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Toward Freer Trade
Strategies and Experiences
in
Pacific Agricultural Reform

Edited by
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Allan N. Rae  
Task Force Coordinator
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CHAPTER 12

PRACTICAL APPROACHES TO DECOUPLING FARMER SUPPORT: THE NEW ZEALAND EXPERIENCE

*Doren Chadee*, Ronnie Horesh** and *R W M Johnson**

INTRODUCTION

Government intervention in agriculture in most industrialised countries has led to substantial increases in the output of agricultural products over the last twenty years. As a result, most agricultural producers and exporters have made aggressive use of border measures and subsidies in order to cope with surplus agricultural products. By the early 1980's government expenditures on agricultural support programmes had reached unprecedented levels in most western countries. Increasing pressure on the treasuries of these countries led to a commitment on their behalf for reforming agricultural production and trade. This commitment was formalised when agriculture was explicitly included in the GATT Uruguay Round of Multilateral Trade Negotiations (MTN's) launched in 1986.

With the Uruguay Round now drawing to its end, it has become obvious that progress in world agricultural trade liberalisation has been quite modest. Part of the reason for the slow progress lies in the fact that agricultural trade liberalisation involves modifications of existing domestic policies. These policies differ widely across countries and a common measuring yardstick for the purpose of comparison has not been agreed upon yet. As such it has been extremely difficult to reach any consensus on implementing changes on a multilateral basis. Secondly, drastic changes to programmes that are designed to support and stabilise the income of farmers can be quite difficult to implement from both an economic and a political standpoint.

Unlike most other OECD countries, New Zealand has almost completed a unilateral liberalisation of its agricultural sector. In this paper, we outline the New Zealand experience at implementing these reform measures, how...

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they were achieved and what the current situation is. Hopefully, the New Zealand experience will provide some guidance to others on decoupling agricultural support from production and some of the challenges that such reform represent.

Part 1 of this paper briefly overviews the concept of decoupled support. Part 2 looks at the objectives of decoupled support, and how these would condition its definition for the purposes of any agreed GATT disciplines. Some of the disadvantages of decoupled policies are discussed; the Producer Entitlement Guarantee scheme is described and the issue of whether developed and developing countries should be treated differently is briefly examined. Part 3 overviews the New Zealand experience at decoupling agricultural support followed by some concluding remarks in the last section.

DECOUPLING: AN OVERVIEW

Decoupling generally refers to any form of support to farmers where such support does not exert influence on production or factors of production. The level of output produced is independent of the amount of support delivered by a fully decoupled assistance measure. Decoupled support is consistent with market orientation in that it does not affect farmers' decisions about how much to produce. It does not interfere with trade, or in any way distort trade patterns. Its main objective is to support incomes and this it does in a more direct, and less trade-distorting way, than market price support or border protection. Decoupled support also has the advantage that it does not suppress demand for agricultural products as does market price support.

The concept of the decoupled subsidy has received a lot of attention in the GATT Uruguay Round of MTN's for agriculture and could continue to grow in importance beyond this Round. It is an agreed objective of the Round that disciplines may be agreed upon, eventually, to monitor and to gradually reduce the assistance delivered by agricultural support policies. Decoupled subsidies, however, may be exempted from some of these disciplines. In this respect, decoupled forms of assistance are likely to become a more important source of support for the agricultural sector in the future.

Before examining further the definition of decoupled assistance it is
instructive to overview briefly the current situation with respect to agricultural support in the OECD member countries and the potential economic gains from a widespread movement from coupled toward decoupled support.

Currently, market price support and deficiency payments account for nearly 75 percent of total support to farmers in the OECD countries (OECD 1989). These forms of support have led to a panoply of widely documented resource allocation distortions, losses of economic efficiency, heightened trade tensions, and domestic budgetary, environmental and food quality problems (OECD 1987, 1988 and Body 1987). The bulk of the assistance they offer goes to the larger farmers, and they also tend to destabilize world markets. The costs of coupled support then, are borne widely, and not least by the developing countries.

General economic policies in many less developed countries (LDC’s) also tend to discriminate against agriculture. For instance, taxes on farm output tend to create a bias against agriculture. Governments in LDC’s usually attempt to offset such biases using price stabilisation policies, input subsidies and consumer subsidies (World Bank 1986). Previous studies have shown that such policies tend to be inefficient. Those LDC’s which have a bias in favour of agriculture tend to use border measures to achieve this result.

The question that arises then relates to the potential benefits that a shift towards decoupled support has to offer. Recent studies indicate that developed countries would benefit significantly from such a shift. A recent OECD study has estimated that if all border measures in the six main OECD agricultural trading countries or regions (Australia, Canada, EC, Japan, New Zealand and the US) in 1986-88 were removed and the same levels of budgetary support given to farmers via direct payments, such a shift in the composition of farm support policies could yield gains to consumers equivalent to 0.8 percent of their real income (OECD 1989/90). Given that agriculture and food processing together account for only about 6 percent of total OECD output this represents a significant gain in efficiency.

Similarly, another study has estimated that if the OECD countries had cut their tariffs on agricultural commodities by 50 percent, developing countries’ income would have increased by US$922 million in 1977 and their export revenues by almost US$6 billion. Total export revenue would
Decoupling Farmer Support in New Zealand

have risen by 11 percent; exports of low-income countries would have risen by 8.5 percent (Valdes and Zietz). Since the level of protection in the OECD countries has increased since 1977 the benefits of liberalisation would clearly be substantially greater to-day.

Further evidence of substantial gains from widespread decoupled support in LDC's has been provided by Tyers and Anderson. This particular study has estimated that developing countries, as a group, would gain approximately US$28.2 billion if they, alone, liberalised. Their study simulated the effects of removing distortions in border prices by 16 individual and four regional groups of developing countries, and removal of overvalued exchange rates.

Clearly, significant gains are to be achieved by shifting from coupled to decoupled support for farmers. Yet, as the OECD points out in a recent report (OECD 1990), 'In only a few [OECD] countries are there direct income measures which are generally unrelated to outputs or inputs in production'. The reasons for the slow shift from coupled to decoupled support system for agriculture are outlined below.

DEFINITION OF DECOUPLED SUPPORT

The pure decoupled subsidy would be paid to farmers in such a way that it would not exert influence on any of their decisions which affect output. There are several problems with this tentative definition. An exploration of the issues may lead to a more practical and operationally useful definition.

The first issue relates to the definition of 'farmers', that is, the question of who is to receive the support? One consideration is whether farmers are to be treated differently from others. If not, the issue of the definition of 'farmer' does not arise. But because farmers have been recipients of coupled support in the past it may be thought politically realistic to disburse decoupled assistance solely to 'farmers'. Furthermore, farmers in the developed countries typically own too many assets to qualify for benefits under most schemes intended for the general population. A means of deciding who is a farmer for the purpose of receiving decoupled support may therefore be required.

For this purpose 'farmers' may be defined in terms of the time they spend
farming, or the proportion of income received from farming. In either case, would-be recipients of support would have an incentive to produce. Also, it may be undesirable for environmental and other reasons, to attempt to remove all forms of support payable to farmers in marginal areas who, in the absence of any support, would leave the land. Decoupled support would ideally be limited to those who had received coupled support in the past, or who are currently on the land, whether or not they are producing anything (though token amounts may be permitted).

Note though that being on the land, or having received coupled support in the past, are necessary but need not be sufficient qualifications for the receipt of decoupled support: receipt can also be made contingent on other factors such as the undertaking of conservation or land improvement projects.

Another problem with the definition given above concerns ‘decisions affecting output’: the amount of each farmer’s decoupled subsidy should be totally independent of the volume of output that he or she produces (or intends to produce) currently and in the future. This last qualification is important: a subsidy could still be decoupled if it were paid to farmers on the basis of past levels of production as long as it does not influence future levels of production. However, a policy cannot be classified as decoupled if benefits to farmers are correlated with the volume of inputs purchased after the implementation of the policy.

A subsidy, therefore, could be defined as ‘decoupled’ provided it is payable in an amount independent of inputs and outputs produced in the season for which the subsidy is paid, or in future seasons. This independence is to be over the entire range of each farmer’s potential production, from zero output upwards. If a subsidy is to be considered decoupled the farmer will receive the same amount of subsidy regardless of whether he or she decides to produce nothing (or a token amount) or whether he or she decides to produce something. ‘Output’ here means agricultural output, and should also be taken to refer to any product, marketable or not, which can be used as an input into the production of any agricultural product.

The implications of this definition are examined further by considering four policy examples.

(1) Exit Grants: These are paid to farmers on condition that they retire permanently from farming. These grants would be the ideal example of
(2) **Research and Development (R+D):** Bona fide research programmes undoubtedly affect farm production in various ways. One of the most common impact of R&D on farm firms is that R&D effectively reduces the firm's average cost of production. But the relationship between expenditure on R+D and supply is difficult to identify, not only for analysts, but for farmers themselves. It is this latter point that is important: as far as farmers are concerned they will appear to receive the same (zero) benefit from most bona fide R+D expenditure if they produce nothing as they would if they produce something. This is a result of the national nature of most R+D programmes. Benefits are widely distributed over many farmers, and take a long time to materialise.

Nevertheless policies which are designed both to support farmers in ways which will induce a supply response and to appear to be R+D programmes are not beyond the scope of the imagination. Programmes which are sub-national in scope would be particularly suspect. Decoupled R+D programmes would be precompetitive and the information they generate would be publicly available. It is important that R+D, and other categories of expenditure which are agreed in the GATT to be 'decoupled', be monitored, and disciplines imposed on policies which contravene the spirit of any liberalisation agreement.

(3) **Canada's Western Grains Stabilisation Act** guarantees the aggregate net cash flow of Canadian cereal farmers at a level not below the previous five-year average. Participation is voluntary and the Federal Government contributes two-thirds of its costs. Because this subsidy is paid not according to price, but according to the difference between actual income and the average of past years' levels it has been argued that it is a decoupled subsidy.

This argument is difficult to sustain. In any one season the government’s contribution to the farmer is equivalent to two-thirds of the difference between the farm’s cash flow and the five-year average. The five-year average cash flow will be closely correlated to the volume of production in the previous five years. By expanding production farmers can expect to raise their five-year average cash flow, and so increase the government subsidy when a shortfall occurs.

**The WGS programme appears to contravene the objective of the Cairns**
Group for agriculture in that market signals to farmers are significantly attenuated by the government subsidy element of the scheme. It is also clear that this programme falls outside the boundaries of the definition of 'decoupled' offered above: in seasons where their cash flow falls short of the five-year average farmers would receive more of the government subsidy component by producing more output.

(4) Supply Management: While the definition of decoupled support given above serves to exclude price support policies from the 'decoupled' category of policy, we need also to consider the joint interaction of price supports with supply controls. Where supply controls are binding an increase in the support price will not induce an increase in supply, if, as is usually the case, the support price is already higher than the world price. Should such product price increases be classified as decoupled subsidies and therefore be exempt from any agreed disciplines on non-decoupled policies? Product price increases of this nature would entrench existing production patterns in subsidising countries and so inhibit movement toward market-oriented trade. Furthermore, the impacts on farmers' decision making for instance, would distort production and potentially trade. In this respect, supply management programmes could be classified as coupled. Genuinely decoupled policies would not encourage farmers to maintain production at levels beyond those evoked by world market prices. If governments require the effect on incomes that price increases under supply controls would generate they could simply transfer funds to farmers at levels proportional to their past output.

The above examples make it clear that support policies form a continuum between the totally coupled and the totally decoupled. The suggested definition given above draws the line at the point where the connection between increased output and increased subsidy becomes obvious to farmers and so critically influences their production decisions. However it may be more helpful, in advancing the GATT negotiations, to list a narrow category of policies which would be classified as decoupled, as well as to attempt to define, as far as possible, criteria for such policies. Equally pertinent is the fact that this point on the continuum is fairly easy to identify. But it is not a foolproof definition. Ideally therefore all subsidies should be subject to agreed reduction disciplines with ad hoc exclusions granted only for genuinely decoupled support, of which bona fide research and development would be an example.
PRACTICAL ASPECTS OF DECOUPLING

Although it is widely accepted that by decoupling farm programmes from production there are substantial gains to be made both in developed and in less developed countries, many countries prefer to bear the costs associated with coupled policies by maintaining the status quo. Then the question arises as to why most countries do not move towards decoupled support policies. From governments’ point of view decoupled payments have several practical disadvantages. These include:

* inter-sectoral distribution - in contrast to market price support, decoupled payments are made in the form of explicit payments to farmers, however defined. Their visibility, and the fact that they will be made independently of output, would raise questions about why people in other sectors, who might be equally poor, receive no such payments.

* eligibility within the farm sector - again, in contrast to market price support policies, decoupled payments require governments to specify the recipients. Criteria could be based on income levels, or on a requirement to fulfil certain conditions; for example, land conservation or withdrawal of resources from farm production. In any case, invidious choices as to which farmers shall receive the payments will have to be taken.

* new policies, and associated administrative procedures, would have to be set up to replace established ones.

* the supply response to new support systems may be uncertain.

It may be politically unrealistic to expect widespread adoption of schemes which were not correlated at all with the income lost from the removal, or progressive reductions, of coupled support. With schemes which replace coupled support by assistance decoupled from past as well as future production there would be enormous practical problems in determining by how much to compensate farmers. This problem is more complicated than determining the revenue lost from the removal of coupled support. It requires assessment of the alternative uses of farm resources. Some, mostly the bigger farms, would have more opportunities for diversification out of agriculture than others. Invidious judgements would have to be made about the extent of the alternative income sources enjoyed by (or open to) the farm household, though there could, as in New Zealand, be ex-post assessment of actual taxable income levels.
If new forms of income support were not intended to compensate, to some
degree, for the amount by which a farmer's coupled assistance is reduced,
then those farmers currently producing large volumes, and so benefiting
most from price supports, would become big losers. These farmers would
exert strong political opposition to any agreement which targeted subsidies
correlated to past production. Opposition would be further incited by the
highly visible nature of income support schemes not linked to production.
Several direct income payment schemes that have been proposed within
the OECD are likely to be afflicted by problems of this sort.

**PRODUCTION ENTITLEMENT GUARANTEE - PEG**

The Production Entitlement Guarantee (IATRC 1988) may provide a useful
half way house between existing price support schemes and fully decoupled
support. The PEG is a preset limit on the quantity of production eligible
to receive support payments. This limit must be less than would be produced
in response to market prices. For large farms only a fraction of their total
production would receive support payments and the rest would be sold
at the open market price. Most of the production of small farms, though,
would be supported. Under this scheme, therefore, only the quantity of
output over the level which is eligible for support would be determined
by its value on the world market. The PEG scheme has several merits
(Blandford and de Gorter):

* the total amount of price support can be reduced
* support can be more readily and flexibly targeted at smaller farms
* farmers are encouraged to produce efficiently, both within and beyond
  their guaranteed level
* as a commodity-based policy it may be politically more acceptable than
  fully decoupled lump sum type payments.

PEGs can be made tradeable. Because they would be more valuable to low-
cost rather than high-cost farmers the latter could be bought out by their
more efficient neighbours. New entrants to farming would either have to
purchase (or lease) PEGs or produce all their output at world market prices,
without PEG payments. If PEGs were not tradeable they would freeze
existing production patterns and so lead to efficiency losses.

The first step under a PEG scheme would be to phase out all border and
domestic support measures. Then the support price, and the quantity of
production entitled to receive support would be fixed. The initial issue of PEGs would be at the discretion of national governments but may need to be negotiated internationally to conform with any GATT disciplines on internal support.

However, in keeping with its status somewhere between fully coupled and decoupled assistance, the PEG scheme has several problems, common to both coupled and decoupled support:

* PEGs would not be immune from political pressure to increase assistance if there were a downturn in market prices.
* PEGs, in common with decoupled support generally, involve highly visible budgetary support, rather than by taxing consumers.
* PEGs for each farm would have to be decided involving complex and invidious decisions.
* Output up to the PEG would have to be monitored for each farm, so that it can receive the assisted price.

SPECIAL AND DIFFERENTIAL TREATMENT (S+D) FOR LESS DEVELOPED COUNTRIES

Another important issue related to decoupled support involves the treatment of less developed countries. Two questions are relevant here:

(1) how are bona fide infrastructural programmes which benefit the agriculture sector to be regarded? and
(2) should such programmes be treated differently for LDC’s?

There is likely to be a difference of degree of concentration between infrastructural programmes and R+D expenditure. The latter is generally channelled through national research and extension agencies. The relationship between R+D expenditure and production incentives is thereby obscured, in the eyes of the farmer.

With infrastructural programmes, however, the relationship is not necessarily so obscure. Many infrastructural programmes would channel benefits to only small groups of producers, according to their location, range of products or other distinguishing characteristic. Particularly questionable would be sub-national expenditure targeted at inputs whose use is closely correlated with output. Nevertheless we should not want to
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see bona fide programmes, particularly those in LDC's, subject to the same disciplines as the more obvious supply-inducing policies.

The solution may therefore be, as with research and development expenditure, to monitor all infrastructural support, with particular scrutiny given to those programmes which have an agricultural bias and those which are sub-national in scope. This monitoring process would probably require a greater degree of transparency than is current for policies of this type. In particular the conditions for qualification for infrastructural support should be explicit. Further, if a developed country's infrastructural programme is to be classified as decoupled the onus would be on that country's government to show that more than x percent of the country's farmers will benefit, and that more than y percent of the benefits will accrue to non-farmers. The rationale for such a criterion is that if x and y are sufficiently high the programme would be an inefficient way of giving coupled support to farmers and any supply response would be fairly small. A criterion expressed in this way, perhaps with lower values for x and y, could also be used for LDC's. It is envisaged that LDC's would be so defined according to objective criteria (such as GDP per head) and that, as they become more developed they would follow the same discipline applying to developed countries.

DECOUPLED SUBSIDIES IN NEW ZEALAND: WELFARE GRANTS

The welfare schemes that are currently available to the rural sector in New Zealand are described in this section followed by a short discussion of whether such support is independent of production incentives. The schemes described below are the most evident ones currently available to farmers as well as to the general public in some cases. There may be other categories not presently evident to the authors. For the purposes of the following discussion, it is useful to distinguish between:

(1) persons in employment (with minimum hours per week for part-time employed);
(2) persons unemployed but seeking work;
(3) persons with children; and
(4) self-employed proprietors individual taxpayers
   (a) non-farm
   (b) farming
   (c) drought areas.
The range of welfare and income supplements available to farmers as well as to the general public are summarised in Table 1.

In terms of general benefits, it is not possible to identify amounts paid to rural people as compared with non-rural people. What is clear is that Family Benefit and Family Support are the only benefits payable to families irrespective of occupational groups. All other schemes, however, have some criteria which target the particular group they are meant to serve. Some of the above schemes that are directly or indirectly relevant to the farm sector are briefly described below.

(1) Family Benefit

A child allowance of $6.00 per week per child is paid as of right to all parents on children up to the age of 15 years or, if a full time student, up until the end of the year in which 18 years is reached. Arrangements are made for lump sum payments up to a period of 52 weeks for first children, and children starting school. Prior to 1 October 1986, the Family Benefit could be capitalised and used for home ownership purchase.

This benefit was drawn by 437,287 families in the March year to 1989; covering 877,204 children and costing $258.4 million (excluding Family Support). This scheme is administered by the Department of Social Welfare and does not influence production in any way.

(2) Family Support

Family Support is extra income for families caring for their children over and above the Family Benefit. It is payable through the tax system as a rebate or by direct payment through Social Welfare. Family Support is abated for annual incomes before tax of $17,000 per year or more and for a 6 child family is eliminated where the family income is over $40,000 per year.

Income tested beneficiaries have their Family Support entitlement automatically incorporated by the Department or Social Welfare in their benefit. If they receive income from an extra source, this can only be assessed by Inland Revenue when their tax return is processed.
The expenditures on Family Support were $180.3, $397.3 and $415.5 million in 1987, 1988 and 1989 respectively. As in the previous case, Family Support is fully decoupled.

(3) Special Needs Grants for Financial Hardship

Emergency grants may be granted on grounds of financial hardship to those who do not qualify for the ordinary Unemployment Benefit. This payment is available to the self-employed and others who have sudden loss of income or whose venture may have failed. Assistance is paid through a Special Needs Grant. Since farmers cannot qualify for Unemployment Benefit, a special assistance programme has been made available to them since 1986, as discussed next. Farmers can get grants on a long term basis without meeting requirements that recipients must be looking for other work and willing and able to take up job offers. Although this scheme places farmers at an advantage (sectoral advantage) to other self-employed persons, the amount of assistance is not related to the level of farm production.

(4) Special Assistance to the Farming Sector

A package for assisting the farming sector due to the downturn in the economic climate was announced by Government on 2 July 1986, with part of this package being the provision of Special Needs Grants to farmers in order to provide for essential day-to-day living expenses. Grants are made available to farmers who are in a critical financial position with no funds or no access to funds to meet their day-to-day living expenses. The criteria for payment are:

1. the farming operation is in financial difficulty and is not producing sufficient income to meet essential living expenses;
2. there is no significant off-farm income;
3. there are no assets unconnected with the farm operation which can be readily converted to cash;
4. a decision has been made to sell the farm and the asking price is realistic; or the family is in the active process of evaluating the ongoing viability of the farm.

Social Welfare believes such grants should not be paid for such purposes for longer than 6 months. Applicants must re-apply every 6 weeks. In 1989
total expenditure under the Special Assistance to the Farming Sector was approximately $319,285. In this case too, the amount of assistance is fully decoupled from farm output.

(5) Adverse Events Family Income Support

This programme was introduced in November 1988 when the East Coast of the South Island was declared an adverse event area due to a prolonged drought. This programme is funded by the Ministry of Agriculture, but is administered by the Department of Social Welfare. Applicants must be resident in the declared adverse event area. The basis of the application is a statutory declaration that the applicant is in difficulty because of the drought.

An adverse event area was also declared on the East Coast of the North Island due to drought in May 1989. Assistance measures for this area were announced in March 1990. These also included Adverse Events Family Income Support, but with somewhat different criteria. In 1989 some 3500 farmers received approximately $22.6 million under this scheme.

(6) Exit Grants

At the time of the introduction of the Adverse Events Family Income Support Scheme additional government support was provided for non-viable farmers to encourage them to leave farming. Providing a sale took place, the government undertook to ensure that the departing farmer’s assets were made up to the value of $45,000. Some 300 grants were made under this programme.

DISCUSSION

This section addresses the question of whether New Zealand’s experience with welfare grants in agriculture can provide guidance on decoupling agricultural assistance from production (and hence trade distorting) incentives. Based on the extent of welfare grants available in New Zealand and the past experience with production subsidies some conclusions are reached on the extent of decoupling in New Zealand agriculture in the current policy framework.
As pointed out earlier, the ideal decoupled subsidy would be paid to farmers in such a way that it would not exert influence on any of their decisions which affect output. Subsidy payments could be a recognition of a number of social and economic objectives pursued by governments. The EEC argues that its subsidies are social in character and hence are not provided for economic reasons. Such things as retaining people on the land, preserving the countryside and maintaining minimum incomes are all counted as social objectives.

Hence the question that arises is whether countries (like those in the EEC) could potentially reach such social objectives by different means than by blanket all-embracing support for farm prices. If such could be achieved, then production levels and input use might relate more closely to those which would have prevailed in the absence of blanket subsidisation.

In the case of New Zealand the social objectives being pursued at the present time include:

* prevention of financial hardship
* protection of the sick, disabled, etc.
* protection of the aged
* assistance in emergencies, including climatic emergencies and recovery
* assistance for economic disasters and recovery

A review of the government programmes available to the rural sector indicates that there does not appear to be an explicit welfare policy for rural people in terms of rural population goals or maintaining the countryside in its present form. There is also no firm identifiable policy for rural communities. The concept is basically one of a welfare safety net for protection of all people at some minimum standard.

The welfare safety net is necessary, in part, because earlier social and economic goals of full employment and balance of payments surpluses have been replaced by market and efficiency goals. In a full employment society, the minimum standard of living can be delivered by minimum wages and job spreading, with less emphasis on delivery by welfare payments. Similarly, agricultural assistance directed toward increased exports assisted marginal farmers to stay in farming, and also kept people in agriculture and rural communities at levels higher than were warranted by undistorted market prices and economic necessity. In turn, such assistance kept more schools open in rural areas, maintained small businesses in rural
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communities and maintained levels of services such as health and roading at higher than otherwise levels. It is doubtful if these were the open goals of such programmes.

From 1962 to 1984 agricultural assistance policy was dominated by export lead growth priorities arising out of the recurrent balance of payments crises of the 1950s. For present purposes it is useful to discuss agricultural investment incentives separately from guaranteed minimum price schemes. These policies were introduced to increase production of exportable goods by second best methods in a fixed exchange rate environment. They contributed to the defined social objectives outlined above, but only as a by-product of their main aims.

The investment incentives operating in this period were tax write-offs for land development, standard values for livestock for tax assessment, the Livestock Incentive Grant Scheme (1976) and the Land Development Encouragement Loan Scheme (1978). These measures were aimed at the developing farmer with scope for greater farm production. They were designed to fund more easily the expansion of output the nation desired. In effect, they subsidised the cost of land development through an investment incentive. These measures tended to encourage farmers to bring more land into production rather than to intensify existing land use.

During the middle of the period 1962 to 1984, policy measures were introduced to provide greater security in farming. Land development was seen to be at risk if farmers were uncertain of future returns and sudden changes in returns. Their response to such risk factors was thought to be a slowing down of the land development process. Minimum price schemes had been developed in the immediate post-war period for milkfat, apples, meat and wool, with varying degrees of support being provided. In 1976, both the meat and wool minimum price support schemes were re-engineered to provide higher minimum price guarantees and mechanisms for replenishing the necessary buffer funds. In 1978, the Supplementary Minimum Price Scheme was introduced whereby milkfat, meat and wool prices would be topped up to provide desirable incomes for producers. In effect, incomes were designed to be not only secure, but sufficient to maintain a high level of re-investment in farm development and output.

Both the investment incentives and the guaranteed minimum price schemes were oriented to investment, growth and output. Neither were instituted for 'welfare' reasons. Both could be said to have slowed down economic
adjustment to changing economic circumstances which would otherwise have been required as market realities changed. On the other hand, both schemes could be said to have encouraged structural adjustment through increased and guaranteed incomes and investment incentives which funded new opportunities and directions.

Since minimum prices were applied across the board, they raised incomes for all producers and probably protected the weak, the marginal and the non-viable. In this sense the support schemes then in place constituted a type of social welfare payment to those who would have otherwise been a burden on welfare funds.

Welfare assistance in the form of Direct Income Support to the rural sector has increased since 1984 following the dismantling of the investment incentives and minimum price schemes, and the general decline in the profitability of farming. Universal benefits were available before these changes and have continued since. Income smoothing and loss write-offs through the tax system have been preserved as well. However as farming profitability declined through 1985 and 1986, it became apparent that the weak, the marginal and the non-viable farm units were not protected by the existing social welfare provisions. As a result, the Special Assistance to the Farming Sector Scheme was devised for farmers to meet temporary financial distress requirements.

This was the only mechanism whereby farm owners and their families could receive a full welfare benefit. Family Benefit and Family Support for children are payments based on the number of children in the family and are not designed to maintain the whole family. The Guaranteed Minimum Family Income Scheme is restricted to people on low wages and is not available to farmers as self-employed. In the case of the South Island drought relief scheme, it seems likely that in most cases of natural disaster, this kind of welfare assistance would probably be needed whether or not production incentives and price support were in place.

However, farmers in New Zealand remain more vulnerable to climatic and financial adversity than they were under previous subsidy programmes. Existing schemes do provide some compensation to farmers who are adversely affected by natural disasters. However, New Zealand's farm sector remains highly vulnerable to changes in the external environment. For example, fluctuating world commodity prices and the currency exchange rates are largely beyond the control of farmers. To the extent that the
agricultural sectors in the rest of the world are still highly protected, unilaterally decoupling agriculture has introduced new forms of risks into agriculture. From a global efficiency standpoint, an interesting question that arises is whether New Zealand farmers are receiving the right market signals from the rest of the world. Unless the level playing field is achieved, market signals (based on international comparative advantage) are bound to be distorted.

Welfare assistance (Direct Income Support) is oriented to financial need and is normally targeted to defined groups. Only those programmes introduced for relief in the economic downturn could be said to be substitutes for earlier production incentives in the sense that while guaranteed minimum prices were in place, a special assistance scheme for farmers would not be needed. There is no equivalent to the investment incentives such as the Livestock Incentive Scheme and the Land Development Encouragement Loan Scheme. Social Welfare still view the Adverse Events Family Income Support scheme and the Special Assistance scheme as subsidies to farming as they believe the conditions are more generous than for other sectors.

Among some of the measures that have been proposed for decoupling agricultural support from production the PEG seems to be receiving lots of attention. From New Zealand's perspective, PEG could be expensive to implement in the sense that additional administrative structures have to be set up in order to monitor whether farmers are abiding to their respective PEGs. Even for developing countries, monitoring production can become an administrative and financial burden.

Direct income support delivered via the 'welfare' system seems to have worked well in New Zealand and the process has been partly facilitated by the existing institutional setup. For example the working of direct income support scheme can be monitored closely through the existing tax system. In this respect, developing countries that do not yet have a well developed tax system might experience some difficulties in implementing direct income support schemes. To the extent that direct income support schemes can be fully decoupled and are in general financially and administratively quite attractive they should be considered as serious candidates for decoupling agricultural support in the rest of the world.
CONCLUDING REMARKS

Decoupling farm support programmes from production still represents a major challenge to most western nations. There are tremendous political and administrative difficulties involved in determining which farmers shall receive what level of decoupled support. There are also significant political problems associated with switching from a system of price support to mechanisms such as direct income support. Any movement away from coupled support is also likely to lead to a fall in farmers' asset values.

In certain ways New Zealand has been more fortunate than other developed countries: high support levels have a short history in New Zealand, and farming systems did not come to depend on them to the same extent as in other countries. This paper has shown that farmers in New Zealand no longer receive subsidies that are linked directly to production. It can be deduced that when income supporting subsidies were in place, the need for targeted welfare assistance was reduced. Once the income supports were removed, the need arose for welfare type schemes based on financial need and not on production objectives. These welfare schemes provide decoupled support for the farming community as defined at the beginning of this paper and hence have in effect displaced part of the earlier broad assistance provided to agriculture.

The New Zealand experience has shown that a fully decoupled agricultural sector is possible. Farmers can survive the withdrawal of coupled support, to the benefit of the wider economy. Nevertheless there have been problems and the New Zealand experience can offer some guidance for countries wishing to implement decoupled policies. Under previous subsidy programmes farmers in New Zealand were insulated from many of the problems caused by climatic threats, or changes in the macro economy. In the absence of such programmes, governments could usefully encourage farmers to adopt risk management techniques such as drought strategies and insurance cover for adverse events in order to be better prepared in a world of freer trade and market realities.

As the OECD points out, 'multilateral action should not be seen as excluding unilateral action. To do so may involve foregoing the very substantial benefits from [agricultural policy] reform simply because of an inability of the countries concerned to harmonise their policy changes. A move to direct income support could provide such a signal while at the same time creating room to manoeuvre for governments in handling the social and political costs associated with reductions in assistance.'
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