# Drought in Context

While accepting the Productivity Commission's findings and recommendations in its "Government Drought Support Inquiry No 46, 27 February 2009" the reasons for doing so come from, in some cases, a different approach. The other ramifications of the total problem of caring for the national estate, are not addressed because drought is given all the attention, but is nevertheless only a contributing part.

The Issues Paper July 2008 under "What has the Commission been asked to do?" Specifically, in relation to farmers, farm businesses and farm dependent rural small businesses, the Commission is requested to:

Report on the appropriateness, effectiveness and efficiency of the Commonwealth, state and territory governments' business and income support measures to help manage drought

identify impediments to improving self-reliance and preparedness for periods of financial difficulty

identify the most appropriate, effective and efficient responses by Commonwealth, state and territory governments to build self-reliance and preparedness to manage drought.

Then under "5 Impediments to greater self reliance and preparedness"

*What are the impediments to individual farmers, farm businesses, farm dependent rural small businesses and rural communities becoming sufficiently self reliant to withstand severe drought events?*

These statements were misinterpreted by a number submissions to the inquiry bringing forth this response under Regional policy and drought support p45 of the Report,

The merits or otherwise of broader, longer term approaches to regional development---whether through decentralisation, infrastructure investment, greater provision of services, horizontal fiscal equalisation, taxation zone rebates or payroll tax concessions ----however, is outside the scope of this inquiry.

In essence there is a need for a Productivity Commission inquiry into regional development where "Regional distribution of population" is coincidental to farm productivity, wealth creation, environmental outcomes and where drought and climate change are considered as part of the whole problem of the prudent management of the national estate.

The most desirable way to achieve such change is by organic growth. To that end NSW Farmers' Association adopted as policy "To achieve for farmers and their rural communities equal status in opportunity, returns and service with all other Australian citizens in a mutually beneficial partnership" which in turn was to cover the vision statement of a discussion paper dated Jan 2003 inter alia "Australia's environment and economy 10 to 20 years after prosperity starts to flow back to farmers, is of two or three hundred thousand people returning to the country, where services for education and health are being up graded along with infrastructure such as rail modernised and air services to country destinations are of the best quality. Pressure off Melbourne and Sydney to expand and not growing so fast. More rural industry focused on better use of water, mining salt, chemical industries based on minerals in salt, renewable power (solar, methane, biomass etc), forestry and tourism. Etc"

The task has always been how to get prosperity flowing back to farmers who will then need to use their reduced costs and better returns to modernise the overall capability of their farm to eventually create off farm capital reserves and the self reliance so necessary for independence.

The Drought report into Government Drought Support is an important document but focuses on drought, the threat of climate variability, self reliance and preparedness to the exclusion of the effect of the interplay of other systems, where physical drought is only part of the problem. It is an interesting reflection of attitudes, information and use of statistics, not always to the advantage of those associated with agriculture but helpfully acknowledges page XXI that:

Given the frequency of drought, it is easy to overlook that the Australian agriculture sector is highly successful. It leads domestic productivity growth, is an innovative adopter of technologies, and has proved resilient to myriad forces of change. For example, despite facing long-term pressure on commodity prices and rising input costs, sectoral output continues to increase----with more than half of that exported.

It is noted page XXII "only about 23% of farms received drought assistance" for the 2007-08 period.

This sectoral success masks a complex story of diversity and contrasting fortunes:

> In 2005-06 , the largest 30% of farms generated 82% of the value of agricultural operations, whereas the smallest 50% generated 7%
>
> As a group, the bottom 25% of broad acre farms has not recorded a profit in any year from 1988-89 to 2007-08

The 30% of farms generating 82% of value, does not mean that all in that group were profitable or better managed other than size maybe helping out and if any were MIS operations, their legacy is one of distortion of markets and unfair competition for land.

If the bottom 25% has not recorded a profit in 19 years, why is this so?

Does the answer affect the next 25%? Does it permeate the whole sector?

Fewer farms producing more is technically a plus for productivity; or is it? Figure 2 does demonstrate increased output over some of the worst years of drought, but a possible explanation is that on The Lagoon at Adelong NSW production increased not because of more land but increasing availability of technical advances in animal health and agronomic factors. The lead times from research reports through trials, adoption and results can take years and longer to bring compensating financial reward----drought does not eliminate the better animal health or reduce the soil remediation done years before a drought.

Page XXX "Farmers' view on drought assistance" has three in favour and five against. Those against share a common thread found on the factory floor, office etc where gratuitous judgement is handed out on colleagues without knowing all the facts of educational opportunities, unknown family health etc. Therefore before credence to such tales out of school need further examination.

Australian agriculture is not well understood by the general public and many farmers. It labours under stories from the past: the shearers strike, squatters, farmers' apparent plenty and helping swagmen survive in the 1930s. The expectations are still there in spite of the obvious changes from largely self sufficiency to a dependence on inputs from metropolitan areas that have to be paid for. It is hard for 2% of the population to justify their position.

A typical case is on Page XXXII and needing further examination in any Productivity Commission report into Regional Development:

Fixed water rates and municipal rates are a legitimate and known business cost that should be budgeted for, yet some states also provide rebates and waivers on these. Where there are concerns about hardship, deferred payment models would be preferable to shifting the burden onto other ratepayers and/or the wider community.

Farming is a very different business to all others even those classified with it as primary industry and requires very different rules to survive the continuous change it is subjected to. The legitimate and known costs are budgeted for by farmers and bank borrowings entered into to cover them, but what is not realised is that the farmer has no ability to recover costs because all sales are made on commodity markets, or these days, buying power dominated local auctions.
It is generally conceded that those receiving a benefit should be taxed, but the farmer not receiving water or commensurate municipal benefits is taxed and expected to keep providing other rate payers plus the wider community with continuing benefits from farm rate taxes while in a state of negative income.
These points have been made to previous governments by elements of the NSW Farmers' Association and indirectly by the Victorian Farmers Federation.

To contemplate "shifting the burden onto other ratepayers and/or the wider community" fails to recognise that rates paid by farmers varies from twice to fourteen times that of the wider community. Those rates paid are largely spent on facilities that benefit the tourist, timber, MIS industries and the tree change people, that then comes back to disadvantage the farmer in unequal competition for land and eventually even higher rates. The tourist industry pays no additional tax, the timber industry a miniscule amount, while MIS and tree changers will have to pay under existing rules.

In NSW there are arrangements for individual rate payers to defer municipal rates and is used by fixed income retirees but their asset remains encumbered, while farmers on a district basis have no relief in drought or commodity downturn.

There is also a double standard behind the statement " shifting the burden onto other ratepayers and/or the wider community" because a very large proportion of the wider community in metro areas particularly, receive subsidies on public transport, their food is subsidised by farmers and tax laws are in their favour. Yet when there is the slightest hint of a subsidy for farmers, the mass media whips up indignation against farmers. This is made worse by farmers with a psychological block saying they don't want handouts or subsidies.
There has to be a middle ground, preferably defined after analysis by the Productivity Commission because at this stage no one is winning.

(1) The environment is under greater threat through the ignorance of its most ardent supporters with no practical experience (Canberra, Victorian fires)

(2) Treasury is paying out for local government financing when it should be paid directly by all municipal ratepayers nationally

(3) Local government is under funded because it cannot tax the final beneficiary of services it has provided to those situated beyond its jurisdiction

(4) Australian Conservation Foundation (ACF) wants stewardship payments for landholders but have no source of finance

(5) Reserve Bank of Australia (RBA) interest rate policy needs questioning particularly when the inflationary pressure is from foreign speculative activity in oil and short selling causing our currency to rise to the disadvantage of all exporters.

(6) The Trade Practices Act needs revision to cope with the changes in the retailing sector

over the last 30 years plus the aberration in the wider markets brought on by speculation, short selling etc, all of which affects farm income

(7) Electoral imbalance is working against the long term interests of all citizens, while local government is under utilised to give a better democratic balance.

(8) State taxes or charges from statutory authorities that cannot be passed on to the ultimate consumer need collection through the revised method of local government funding or provided from state general revenue.

(9) A defining statement from Treasury on the status of farming's ability to recover imposed costs in times of natural disaster, pestilence and commodity downturn.

Revised local government holds the best prospect of being the most suitable vehicle for delivering Rural Reconstruction and a harmonious National economy. Obviating a minority paying for the benefit of the majority without compensation as in (8) is worthy of early attention.
The Productivity Commission's Assessing Local Government Revenue Raising Capacity and LGSA report "Are Councils Sustainable?" provide a valuable resource for implementation.
Aspects of competition imbalance such as horizontal fiscal equilibrium would automatically self adjust under revised local government funding.
Cost shifting, the subject of RATES AND TAXES: *A Fair Share for Responsible Local Government* October 2003 House of Representatives Standing Committee on Economics, Finance and Public Administration, would become clear and accounted for in local government budgeting.
New industries based on renewable energy and management of environmental factors affecting that local shire or group of shires under the Regional Organization of Councils would create new jobs and better environmental outcomes in such areas as uniform weed and animal control.
ACF funding for stewardship payments would come from a transparent levee revealed on all rate assessments.

Because of the disruption to markets and disregard for fair competition caused by Managed Investment Schemes (MIS) in the rural arena, it should be noted that these schemes came about because the rural landholders have over 80 years had inadequate return from society for the services given, or compensation for, the thoughtless actions of third parties. That stated, had adequate wealth been returned to landholders many of the agricultural activities, olives almonds etc would have been adopted by them without the disruption to markets and any additional finance would have come via mortgage, backed by land ownership as security. Commonwealth revenues would not have been depleted for no real gain.

MIS forestry investment in support of local value adding industry needs to be carried out on long term leased Crown land, to allow for trees growing to maturity and therefore longer term carbon retention in houses and furniture.

By the same token as for MIS, inadequate return from society for services delivered or compensation for actions and demands from third parties, has reduced the ability of landholders to be able to provide for the vagaries of climate and markets, thus necessitating Exceptional Circumstances.

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1 June 2009