

## Repositioning Rural Australia

**Dr Mark McGovern**

Economics and Finance, QUT Business School

[m.mcgovern@qut.edu.au](mailto:m.mcgovern@qut.edu.au)

A paper presented to

**Choices in Agricultural Policy: Rationalise or Reconstruct?** hosted by Muntadgin Profit Farmers, Merredin WA on April 15<sup>th</sup> 2013

and **Rural Finance Roundtable** meeting hosted by Farmer Power Colac, Vic on April 16<sup>th</sup> 2013

*Australian Agriculture is operating on an unsustainable basis. Current debt stresses are the logical outcome of decades of unbalanced markets, inappropriate finance, untoward practices and inept policies. We all need new ways forward. We need to actively and sensibly Reposition Rural Australia.*

*Major problems are evident. From the Wheat fields of Western Australia and Dairy farms of Southern Australia across many Agricultural lands between to the Beef properties of Northern Australia the rural condition is needlessly poor.*

*Such things are a logical outcome of current policies - public, commercial and private - as is demonstrated in this paper.*

*It is not just a drought or flood here, a retailer there or foolish public policy over there. Rural Australia faces a systemic failure. The foundations of its prosperity and national contribution have been whiteanted by ill-conceived thinking, imprudent investments and cavalier organisations.*

*A new agenda is needed, one built upon sustainable profitability broadly applied. As argued, this will be critical in repositioning rural Australia so that it has a decent future and makes a renewed contribution to national prosperity.*

*The flawed thinking underlying imprudent investments now evident as individual, sectoral and systemic failures needs to be accepted. Ill-informed, we all made mistakes. We need to accept this and to develop mutually acceptable ways forward.*

*Problems are unevenly spread but the threat of contagion means that sensible industry and regional stabilisation is a priority. With due care and insight pending crises can be defused with effective repositioning efficiently achieved.*

*Australia stands exposed to deteriorating global conditions so action is needed now, while the window of opportunity remains open for Agriculture and the Nation.*

Australian Agriculture is operating on an unsustainable basis. Current debt stresses are the logical outcome of decades of unbalanced markets, inappropriate finance, untoward practices and inept policies. We all need new ways forward.

### Agenda

Today's "leaders" proclaim a golden future of increased production in "the Asian Century" and "Northern Australia" without any recognition of transitions or other "how?" issues. Actual achievements go unconsidered: disparate realities, uncertainties and contexts do not neatly fit sound-bites, Twitter or the distracted mindset.

Effective repositioning of Rural Australia recognises how current lending practices and management protocols are deficient, interest rates are excessive and sustainable profitability is not part of contractual thinking. Apt adjustment requires several steps in sensible directions. A range of reforms will be needed, including to naïve inter-industry and external (trade, investment) policies that systematically impoverish those involved.

Inadequate returns and untenable financial arrangements affect all manner of enterprises across rural Australia today. These should be given first priority. ***Enterprises that are profitable have a future.*** Those with persistent positive Financial, Economic, Environmental, Societal and Spiritual balances are *FEESS sustainable*. The spirit and form of capitalism both matter. In any moral endeavour, mutually acceptable balances are needed in arrangements, artefacts and impacts.

An agenda that addresses real needs and current problems needs to be agreed. Agenda items presented to phone conferences, the Rural Finance Roundtable [1] and the following Workshop [2] have been developed further and centred here around *FEESS sustainable profitability*. Agriculture contributes in all five areas, but current balances are clearly skewed and inadequate for the tasks at hand.

A national agenda that can make a real difference would include:

- A1. ***common resolve*** – *ongoing commitments* from governments, farmers and financiers to *advance together seeking mutually sustainable profitability*;
- A2. ***viable enterprise*** – lending, market and other reforms that *support profitability and apt returns on assets for all transactors*;
- A3. ***affordable funding*** – including *serviceable interest rates* for all contributing Australian enterprises over realistic investment horizons;
- A4. ***progressive relationships*** – "advancing together" with *inclusive development* supported by apt debt, financial management and inter-industry protocols;
- A5. ***prudent conduct*** – across all relationship phases, including *curtailing unilateral debt recovery actions* until improved arrangements are put in place;
- A6. ***equity regard*** – where *contributions are well recognised and the impacts on interests acknowledged* be these individual, regional, national or other;
- A7. ***realistic positioning*** - policies that *address national, market and productions realities in a world challenged* and changed by the Global Financial Crisis.
- A8. ***effective conceptualisation*** – "*thinking that works in relevant contexts*" is part of proper development, not mindless repetition of abstractions or irrelevancies;
- A9. ***apt reorientation*** - enterprise, industry and institutional *reforms to support FEESS sustainable profitability* across Australia.

Such an agenda, sensibly discussed and developed, will directly promote sustainable returns in Agriculture and associated industries.

## Argument

Capable people working “in the real world” have built agriculture on the Australian continent. Today such people are stressed and sidelined. Proponents of empty ideas now hold sway in policy areas. How else might we explain:

- national policy summits that avoid profit?
- the removal of exceptional circumstances?
- comprehensive failures to address trade and market realities?
- short term funding of long term needs, sometimes at punitive rates?
- the accelerating debts of farmers, households, governments and the nation?

The centrality of profit to business, the existence of droughts and floods, the theories and practices of national and international exchange and the mathematics of debt are all denied by such people. Immediate realities matter little when a dream world calls.

“Sleepers, wake!” wrote Labour’s Barry Jones [3] but we slumbered on. Despite global discussions of his works, his own political colleagues and attendant bureaucracies avoided the substance of his thoughts, including those on comparative advantage [4]. Instead inferior reforms took hold under Hawke and Keating. “Rationalise - a quarter of farmers must go” to solve problems was the cry in the late 1990s under the National’s John Anderson as Deputy PM. So over 40% or 103 000 farmers went[5] during the Howard-Anderson era, but no problems were solved. “You’ve never had it so good” was the claim of the Liberal PM to a “relaxed and comfortable” Australia.

Sedated by comparative advantage, drip-fed rationalisation and seduced by empty claims and prostituted bureaucracies we slumbered on. Now we sweat, in a fitful dreamtime with debt doonas piled ever higher on a bed of our own making. Our farms, workers, resources, institutions, finances and nation have become indebted global conveniences in the rush to “one world”. We naively embraced a cargo-cult model. Trade would deliver prosperity. We, and it, are now in very deep waters.

All manner of important circumstances were overlooked as wishful thinking and mania took hold. Capitalism that denied the realities of capital and “sound” investments that defied arithmetic became common practice. “Liberalisation without reinvestment” became the effective mantra as we traded away our todays, running down capital with no heed of tomorrow. Meanwhile, deep financial problems built unnoticed

We were confident toddlers in a world structured by imperfect markets and vested interests. Adventurously we toddled on with no real clue of where we were headed or of how the world works. Spurning relevant information, issues and ideas is understandable in a toddler - but not in a supposedly advanced nation.

Much seemed good, but apparent gains relied on unprecedented rises in debts. We sought to borrow, not earn, our way to prosperity. Now debt unserviceability threatens to depress the land in a classic debt-deflation squeeze.

Problems though often severe are currently in large part manageable but the window of opportunity appears to be closing.

- Denialists dreamily seek to return to what has passed (the pre-GFC world of easy, rising credit).
- Those acutely caught understandably see only their current suffering and great uncertainty.

The real need is to see beyond and to realistically reposition our enterprises, industries, citizens and nation.

**(Im-)Prudent investment**

Prudence in investment involves “cautious practical wisdom” and “good judgement”, at all stages. *Let us just agree that many imprudent investments have been made.*

A representation of “our world” is in the mind map (Figure 1). With ample supplies from Money Mall we have strolled Drone Drive and the Fields of Folly on our way to Nirvana Heights. Unfortunately, Nirvana Way is now closed due to damage from floods of money that eroded the basis of good investments and sustainable growth. As the floods recede, the ways open branch to Crisis Crescent and Resolute Road.

Farmer, financier and friend stand as Three Blind Mice unsure of what to do next. We may dream that Nirvana Way will reopen so we can continue our jolly jaunt. A prudent Mouse, however, would consider all possibilities. The foolish just bicker. Sensibly, group members would judge how each might contribute when venturing along new, uncertain ways – and on needs for doing so. Collectively, each pools his or her wisdom, insights and practical capabilities in striking new balances and positions for acceptable individual and mutual gains.

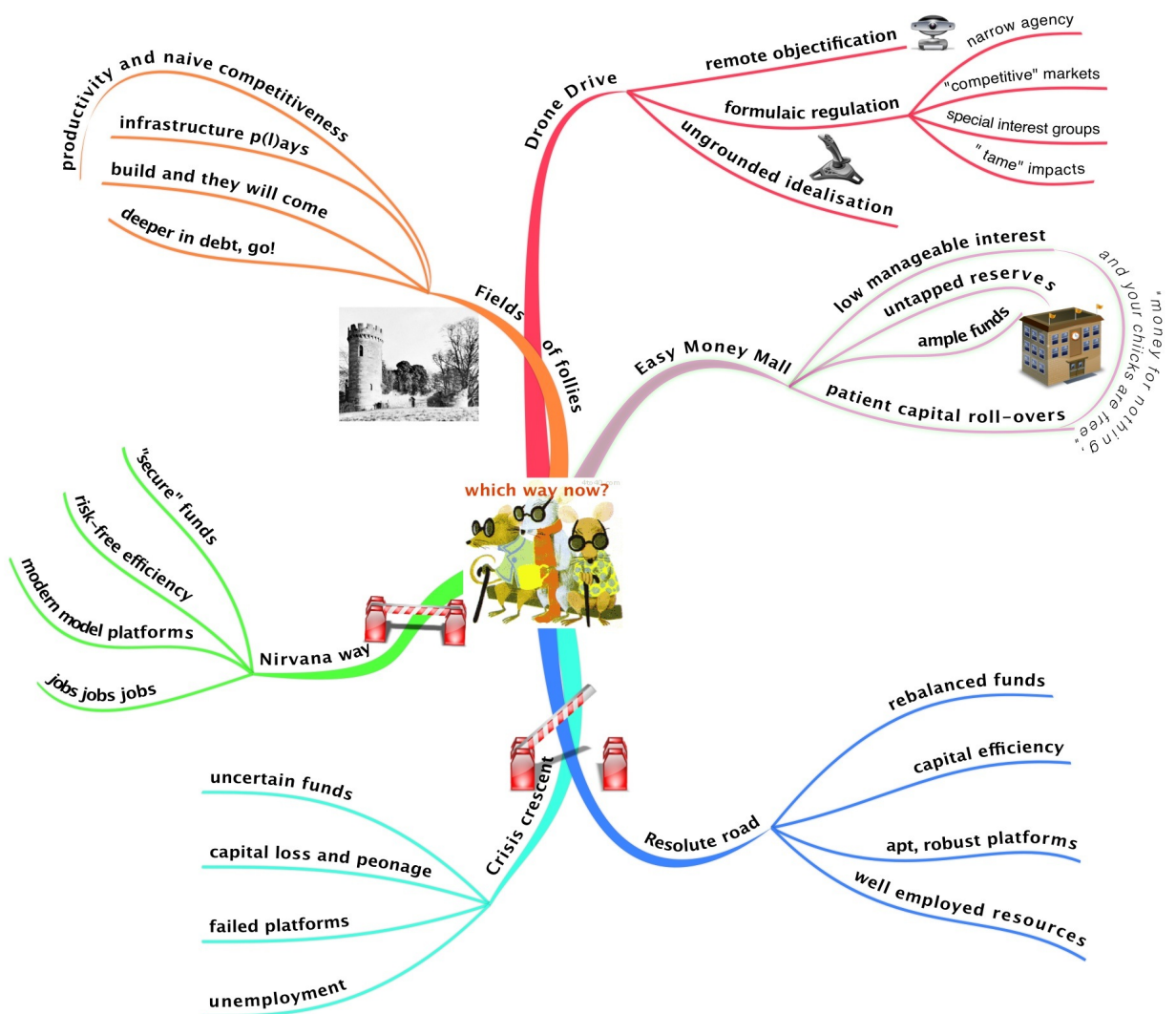


Figure 1: How we got where we are - and which ways forward? [6]

### The wash up...

Around the globe, farmer mouse and financier mouse went on a 20-year binge when “their friend” changed the rules in Money Mall. The ongoing GFC is the wake up. “Easy” money has become “Hard”. An abrupt unexpected transition is underway. Progress along Nirvana Way ignored a narrowing path and “no one saw” the steep drop down to the path of “uncertain funds”. One after another, organisations and nations have fallen off *an edge that was always there but unrecognised (or discounted)*. Whole nations still slide down the slopes, moving ever further from Nirvana Way.

Many mired at the end of Crisis Crescent sit impoverished with representations that relate only to a life past and an empty dream. Importantly, each was poorly informed when they agreed to start the journey together (by funding an investment). Some of the biggest mistakes were made to those who seemed to have every resource at hand.

Now new realities need to be accommodated. However, Resolute Road crosses unfamiliar territory. So some wistfully just look back. We stand fearful and confused, misled by obsolete beliefs and with no alternate plans. While limited, Figure 1 does provide a demonstration of issues and influences that have led to the current impasse.

Systemic failures have occurred. It is not a drought here, a mean retailer there or some other incident that matters. Rather, it is a collective failure to understand how the world might develop “when things change” and to act with due circumspection and prudence. “Irrational exuberance” took hold as globalist prophets of “the certain way” fuelled national abandon and collective unintelligence. Blind to the risks, we mice adventured down what was proclaimed to be a certain path to worldly bliss.

(More technically, a six-armed multiplex with 26 “end points” is to be traversed by the trio. Which of the 26 could be said to be “influential” where and how? It is easy to explore possibilities: just nominate one and reflect on how it *in conjunction* might bring down a leading enterprise, various investments the whole system. Consider which end points once lent most credibility to then-preferred positions or support to even the most specious arguments. The world portrayed is inherently uncertain and deeply complex – but our perspectives were constrained by select economic theories and peculiar policy preferences. )

Improving our journeys and views is the broad challenge. Priorities include:

- more adequate arrangements for farm development (including *via* enhanced capital formation, sustainable finance and apt self-funding);
- responsibly realistic long term thinking, policies and funding;
- proper allowances for exceptional (production and market) circumstances;
- viable and fair transition pathways;
- acceptance of uncertainties and their impacts on sustainability; and
- critical dialogues on relevant ideas as part of sound policy redevelopment.

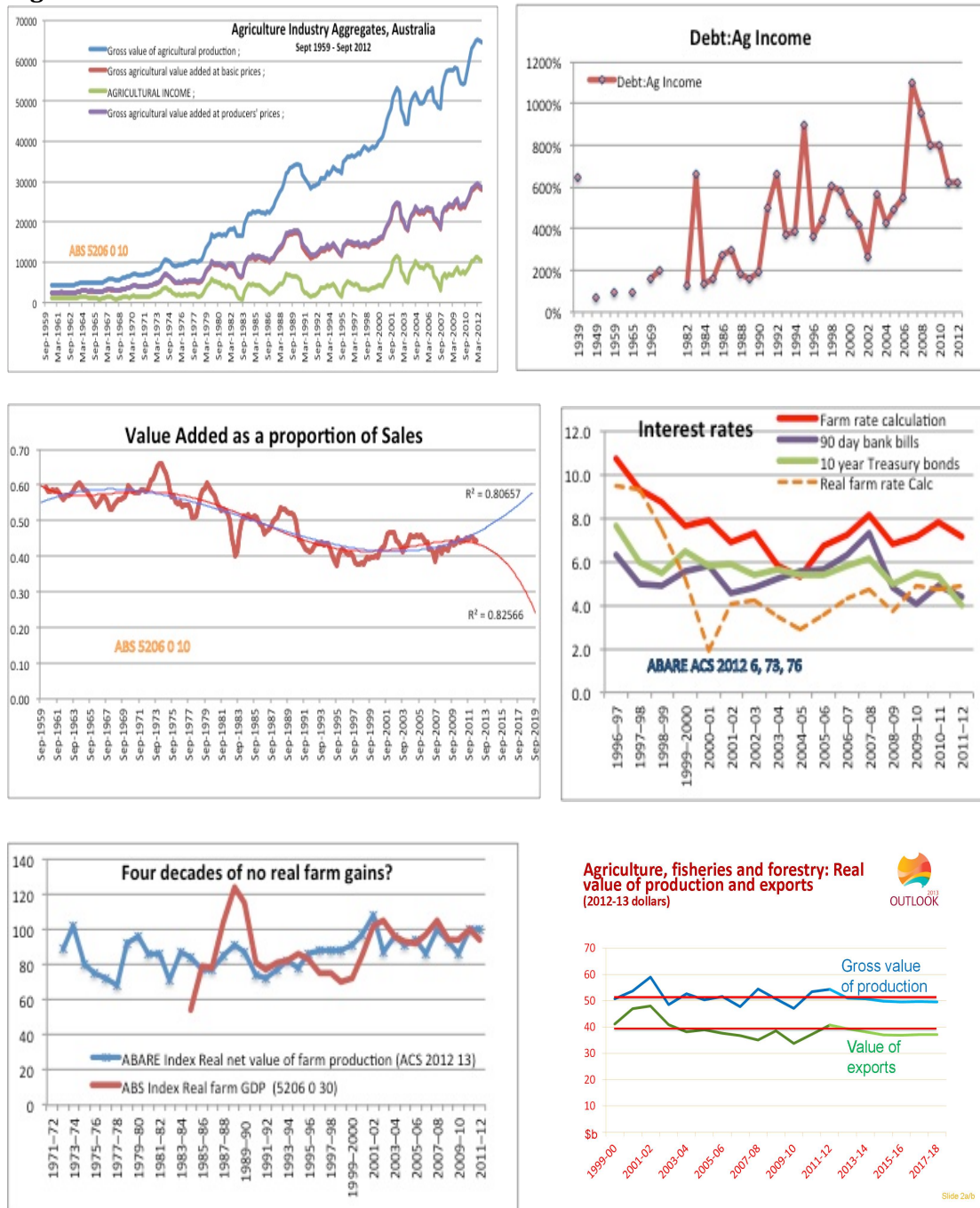
Shortly after Cook returned to England from “discovering” the Great South Land, the Scottish father of economics Adam Smith [7] saw the *security of tenure* of the yeomanry of England – of active and responsive landed farmers - as pivotal to its wealth. This central idea helped Australia prosper, until recently. It needs national reincorporation.

It is not that “only farming matters” (or “only finance” for that matter). The story is more complicated. However, recognising that farming matters to a nation in important ways is a sound first step, one that surprisingly few seem prepared to consider.

The ways we are, empirically.

There is much we can report empirically which documents the nature of the decline in rural fortunes in Australia. There is also much we could say about the maintenance of rural fortunes in other nations that take different policy positions and moral stances. Six panels are provided in Figure 2 as discussion starters. While the gross value of agricultural product has increased in nominal terms so has debt (which has recently attracted high real interest rates at a widening margin). Value added has dropped proportionately to sales to show no clear real gains – and the future is anyone’s guess.

Figure 2. Rural Australia – the States we’re all in.



Note: ABARE “Farm” exports include foods with value added in factories. Direct comparison of Farm-only production with such Exports is in error. Agriculture directly exports around a quarter of its production[8, 9]. Also, a \$70b 2050 Ag export level is a goal of current “political dreamers”!

Ways forward

A quick look at rural finances shows around \$360b of rural lands and farm debts of around \$64b. Allowing that half the lands are likely to be debt free, still sees a 3 to 1 Asset:Liability ratio on encumbered lands. So why would financiers be concerned?

The GFC changed the rules. It also increased non-performing loans (NPLs). Some banks effectively failed (especially in WA). Some financiers withdrew while others established “bad banks” to manage down problems (such as from \$15b NPLs to \$3b reported for one smaller bank).

Credit has tightened as reserves are built to new standards, despite QE floods of money. The emphasis is now back to loan serviceability with income now critical (after years of being disregarded, or worse). Unfortunately, current positioning seriously depresses volatile farm incomes. So farmers signing up under the old rules are fully exposed by the new (Figure 2, top right). Weather, market, political and external adversities have “just” brought things to a head.

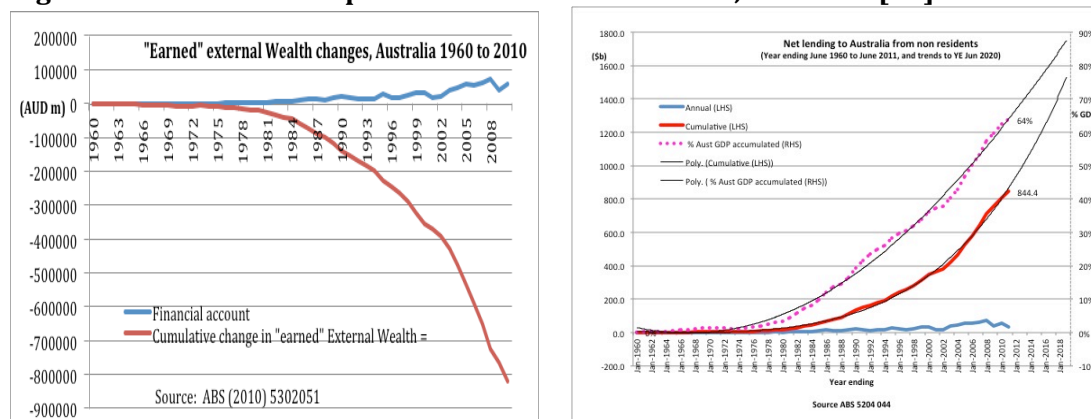
New rules involve repositioning. The trick is to move both sides of the ledger successfully. This can be done via crisis, which may be sharp or prolonged. Annihilation of debts, depositor losses, bank failures and collapse in interest rates are historically part of the ultimate resolution of financial crises (which have been around for a long time). The global reach of current arrangements makes this round especially dangerous.

Governments today are attempting a managed workout but, as responses so-far are ineffective, we now see a move to currency debasement – which adds a whole new and much more serious dimension. Beggar-thy-neighbour strategies are now in active play.

Australia still has an opportunity to rebalance without crisis. However, stresses are increasingly serious, and not just in Agriculture. It is time for serious rethinking and properly constructive developments between Farmers, Financiers and Friends – and agreement on an effective agenda. Not doing so is foolish during Phase 4 Globalisation.

Agriculture is both a primary source of food and fibre products and an effective export earner – things that other nations are well disposed to. Doses of past realities have taught them its importance and potentials. The once-Lucky Country should learn from their and our past experiences. It is time to move away from domestic foolishness and naïve, impoverishing international adventurism that squandered inheritances and indebted a nation (as shown in Fig. 3). But, that is a further discussion we have to have.

Figure 3. Net external exposure and net external debt, Australia [10].



## References

1. Swan, W., *Rural Debt Roundtable*, 2012: Brisbane.
2. Walton, R. *Repositioning Rural Finances, Policies and Debts: A Workshop*. 2012. QUT, Brisbane.
3. Jones, B., *Sleepers, wake! : technology and the future of work* 1982, Melbourne: Oxford University Press. 285.
4. Jones, B. *Falling Into the "Comparative Advantage" Trap*. in *Address to the AIE Melbourne Group Annual General Meeting*. 1997. Melbourne.
5. ABARES, *Australian Commodity Statistics*, DAFF, Editor 2012: Canberra.
6. McGovern, M. and L. Pollard, *Designed to fail? Infrastructure, funding, standards, and floodplain follies*, 2011, Annual conference of the Australian and New Zealand section of the Regional Science Association International: Canberra.
7. Smith, A., *An Inquiry into the Nature and Causes of the Wealth of Nations* 1986 [1776], Ringwood: Penguin Books.
8. McGovern, M., *On the Unimportance of Exports to Australian Agriculture*. *Australasian Journal of Regional Studies*, 1999. **5**(2): p. 229-252.
9. West, G.R., *Estimating Indirect Exports of Agricultural Production: A Note on the Unimportance of Exports to Australian Agriculture*, in *Working paper*, Centre for Economic Policy Modelling, Editor 2001, Department of Economics, University of Queensland: Brisbane.
10. McGovern, M., *Beyond the Australian Debt Dreamtime: Recognising Imbalances*. *Economic Analysis and Policy*, 2011. **41**(3): p. 169-191.