

# RURAL PRESS

## Of Rural Industry and the Economy

*John Hyde*

Throughout Australia's brief history we have been signally dependent on primary produce---wool, grains, meat, gold, coal and metal ores in particular. This fact is inherently neither good nor bad, but, in fact, for much of the past 150 years our rural-and-mining economy has served us rather well. Around 1900 we were the wealthiest people in the world and, as late as the 1950s, only three or four nations enjoyed a higher living standard. Over the past 20 years, however, we have been slipping back in the relative wealth stakes quite quickly. And over the past seven years a misguided attempt to enjoy higher living standards than were justified by our production has been financed by foreign debt.

Declining terms of trade, inactivity associated with a generous welfare system, a tax system which discriminates against investment, and the Arbitration Commission are plausible reasons for our relative economic decline. Each has, no doubt, contributed something to the malaise. Implausible explanations include our relatively small population, want of the Confucian ethic, failure to add value to our primary produce, and over-reliance on primary industry.

The most obvious reason for our relative decline, however, is our failure to ferret out, and concentrate on, the things we do best---in technical jargon, to pursue our comparative advantage.

It is no use producers waiting for the government to tell them what to do: sunrise industries are never identified by economists or by government committees. In fact, government interference tends to inhibit the discovery of new techniques by people trying to reduce costs and raise sales revenues. Relative prices identify new resources and new practices, and point the finger at the old ones which are not pulling their weight.

I am mostly a wheat grower, but one of my paddocks, 'Sugar Gum', has never grown me really decent crop. So, whenever the price of wool goes up or that of wheat falls, Sugar Gum is grazed. This is because its yields are so low that I can then make more from a few sheep. The paddock is 'marginal'---in fact, bloody marginal---and it is 'at the

margin' that economists assure us that change takes place. To the extent that prices told me the truth about current demand and supply, by looking after my own interest, I was using my farm as efficiently as possible and contributing most to the economy.

However, when the government put a levy on wool and subsidised wheat, modest though these distortions were, I was encouraged to use the paddock in a way that did not contribute most to the economy. Monopolies, because they allow producers to charge an arm and leg without losing custom, tend to be even worse than any subsidy a government is game to raise the taxes for. Had the government given me a monopoly to produce, say, deer or poppies on the paddock I could probably have made money, but I would not have used the paddock efficiently.

As with paddocks, so it is with industries. Australian Governments are world beaters when it comes mucking up the price signals which identify comparative advantage, yet when our living standards fall behind nations such as Japan they blame everybody but themselves. Tariffs on manufactured imports, the selective taxes on oil and coal, monopolies such as Telecom and the rail and bulk-handling systems, milk quotas, and industrial awards all destroy the price signals which are needed to tell us which "paddocks" are insufficiently productive in their present employment.

Australia does not need more manufacturers, more value-added industries or, for that matter, more primary producers. It needs more industries that are efficient producers--- wherever these are to be found. It so happens that, for the time being, the primary sector tends to be efficient, over all. We know this, because most of it competes without subsidy in international markets. While there is no evidence that the primary sector's advantage is about to be lost, farmers and miners, as much as manufacturers, must be prepared to restructure their marginal paddocks---perhaps they may even have to give some back to the 'roos. Free markets are sometimes harsh but they are fair and they are efficient. And nothing, short of war, is as harsh as a declining economy.

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