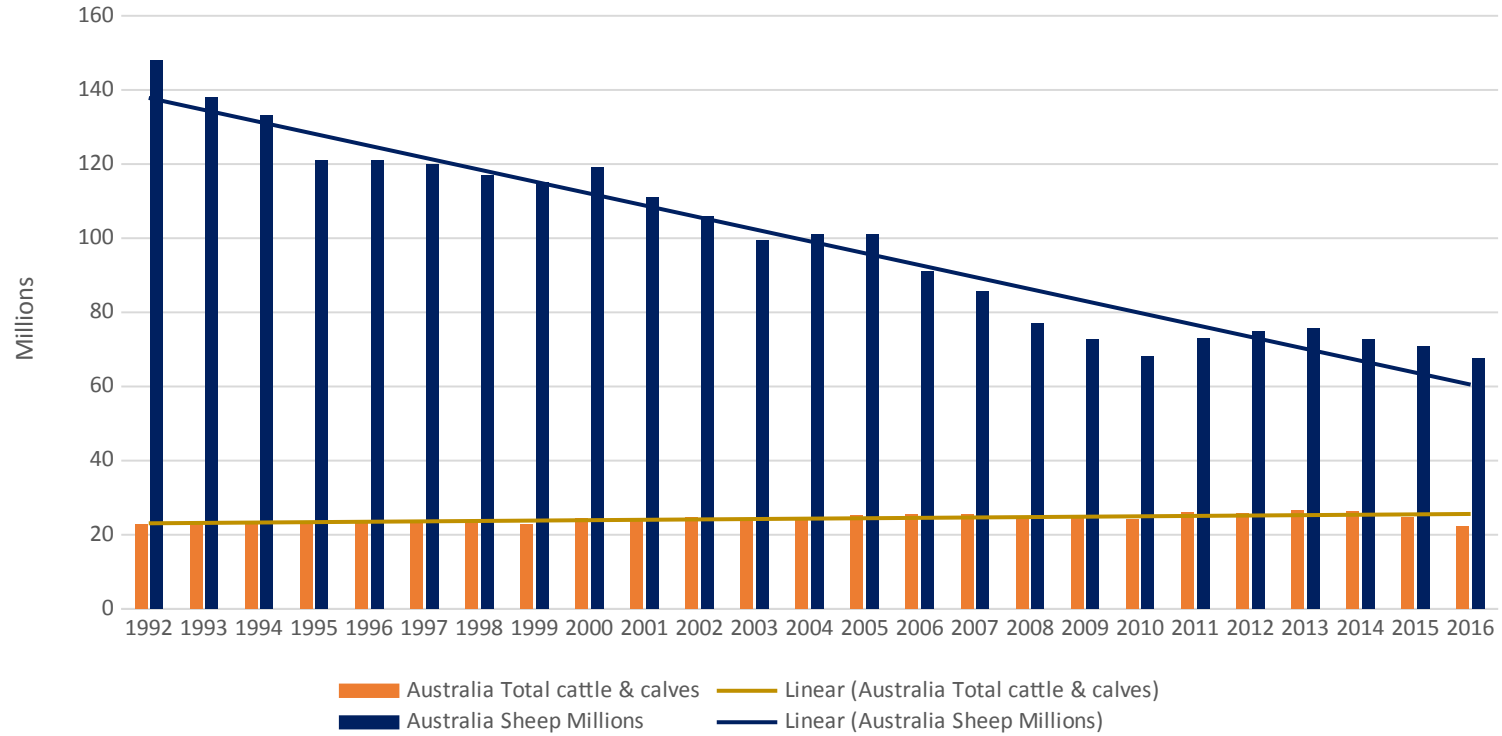
1963-1968

1991-1995

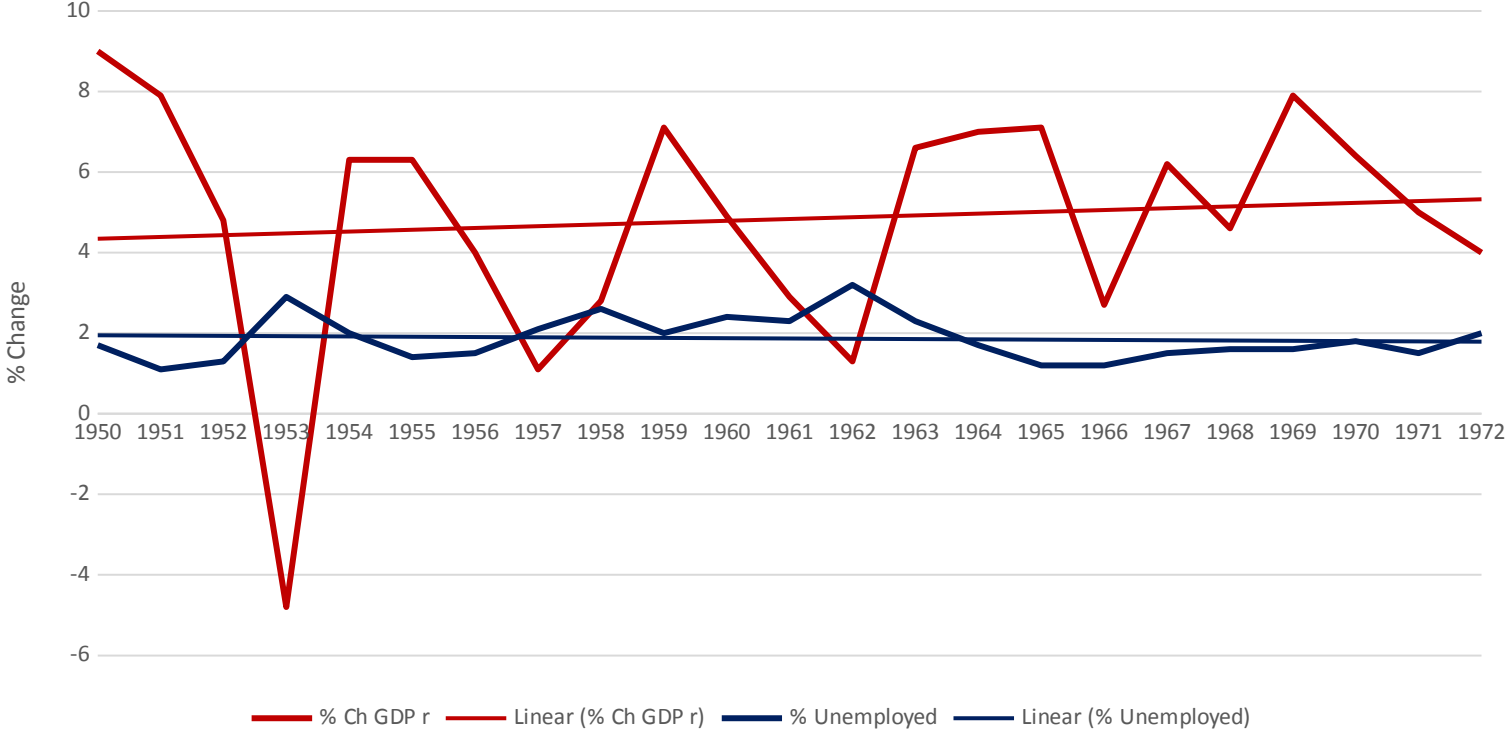
2002-2009

2013+

Australia Sheep and Cattle Numbers



Economic Performance 1950-1972
Economics Keynes



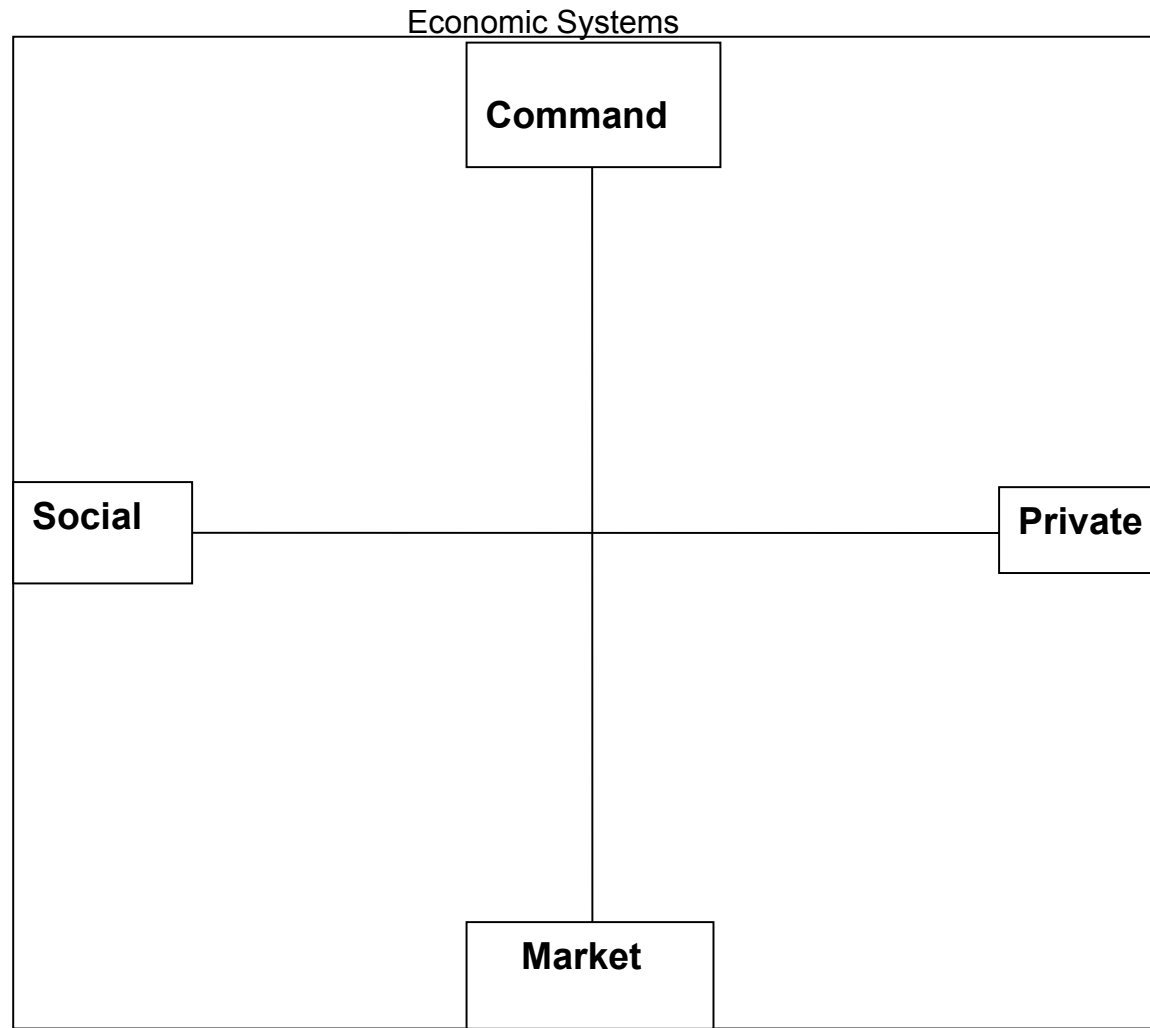
Average Rate Economic Growth 1950-1972 = 4.9%

Average rate Unemployment 1950-1972 = 1.9%

Corporate Rural Australia



Reproduced from: AgJournal, Who Owns Australia, first edition, May 2019 , The Herald and weekly Times, p.p 20-21



- The horizontal axis describes the economic order or ownership of the means of production distribution and exchange
- The vertical axis describes the political order or decision making process