A QUARTER OF A CENTURY OF AUSTRALIAN AGRICULTURAL ECONOMICS: SOME PERSONAL REFLECTIONS

F.H. Gruen

Discussion Paper. No. 135
January 1986
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DISCUSSION PAPER NO. 135
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ISBN: 0 949293 48 2
ISBN: 0725-430X
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A Quarter of a Century of Australian Agricultural Economics - Some Personal Reflections

by F.H. Gruen

Australian National University

Introduction

Reflection on one's earlier professional history is a pastime which seems the fashion these days. Banca Nazionale de Lavoro Quarterly Review has for some years published a series of recollections and reflections on professional experiences by distinguished economists - including those of such luminaries as Hicks, Tinbergen, Kindleberger, Brunner, Triffin, Machlup and Shackle. Having despaired of being asked to join this group, I accepted with alacrity your President's invitation to provide my reminiscences to this august gathering. At

1. Paper given at the twenty-eighth Annual Conference of the Australian Agricultural Economics Society. I am indebted to Keith Campbell and Alan Lloyd for helpful comments on an earlier draft.
the time of being asked, I felt that there was a good deal in the
development of agricultural economics in Australia after World War II
which warranted describing - and perhaps arguing about. Since then I
was informed of, and subsequently attended, a one-day Symposium at the
University of New England on 24 September 1983 celebrating the Silver
Jubilee of the Department of Agricultural Economics, and reminiscences
were the order of the day. We are now perhaps in danger of too many
reflections on these earlier years. However, once such a commitment
has been made, it is churlish to withdraw.

The quarter century of Australian agricultural economics that I refer
to is the period 1947 to 1972. I got into agricultural economics by
being recruited to the Economics section of the NSH Department of
Agriculture in 1947, after a fairly average Melbourne Arts/Commerce
degree - and a thoroughly urban background. My quarter of a century in
Australian agricultural economics came to an end when I resigned from
the chair of agricultural economics at Monash University in 1972 and
moved to the Australian National University in Canberra.

The immediate post-war period - War Service Land Settlement

By mid 1946 two governmental agricultural economic research
organisations had been established - the Bureau of Agricultural
Economics in Canberra and a Division of Agricultural Economics in the
NSH Department of Agriculture.

The agricultural economics section of the NSH Department of

Agriculture which I joined had had a very rapid turnover. J.G.
Crawford who was connected with it's establishment had moved to
Canberra, it's first full-time head, Pawley, had moved to UNRAA; K.O.
Campbell had joined the Section but had gone off to the U.S. on a
Walter and Eliza Hall Research Fellowship. There were really very few
people around who either knew what we were supposed to do or who could
give us any guidance, direction or encouragement. My first major
professional work related to the optimum size of farm units and the War
Service Land Settlement Scheme. This scheme provided for government
acquisitions of rural land and its transfer to ex-servicemen - after
any possible subdivision had been carried out.

It did not require much economic study or sophistication to determine
that the government policy of so-called closer settlement was running
counter to longer term economic forces which were going to lead to a
decline in the proportion of the Australian labour force employed in
agriculture and perhaps also to an absolute decline in farm workers and
operators. This was the message one got from reading for instance,
T.H. Schultz's "Agriculture in an Unstable Economy" or Colin Clark's
"The Conditions of Economic Progress".

Further, the soldier settlement scheme after World War I had been a
disastrous failure. Public monies to the tune of many millions had

been lost in attempting to settle ex-servicemen on the land and more than half the ex-servicemen settled on the land had had to give up after years of struggle and heartache attempting to make ends meet.

In spite of the obvious lessons both from economics and from past history, there was strong pressure to settle as many ex-servicemen on the land as possible. As the second report of the Rural Reconstruction Commission put it, this strong pressure often emanated "from the job seeker, the land seller seeking a profit, the badly informed self-styled patriot, or local interests thinking selfishly in terms of the number of men settled and the amount of money spent in the district, instead of in terms of the number of men who can be successfully settled in the district. ... successful settlement cannot be forced against the dictates of long-term market requirements and prices, suitability and availability of land to produce for those markets, and general considerations relating to farm finance, farm economics and social conditions."

It is not the function of junior public servants to query policies - especially when these are bipartisan policies adopted by all State and Federal governments. I did write a long article in the March 1949 Review of Marketing and Agricultural Economics (our house journal) pointing to past trends, the greater productivity of resource use on larger farms, "that economic losses are sustained as a result of inadequate farm size" and "that considerations of economic efficiency must necessarily weigh more heavily in a country like Australia which exports a very large proportion of its primary production .... " I don't think it would have mattered if I had been more outspoken since little notice was taken of our activities.

I spent some time on inter-departmental Committees in the NSH Lands Department considering the actual subdivision of estates acquired for soldier settlement. This proved to be a depressing experience - with little evidence of consideration being given to either the long term welfare of the settlers or the proper use of the public funds involved. In my opinion, what saved us from a repetition of the mistakes of the previous scheme were, firstly, the much better economic conditions in the 15 years following World War II than the corresponding period after World War I and secondly the much more sensible guidelines laid down by the relevant officers in BAE.

Before the State authorities could sub-divide a property they had to certify that the subdivided holdings were of a sufficient size "to enable settlers to operate efficiently". For instance in the case of farms running sheep this minimal size was fixed, I think, somewhere near 1000 sheep. On the North Coast of NSH dairy farms had to be fairly near to the median size to be approved. I have no doubt that this saved many ex-servicemen from financial trouble in later years.

in spite of its great unpopularity at the time.

Graduate work overseas

It was fairly obvious that training in agricultural economics in Australia was in its infancy in the late forties. Being disappointed with Sydney and with the likely training I was to receive there in economics and, in particular, in agricultural economics, I looked towards better tertiary educational institutions. The obvious place was the United States partly because I was more likely to get monetary assistance and partly because agricultural economics training was much better there than in England. I wrote to some 15 American universities. I was offered a number of different research assistantships but Wisconsin seemed the best of the group of those who were prepared to help me financially. In particular, I was impressed with a Professor of Agricultural Economics by the name of Walter Milcox. Unfortunately, within 3 months of my arrival, Milcox became Agricultural Economist in the Legislative Reference Service of the Library of Congress. This meant that the main person I had come to study under had disappeared. I completed my master's degree in 12 months without being really stimulated by the process. In Wisconsin at that time, institutionalism was dominant, and the local hero was the late John R. Commons. I found Commons' writings obscure and of limited relevance. In addition, the Wisconsin institutionalists seemed unwelcoming. They pointed to the limitations of neo-classical economics without having anything positive or constructive to contribute.

During my year at Wisconsin, T.H. Schultz, the Chairman of the Department of Economics at the University of Chicago, gave a seminar at Wisconsin. I was impressed and wrote to him asking whether I could do some graduate work at Chicago and whether he had some financial assistance available. Schultz asked me to come to Chicago for an interview and took me to lunch at the Quadrangle Club. The lunch was one of the more nerve-racking experiences I have had. I was interviewed by Schultz and Gale Johnson. Most of the time Schultz would talk to Gale Johnson. Occasionally he would throw a question in my direction, e.g. "Would you say that the competitive position of Australian wheat growers has improved as compared with American wheat growers since the thirties, and if so, why?" Whatever answer I gave, Schultz would accept without any indication either of approval or disapproval. At the end of the lunch he said "Thank you very much for coming down Mr. Gruen. He will let you know the result of our deliberations". I returned to Wisconsin quite convinced that I would have to spend a second year at Madison. However he did offer me a research associateship at Chicago during the academic year of 1950-51.

He moved to Chicago in the summer of 1950 and, since I only had one more year's leave from my NSH Department of Agriculture job, I threw
myself into the graduate program with a lot of energy. In addition, it was the most stimulating university I have ever attended. I was taught by or could listen to five economists who afterwards received Nobel Prizes—Arrow, Friedman, Hayek, Koopmans and Schultz. Apart from this galaxy of stars there were many other stimulating and impressive lecturers. I remember in particular Lloyd Metzler, Frank Knight, Gale Johnson and Jacob Marschak. Chicago in those days was not as monolithic as it has become since. The Cowles Commission still had its headquarters there, and Metzler then was a strong intellectual force able to hold his own against a man like Friedman.

Both the teaching at Chicago and its atmosphere has recently been captured brilliantly by Melvin W. Reder's "Chicago Economics: Permanence and Change". Whilst the highlights of my Melbourne course related to Keynes, The General Theory and possibly to the theory of monopolistic competition, Chicago disdained these, but treated micro-economics much more rigorously and applied it to real world problems. For instance, Schultz was beginning to think in terms of human capital theory and micro-economic analysis was generally used for the elucidation and solution of real economic problems. During my Melbourne undergraduate programme whenever real world micro-economic issues were discussed, institutional minutiae seemed to become the dominant considerations. Politically too, I found it stimulating since its brand of conservative economics represented an intellectual challenge to the type of fellow-traveller I was in those days.

The Fifties and the Formation of the Australian Agricultural Economics Society

When I returned to Australia at the end of 1951 the Economics Section of the Department of Agriculture had been staffed with about eight or nine Economics Research Officers and had settled down to a number of investigations. We had procured a Holden utility and set off doing a large number of farm surveys in all parts of the State. I do not remember when the various people arrived, but we managed to recruit a good group of research workers during this period— including John Dillon, Alan Lloyd, Ross Parish and John Rutherford—just to name those who afterwards managed to get chairs in Australian universities. Most of the work was done on our own initiative.

Our boss Charles King (the Chief of the Division) was a veterinarian by training who had completed a lengthy history of the First Fifty Years of Australian Agriculture— for which he had received a Master of Arts (Sydney). In addition he had a Diploma in Public Administration.

I believe it is generally beneficial that one should attempt to send graduate students to those economics departments where their political biases are challenged and not reinforced. On this criterion, left-wingers should probably be sent to Chicago and right-wingers to Amartya Sen in Oxford!
from Sydney University. While a vet. turned historian/public administrator might not have been an ideal leader of a new group of economic research workers, there were not too many experienced agricultural economists around in those days. Also King was willing to allow a hundred flowers bloom and we were able to pursue our research interests pretty freely.

To the best of my knowledge the moving spirits behind the formation of the Agricultural Economics Society in 1957 were Campbell and Crawford. As you will notice from looking at Campbell’s contribution to that first Proceedings volume, Keith was pretty critical of a lot of the research work being done in Australia at this time. His criticism was directed partly at the lack of an analytical framework for much of this work and partly at the lack of investigative independence of the B.A.E. This criticism was particularly resented by the B.A.E. and senior B.A.E. officers. While a good deal of Campbell’s criticism was valid, he could have been more diplomatic. He could have recognised some of the strengths as well as the weaknesses of the agricultural economic research work being carried out - not to mention the political and bureaucratic pressures senior Bureau officers were subject to.

One reason senior Bureau officers felt defensive about their work under K.O.’s onslaught was that the quality of some of the work deserved criticism. A lot of it was of a semi-political ad hoc nature which had relatively little lasting value. There was some justification for Campbell’s scathing reference to the ‘independent fact-finding institution’. As a senior BAE officer put it privately about this time: “The government tells us what facts to find, and, by God, we find them”. Competence was often judged by the ability of a research worker to come up with research findings pleasing to his superiors. I had a very minor experience of this when I wrote a letter to the Sydney Morning Herald, setting out some facts about low incomes gleaned from the joint 1953 Commonwealth-State dairy survey. Unbeknown to me, Tom Strong, then Director of the B.A.E., was trying to convince someone higher up (Crawford?, McEwen?) that there was no need to increase the dairy subsidy and my letter threw doubt on some of his interpretations. He thereupon sent Don Williams, then a B.A.E. Assistant Director, to Sydney to tell the local people of his extreme displeasure with my letter (which I had fortunately cleared with King) and even to suggest that I was too incompetent to be kept as an Economics

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9. In addition to not being as diplomatic as possible, Keith did take the professional standing of agricultural economics very seriously. I remember writing in my paper for the first Conference about credit restrictions, that it was difficult to obtain evidence about the reality and severity of credit restrictions for the credit worthy farm borrower on the grounds that "what goes on in the sanctum of a bank manager’s office is seldom revealed to the prying eyes of the agricultural economist" p. 104, Vol. 1 AAE. Keith asked me to take this phrase out on the grounds that it denigrated the fledgling profession by suggesting that we were given to “prying”!
Research Officer in the Division. Some twelve months later, all this was forgotten as some piece of research of mine pleased him and he offered me a substantial promotion if I would join the B.A.E.

10 Gradually the Bureau's performance improved - especially during and after Stuart Harris' term as Director. He was able to recognise quality better than some of his predecessors who had not done any graduate work in economics. Also he was prepared to stand up for the independence of the Bureau to a greater extent, with beneficial effects on morale. Lastly, he was helped by the growing number of Bureau officials who had been sent overseas (mostly to the United States) for their graduate work.

The Sixties - Some Agricultural Economic Debates

In 1959 I left the New South Wales Department of Agriculture and became an academic - at first for five years at the Australian National University and then from 1964 until 1972 as Professor of Agricultural Economics at Monash University. Apart from teaching, and commenting on various policy issues - which are discussed briefly below - my major research work was to carry out a crystal ball-gazing exercise financed by the U.S. Department of Agriculture. The aim was to project

11 It might be worth recording that there was an informal anti-body-snatching agreement between the various governmental employers. This made movement between States or between State and Commonwealth employment almost impossible in the first 5 or 6 years of my employment in the N.S.W. Department of Agriculture.

12 Australian agricultural supply and demand from 1963 to 1980. I assembled a team of seven and we proceeded to make the projections the contract called for - with relatively little faith in the reliability of our results. John Freebairn later tested our 1970 price projections against the facts and found them "neither significantly more or less accurate than the naive model price forecasts." Our main interest in the work was to analyse Australian agricultural demand and supply relationships. Here I think we achieved some useful results; in particular Alan Powell's six sector model of the Australian livestock/cereal complex did, I believe, break new ground and add to our understanding.

The Dairy Debate

The Dairy Debate within the economics profession has been concisely surveyed by Max Corden in 1968 and it seems unnecessary to add anything to his account. My major involvement in this issue

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consisted of presenting a joint submission with six other agricultural economists to the Dairy Industry Committee in 1960. We argued that the continuing and, at the time, growing community financial support for the dairying industry encouraged a misuse of human and capital resources yet at the same time did little to solve the long-term low income problem in dairying. We argued for either a gradual reduction in overall financial assistance to the industry coupled with special help to low income producers or a quota scheme.

The quota scheme was, I believe, seriously considered by "the industry". I am not sure why it was rejected. One important reason may have been that the co-operative butter and cheese factories were opposed, since it would reduce their supplies and thus accelerate pressure for amalgamation of factories. Another probably was the higher costs it would have imposed on new producers or on producers who were expanding. Both Victoria and Tasmania were expanding production quite substantially. Hence, even though quotas represented a Pareto-optimal improvement, this was only true for a static industry, not for a changing one. It shows how restrictive Pareto-optimality conditions really are in practice. In his well-argued foray into agricultural economics, Ted Sieper suggests it was somewhat naive of "us" to believe that a negotiable quota scheme could have been a possibility in the dairying industry - given that expanding producers stood to lose from such quotas. Yet Sieper cannot explain why transferability of egg quotas became a reality. "Why these (small dairy, F.H.G.) farmers were unable to achieve the introduction of a system that would have captured them a substantial part of the present value of dairy rents, while small egg producers did achieve negotiable quotas in 1974, is a political question deserving of further study."

The Reserve Price Debate

The sixties saw continuing debates on the wool marketing system. Whenever wool prices declined, agitation for a reform of the marketing system increased. Whenever the agitation got too fierce, government appointed another Committee of Enquiry to report. Most of the arguments advanced by the fierce participants on the two sides had little economic substance. The Reserve Price enthusiasts often seemed to believe that the mere announcement of a floor price would automatically lead to unchanged quantities being sold slightly above the floor price. I think Max Newton once irreverently labelled this the Hoovercraft theory of pricing. The main strength of the opposition to Reserve pricing came from those who had an objection to government intervention either on philosophical grounds - or because it would reduce somewhat their freedom of action (e.g., buyers and selling

14. My colleagues who signed the joint submission were Owen McCarthy, University of Queensland, Bill Candler and Jack Lewis from the University of New England, Ross Parish, Sydney University, Alan Lloyd, Melbourne University, Henry Schapper, University of Western Australia.

brokers). Admittedly there was no reason to believe that a marketing agency subject to political pressure was likely to do better than a freely competitive market—but there was some evidence of lack of competition, of occasional collusion, and of a good deal of ingrained traditionalism among wool marketing agencies which could be partial counter arguments. Personally I have always been rather ambivalent about the reserve price scheme—with the dangers of a badly run scheme looming somewhat larger than the slight gains from a well-run one.

Such considerations—and the debates among agricultural economists about hidden gains and losses—were peripheral to the main arguments among the committed participants, as they attempted to apply political pressure on governments. The forensic gladiatorial combat among agricultural economists probably yielded useful insights, even though it was an intellectual side-show to the main agro-political battle—a battle which ended with the adoption of a Reserve Price Scheme at the beginning of the seventies.

Second Best Argument and Tariff Compensation

During the second half of the sixties I became disturbed by the tendency of some of my academic colleagues in agricultural economics to assume a crusading role—a role of exposing special interest provisions in various agricultural protective schemes. It was not that special interests were not prominent or that they did not, on many an occasion, succeed in obtaining political benefits which had no economic justification. But an attitude developed that anything any farm pressure group asked for was ipso facto unjustifiable. A similar crusading spirit has been noted later among some IAC Commissioners—that any subsidy or protective arrangement automatically reduced real national income—even when the level of effective protection afforded to an industry was considerably lower than that for rival products which might be substitutes in production or consumption.

For instance in 1965/66 the effective protection of the wheat industry resulting from the home consumption price scheme amounted to some 7%. At that time general effective protection in manufacturing probably averaged around 30-40 percent. Yet agricultural economists published estimates of real losses resulting from this level of protection of wheat—making the implicit assumption that resources released from wheat (if protection were reduced) would all find employment in other unprotected industries.

In 1968 I wrote a paper entitled "Welfare Economics, The Theory of the Second Best and Australian Agricultural Policy" which became the most widely quoted unpublished paper I have ever written. I did not publish it because I could not solve an intellectual conundrum which puzzled me for some time. The conundrum was as follows: Suppose we

16. I suppose the fact that my wife and I had become practising farmers since 1960 and have lived and worked part-time on farms since then may have had something to do with my attitude. Our farming activities have also given me a continuing interest in the agricultural sector of the economy, even though practically all my professional work is now concentrated on the other 33% of the economy.
have three industries A (dairying or wheat or any other protected primary export industry); B ("unprotected" pastoral); and C (all other industries). Given the usual conditions about lack of external economies, presence of competition, etc., what level of protection is economically justifiable for A if:

(i) there is no protection in B and an effective 20 per cent rate of protection in C.

(ii) the input mix in A is such that 40 per cent of its resources would "come from" C if protection of A products was increased (or alternatively 40 per cent of the resources would go to C industries if protection was lowered). The remainder of A inputs would come from, or go to, the B group of industries.

17 I remember asking Max Corden, Eric Russell, Richard Snape and once even Kevin Lancaster about how to solve this problem. In the end, other things intervened and I never got back to it. However, my "Second-best" paper was embraced with enthusiasm by some of my bureaucratic friends in Canberra. I think it was Frank Grogan who told me that, with the paper, I had provided a rationale for all the industry-supporting activities ever undertaken in the Department of Primary Industry! Needless to say, this was not my main aim - which was basically to achieve a greater wariness about the condemnation of low levels of protection (which existed in such industries as wheat).

18 Although I later was a co-author of the Green Paper on Rural Policy which overstated the tariff compensation argument, I tended to withdraw from the later tariff compensation debate between, for instance, Stuart Harris and Alan Lloyd on one side, and Peter Harr and the IAC on the other.

Conclusion

Both the farm sector and agricultural economics have come a long way since the times of which I have been writing. With some conspicuous exceptions (e.g. market milk, tobacco, eggs and citrus) most Australian farming industries now receive very little effective protection. According to the IAC the weighted average effective protective level has dropped below 10% since 1978/79, after having been as high as 28% at the beginning of the decade. Most of the major extensive industries are in the 5-6% category (e.g. wool, beef, grains). The heavily protected areas tend to be those where State rather than federal instrumentalities determine marketing arrangements (e.g. market milk, eggs). Most Australian farming industries have shown a great ability to adjust to the very sizeable economic (not not mention climatic) shocks to which they have been subjected in recent years - with relatively little governmental financial assistance.

Agricultural economic research has had an increasing influence on policy. These effects have been gradual — perhaps some would describe them as snail-like. Yet Campbell’s campaign against the arbitrary nature of cost-of-production pricing eventually had its effect — as did our advocacy of lower levels of protection for butter and cheese producers. No doubt a good many other examples of this kind can be cited.

The Bureau of Agricultural Economics has become a respected professional research organisation within government — and has become the prototype for no less than three other research bureaus — the Bureau of Transport Economics, the Bureau of Industry Economics and the Bureau of Labour Market Research. The growing sophistication both of research and of agricultural policy making is evident as one casts one’s mind back to the pre-Agricultural Outlook Conference days when crude partisan assertion and rural anti-intellectualism were often the order of the day in rural policy discussion. One also detects a growing professionalism on the part of the farm organisations — a professionalism which compares very favourably with the quality of the arguments advanced by some of the other pressure groups within the community.

Finally, agricultural economists — both in academia and in government — have been lured increasingly to other areas — areas where the problems are greater; where their professional training can also be used fully. Many erstwhile agricultural economists in government are now to be found in some other area of applied economic policy research (e.g. the IAC, the BIE, EPAC) or in some administrative area outside agriculture (e.g. Trade, Prime Minister’s). In academia, many of us have become applied economists turning at least partially to other economic issues (e.g. Alan Powell, Frank Jarrett, Ross Parish). I believe our success in moving into other branches of economics is attributable mainly to our more rigorous U.S. training — at a time when most promising non-agricultural economics students were channelled to Oxbridge or LSE where post-graduate training was then in its infancy.

19. In the decade after World War II most promising economics graduates in Australia were automatically advised to get further training in England — partly by their English-trained seniors and partly by the existence of various prestige scholarships. For would-be agricultural economists a choice of an English over a U.S. course of further training would have been bizarre — given the research work being done in the two countries. In addition the U.S. training provided for advanced course work whilst U.K. Universities at that time provided no such graduate training.