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ON THE DRY SIDE FARM COSTS John Hyde

They say that the knowledge that one is to be hanged in the morning concentrates the mind. Australia's inability to compete in world markets has concentrated that part of farmers' minds which the National Farmers Federation (NFF) speeks for, upon that part of Australia's problem as is amenable to reform - the unnecessary costs.

Over the last seven years farmers have suffered a sharp decline in their terms of trade. Even since 1980/81 the terms of trade of Australian farms have deteriorated by 21%. This is partly declining world wide prices, but the United States, our principal competitor selling in substantially the same markets, has seen farm terms of trade deteriorate by only 10.5%. Australian real farm costs have risen by more than those of the United States. Farm labour is now 20% dearer in Australia than in US, grain harvesters 35% dearer, machinery parts 80% dearer and fuel 30% dearer.

The loss of competitiveness which is causing the long slide of our dollar has been hard on agriculture. This structural weakness, a problem now evident to the rest of the world, has its genesis in inappropriate government spending and regulation, unequal taxation and massive industry protection. The problem got worse during the seventies when nothing significant save the 25% tariff cut was done to improve industry's structure and a much expanded government sector, budget deficits and higher taxes were added to industry's costs.

The eighties have seen the rapid removal of protection from the financial sector. And Lo! the world did not fall apart. The myth that nothing can be done about the problem is exploded.

In the past the NFF has sometimes cried wolf and have often pandered to sectional interests to placate industry politicians, losing its most important arguments among demands of doubtful legitimacy. Not this year. In spite of farmers' undoubted difficulties they are not asking the government for privileges but for equality.

By NFF's calculations the ultimate gain from lifting government induced burdens from farmers' shoulders is equal in value to a seventy-six-fold increase in farmers' best known subsidy, the fertiliser bounty. It calculates the net gain if benefits were also withdrawn to be equivalent to 54 fertiliser bounties.

It has drawn up a 'balance sheet' attempting to list all the benefits the farm sector gets from State and Federal governments and all the costs which these governments force farms to carry. To keep everybody's feet on the ground and to add the poignancy which comes only from seeing oneself in another's predicament the NFF divides the aggregates by the number of farms, estimating costs and benefits per average farm. It estimates that government induced costs are $23,267 and benefits are $6,558 per farm: net $16,709. In that the calculation includes properties which are not the main source of family income the calculation is conservative.

Although NFF's calculation is challenged by the Bureau of Agricultural Economics (BAE), the farmers' requests remain legitimate even if the BAE's much smaller estimate is accepted.

The BAE estimates a balance of only $4000 per farm. The quarrel is over methodology. $19,694 of NFF's $23,267 government induced cost to farmers is attributed by NFF to the effect of tariffs and import quotas. In this NFF follows IAC methodology which BAE claims involves double counting. This quarrel is not new and may not be resolved by Treasury which, following disagreement between NFF and the Government, advised by BAE, has been appointed umpire. There is however no quarrel that the agricultural sector is a substantial net loser in the protection round.

The farmers' demands included a 10% across the board tariff cut which is now in limbo pending the Treasury's determination. This would not be sufficiently large to offset the inflationary effect nor offset the first round competitive gains for import competing industries of recent devaluation. Most import competitors are currently in better shape than exporters. If the government is determined to go ahead with full indexation of wages then a tariff cut is one of the few options it has to prevent an inflation-devaluation spiral of Latin American proportions developing. Mr. Hawke refused to countenance the farmers' demand that he abandon indexation, arguing that that would lead not to wage restraint but to a wage blow out. Therefore he really has no option but to do something fairly substantial to reduce costs. Were he to do so in a manner that was lasting, the long term benefits could be even more substantial than holding wages down now.

I have no doubt that Whitlam's 25% tariff cut haunts the Labor Party but it was an economically correct decision in the circumstances of the time and political circumstances are now different. There need not be a by-election; the Opposition in Canberra, if not the States, has a much better understanding of the nature and need for economic efficiency and it is not totally unprincipled; there are many more people in the community today than in 1975 who understand the politics and need of tariff cuts who would descend from a great height on Bass by-election political behaviour; we have the experience of financial deregulation and learned analysis of what actually happened when Whitlam cut tariffs; and the proposal is for an immediate cut of only 10%. Those administrators, economists and others who, in my view correctly, place a premium on stability and certainty might reflect that anything done to control inflation increases certainty; that the import competing sector is most unlikely to undergo a rate of structural change one half so great as that which is being expected of agriculture; that 10% is but one tenth of the protected industry's ability to bleed other industries; that the effect is offset by devaluation; and that the alternatives either look unlikely or unpromising.

If the government were to go any substantial way toward NFF's request to lift the burdens from the farmers' backs, then NFF ought to do its level best to get the heavily protected dairy and tobacco and the heavily regulated sugar industry off the government's back.

If the outcome of Treasury's adjudication is a result half way between the NFF/IAC estimate and the BAE's, say **$10,000** per farm, farmers have made their point and have a great deal to be aggrieved about. They are becoming militant. It was courageous in terms of his own constituency of NFF president, Ian McLachlan, not to ask for visible hand outs. He will have enough trouble directing the new farmer militancy into sensible channels and it will not pay the government, even in crass political terms, to yield nothing to an unusually responsible lobby.