

The NFF Doesn't Rule, OK?

It came as something of a surprise to this author when, towards the end of last year, the Deputy Director of the Australian Wheat Board, Mr. Michael Shanahan, told farmers to "get down on their knees" and beg the government for assistance. This advice goes against the grain — if you'll excuse the pun — of current economic wisdom and represents a direct challenge to the policies of the National Farmers' Federation (NFF). The NFF's line on subsidisation is unambiguous and uncompromising. The way to create a lean, productive and internationally competitive agriculture is for Australian farmers to become more efficient and to abandon their traditional demands for state intervention in agriculture. Efficiency can only be achieved, it is asserted, if farmers are progressively exposed to free-market forces. Government actions both at home and abroad are viewed negatively — as distorting price signals and creating barriers to international trade.

During the post-war years of Liberal National (Country) Party rule Australian farmers were afforded protection and encouragement under an umbrella of price support and subsidy schemes. The level of protection varied across rural industries but stood at around twenty-eight percent, about the same as that provided to manufacturing industry. The Whitlam and Fraser administrations, with different fiscal priorities and aware of agriculture's declining relative importance in the Australian economy, sought to alter



the balance. By 1980, the effective rate of assistance to agriculture had declined to eight percent (with that for manufacturing industry hovering at its previous level). Today it stands at just under five percent. Australian agriculture presently receives the lowest level of government support of all OECD countries.

According to the NFF, Australian governments have acted correctly in removing the various distortions (including subsidies) from Australian industry. The NFF is currently advocating even greater

levels of deregulation for both manufacturing and agricultural industries. It believes that since Australia has taken a responsible lead in abolishing subsidies and implementing free trade agreements, such economic "righteousness" allows us to argue from a position of strength at GATT meetings and at Brussels for the world-wide removal of import restrictions and for the elimination of price supports. The NFF contends that if free-market forces prevail in the world economy, Australian farmers will be among the beneficiaries.

There is a certain degree of truth in this argument. It has been estimated, for example, that the Common Agricultural Policy of the EEC has reduced world commodity prices by about sixteen percent and is currently costing Australian producers something in the order of one billion dollars per annum. Yet subsidy support for farmers in the EEC continues to grow at a level of approximately four times the rate of increase in agricultural production. The situation in the US is no better. President Reagan's recent assertion that the US would act to dismantle all barriers to agricultural trade and phase out subsidies over the next ten years, contrasts poorly with his signature on the 1985 Farm Bill. Under the Farm Bill, the US government has guaranteed producers a high level of income support and has agreed to underwrite export prices into the 1990s.

The Bill was enacted in an effort to protect domestic producers from overseas competition and to recapture traditional export markets which were lost as the US dollar appreciated during the early years of the 1980s. Just as in the EEC, farmers in the US have responded to the government's latest policies by expanding output, placing even more pressure on the government to assist the farmers to conquer world markets. For this reason the Reagan Administration has sought to undercut the EEC (and other producer nations like Australia) through its subsidy schemes. Sugar policy in the US is but one example of how the state intention of deregulation appears to sit uncomfortably with the realities of intervention. Support for US sugar producers is currently costing US taxpayers about three billion dollars per annum. Our access to the lucrative US market has declined accordingly. US policy has lowered world prices by about nine percent and has increased the price instability of traded sugar on world markets. Under existing legislation the US will turn from a net importer to a net exporter of sugar by 1990, leading to further deterioration in world prices and increased pressure on Australia's

already-ravaged cane producers to leave the industry. US sugar policy is costing Australian producers something like two hundred million dollars in an average year.

While the urgency of reform in agricultural trade is obvious, it is highly unlikely the current trade war between agricultural exporting nations will be settled overnight. There will probably not even be a negotiated truce. The US wants to reestablish its previously dominant role in international agriculture; the EEC wants to keep its newly-found markets for its lamb, cheese and grain; and countries like Australia and New Zealand want to become the food bowl of the Pacific Basin (which includes the profitable US and Japanese markets). None of these countries is willing to lose ground to its competitors.

So where does Australia stand? We want to expand our agricultural output and increase our sales abroad while abstaining from any reversion to heavy price support. Our new tack is to send delegations abroad to argue against protectionism. Prime Minister Hawke received a cool reception during his visits to Brussels in 1985 and 1986. John Dawkins adopted an uncharacteristically deferential style in his Washington negotiations last year. But he, too, returned with little success. While Australia may adopt a position of moral superiority in proclaiming the virtues of free trade, the economic and political realities of life in the US and EEC countries are such that our protestations are given little consideration in international negotiations. There are good reasons why our competitors show intransigence over protection. Most of the benefits of earlier rounds of subsidies and benefits have been capitalised into land values and other assets. Moves to dismantle protection abroad would result in reduced output and would cause massive welfare problems. Neither outcome is tenable in the face of powerful and volatile farmer opposition in those countries. Australia is a relatively small player on the world stage and we are unlikely to influence policies of the

major traders. Yet, in being intimately bound to the fate of world agriculture, we are the country most likely to be hurt by continued trade restrictions.

If we can't make a dint in the armoury of international protectionism, what can we do? Much of the focus of the Labor government (as is evidenced by Kerin's dairy plan and the Hawke government's eighteen percent real expenditure cut for rural industry in last year's budget) is upon streamlining agriculture and removing the small producers from farming. The NFF (and most agricultural economists) are in broad agreement with this "efficiency" thrust. In fact, although the Nationals have been one of the most vocal political proponents of the state underwriting of agriculture, they are unlikely, in any future Coalition government, to push the Liberals away from their dry anti-interventionist stance. Monetarism rules, OK?

It is therefore no wonder that rural producers are beginning to show some degree of frustration. The recent establishment of the Union of Australian Farmers, an organisation aimed at preventing the further deterioration of Australian agriculture, is an indication of the impatience of farmers with the free market solutions to the ills of Australian rural industry. Farmers have come to recognise that the policies of the NFF actually endorse the removal of government monies from agriculture at the very time our international competitors are being cocooned by increased protection and subsidisation. Some Australian farmers obviously consider that they have been backed into a corner by the NFF — unable, on the one hand, to do much to alter the decline in international commodity prices yet incapable, on the other, of asking for support from their own government.

The problem for those in rural Australia who would seek to secure greater government support for agriculture is that such assistance represents a major cost to the community at a time of budgetary restraint. My guess is that we will see

a great deal more farmer protest, including an erosion in support for the NFF, over the next few years. In the meantime, farmers can always apply for rural adjustment funds to

help them to "get big" or "get out" of agriculture. For better or worse these are probably the only orthodox individual options for farmers, whose fate is bound up with an

unplanned, volatile and oversupplied world market in agricultural commodities.

Geoff Lawrence

Kentucky Fried Socialism

The Thirteenth Congress of the Chinese Communist Party, which closed in November last, was a victory for the economic and political reformists who have, on the whole, been on the ascendant in China since the late 1970s. This means that the pace of opening to the outside world, including the West, Japan and the socialist countries of eastern Europe, is likely to accelerate. The private sector of the economy will increase from its current very low level. The trend towards decentralization of the economy evident over the last few years will continue and gather momentum.

The distinction between the *leadership* role of the Party and the *management* of government at all levels will become much clearer. This means that Party officials will exercise slighter control over particular decisions taken within organizations or at grass-roots level, but they will continue to control overall policy.

The secretary-general of the Party appointed by the Congress is 67-year-old Zhao Ziyang, who also occupies the position of Premier of the State Council, equivalent to Prime Minister. Zhao has been

acting secretary-general since January 1987, when Hu Yaobang was dismissed for incompetence following a series of student demonstrations the previous December.

The most influential man in China before the Congress was Deng Xiaoping. He did not stand for election to the Politburo, but remains the Chairman of the Party Central Committee's Military Commission. This position ensures his continuing influence in Chinese affairs. It has for a while been clear also that he wanted Zhao Ziyang as secretary-general.

Deng Xiaoping is 83. By retiring from the Politburo, he has been able to take with him, with minimum loss of face on all sides, a great many of the older generation of leaders, including some much less enthusiastic about the speed of economic and political reform than he.

Of the new Central Committee of 175 people, 43, or about 25 per cent, have been elected to it for the first time. Of the members of the previous Central Committee, 98 have been omitted, including most of the old generation of revolutionaries, now very old men. Although most withdrew voluntarily, a few nominated but failed to be elected. These include Deng Liqun, one of the ideological leaders of the "struggle against bourgeois liberalization" which began in January 1987.

Zhao Ziyang paid lip service to the continuation of this struggle, but in reality its influence has been very slight since about May last year, and most people will forget about it now that the Thirteenth Congress has ensured a victory for reform.

Among the members of the Central Committee, seventeen form the Politburo, of whom seven are new. Among the 25 Politburo members

elected from the Twelfth Congress in September 1982, one was a woman, but there are no women this time. The average age of the newcomers from the Thirteenth Congress is 62, five less than that of the ten continuing members, and they are mainly technocrats. There is still some military representation — one of the newcomers is Qin Jiwei, Commander of the Beijing military region — but it is much weaker than in the old Politburo.

Among the continuing Politburo members is Hu Yaobang. The retention of a sacked political leader at such a high level suggests a change in the CCP's management style. When Hua Guofeng was dismissed as Party head in mid — 1981, he was dropped from the Politburo at the time of the succeeding Twelfth Congress.

The most powerful group in China is the Standing Committee of the Politburo, which has five members. Other than Zhao Ziyang, the most powerful man in the new Committee is Li Peng, an engineer trained in the Soviet Union who knows Russian and has handled relations with the East European countries in recent years. It is quite likely that he will succeed Zhao Ziyang as Premier of the State Council.

Li Peng's rise has clear implications for China's relations with Eastern Europe in general, and the Soviet Union in particular. Since 1982 there has been a trend in favour of better relations, which has gathered momentum since Gorbachev came to power in 1985. While there are still political "obstacles" in the way of improving Sino-Soviet relations, trade and socio-cultural relations between the two countries have burgeoned. The "obstacles" do