

**Submission in response to the
Agriculture Competitiveness Issues Paper
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This submission addresses two key topics raised by the *Agriculture Competitiveness Issues Paper* plus two more minor observations. We suggest that these issues should be given careful consideration in the development of the Green Paper. A more detailed submission will be provided in response to the Green Paper on its release.

The main issues with which we are concerned are 1) appropriate government responses to farm poverty and 2) alternative financing arrangements to support farmers' risk management.

1. Responding to farm welfare needs

One of the most challenging public policy issues facing governments is the close interrelationship between the farm business and the farm family. Mauldon and Schapper identified the problem in the 1970s, referring to the farm as a 'unity of business and household' (Mauldon and Schapper 1974: 65). For several decades, Ministers from both sides of federal politics have been emphasising the need to separate the farm family from the farm business in policy terms to ensure that policy instruments are appropriate to the issues that they are addressing. The 1992 National Drought Policy made a clear distinction between the farm family and the business and the 1997 review of rural adjustment policy argued for business and welfare programs to be clearly distinguished (McColl et al. 1997: vii). Combining farm welfare concerns with agricultural competitiveness policy is likely to result in both bad welfare policy and bad agricultural industry policy as policy measures cannot be targeted to achieve both effectively.

Over the past several decades, farm welfare policy has been based on the, largely untested, assumption that incidences of farm poverty are the consequence of suboptimal levels of structural adjustment in the farm sector. This approach dates back to the Henderson Inquiry of the 1970s (Musgrave et al. 1975) and results in policy focusing on facilitating the structural adjustment process to raise farm incomes and, for those farmers unable to adjust,

providing farm exit or reestablishment support to transition nonviable farmers out of agriculture. Schemes such as Part C of the 1988 Rural Adjustment Scheme, the Farm Household Support Scheme, Farm Help and Farm Family Restart have all been based in this policy approach. The Drought Relief Payment/Exceptional Circumstances Relief Payment added another dimension to this general policy by providing special welfare support to farm families impacted by severe drought. The drought-linked programs were flawed because of the 'lines on maps' problem as, while they addressed poverty within drought-affected areas, those outside these areas were treated differently.

The more recent Farm Household Allowance is an improvement on previous schemes in that it does not rely on drought declarations or geographic boundaries as the basis for eligibility. However, it still lacks a solid evidence base and still treats farm families quite differently from other Australians receiving income support. We submit that welfare policy should be delivered as equitably as possible across the community and that there is a need for an inquiry into the causes, extent and nature of farm poverty in Australia in order to ensure that farmers are being treated equitably and that there are not families missing out on much needed support.

We therefore recommend that

the government undertake an inquiry into farm poverty to determine the nature and extent of poverty among Australia's farmers and any amendments necessary to the general welfare safety net to make it accessible to farmers on an equitable basis.

2. Alternative financing mechanisms to support farmers risk management

This White Paper provides an opportunity for government to be innovative in its thinking around mechanisms to address both farm financial difficulty and the provision of risk management tools which serve the needs of farmers but are also value for money for taxpayers. Policy instruments such as interest rate subsidies have been discredited by a series of reviews (for example Synapse Consulting (Aust) Pty Ltd 1992; McColl et al. 1997) and the recent Farm Finance Scheme is almost indistinguishable from the support offered to farmers through the *Loans (Farmers Debt Reconstruction) Act 1935*.

A viable alternative to these approaches is the use of income contingent loans (ICLs) to provide support to farmers when they face a downturn in farm incomes. While our earlier work on ICLs (Botterill et al. 2004; Botterill and Chapman 2004; Botterill and Chapman 2006; Botterill and Chapman 2008; Botterill and Chapman 2009) has focussed on their role in drought relief, they clearly have much broader potential to provide a risk management tool which, in concert with Farm Management Deposits, supports income smoothing across the business and climate cycles. Modelling of the ICL proposal undertaken using ABARE data (Kelly et al. 2004) suggests that, if structured appropriately, an ICL scheme would make sufficient funds available to farmers to minimise rationing and red tape while being repaid at a level which would make the scheme cost effective for the tax payer.

Although similar in principle to the income contingent loans which have provided higher education financing for nearly three decades, a scheme for farmers would be structured in a way that was appropriate to the nature of the farm sector and the structure of farm businesses (Botterill and Chapman 2009). This White Paper process provides an opportunity for policy makers to move away from revisiting old policies to thinking innovatively about alternative policy instruments that have proved successful in other sectors of the economy.

We recommend that

Serious consideration be given to developing an income contingent loans scheme targeted at farmers to provide a mechanism for income smoothing across the business and climate cycles.

3. Other Issues

In addition to these two key issues, we would like to flag for consideration two additional items of policy concern. First, the disconnect between drought and water policy in Australia is an anomaly which is likely to lead to inconsistencies and mixed messages to farmers and their communities. The Issues Paper only contains a passing reference to the Murray Darling Basin Plan and yet this is an issue that has been of major concern to farmers and rural communities throughout the Basin. The White Paper needs to consider the impact of the Plan on farmers, both in terms of reduced water availability and of the opportunities offered by water trading. To date in Australia, drought and water policy have been handled independently of each other, in different portfolios and through different Ministerial Councils. Although arguably this facilitated the development of the National Drought Policy in 1992 as it was able to focus on the needs of largely dryland agriculture, predictions of a drier future for Australia suggest that it would be timely to start considering drought and water policy together.

Second, it is regrettable that recent policy discourse around drought has reverted to the language of natural disasters. One of the major achievements of the 1992 National Drought Policy was the policy focus on the reality that drought is a normal part of the Australian climate and a risk to be managed along with other risks facing farm businesses. Recent reference to drought as a natural disaster, repeated in the Issues Paper (p12), is a retrograde step as it undermines the risk management message and can generate expectations of emergency relief in times of drought. Such an emergency response requires a return to drought declarations of some sort which are politically highly contentious. As the original drought policy set out to do, the focus of good risk management policy is on managing climate risk across the climate cycle with an expectation that drought will occur and ensuring policy settings are in place to support farm risk management decisions.

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