

# **Sustainable Agriculture**

**If you want to kill it, subsidise it!**

**Agriculture-Related Tax System**

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# New Zealand

- developed country but agriculture the main export
- depression in the 1930s, mass unemployment,
- From 1935 stimulated economy, but ran out of foreign currency,
- Import quotas imposed,
- Government controls and managed trade until '80s.



# Relative Decline

- **Relative Decline**

- at the height of the country's prosperity in the 1950s, a 30-year decline began.
- the decline at first was relative. New Zealand was growing, other countries were growing faster.
- we slipped from richest to 21 from 1950-82,

- **Cause – Double Whammy on Agriculture Exports**

- import quotas cut imports and made manufactured goods expensive,
- the reduced demand for foreign exchange kept NZ\$ high, and reduced farm incomes i.e. kept costs high and reduced incomes.

# Agriculture

- **To compensate agriculture for the additional costs:**
  - many incentives were introduced,
  - the tax system was distorted to favour current farmers, i.e. tax expenditures,
- **By 1981 56 % of Farm Incomes Subsidies**
  - more than NZ\$ 1 billion a year provided from national budget,
  - tax changes aimed at improving net profits, inflated livestock prices and made it harder to enter the agriculture,
  - post-war expensive land settlement schemes (for ex-soldiers) were retained into the 1980's,

# Market Signals Completely Distorted

- **Prices said diversify; reduce sheep flock; subsidies said increase,**
  - subsidies became capitalised in land values,
  - profit in farming fell, but farm land prices increased by 500 percent,
  - even the most inefficient farmer was not allowed to go broke,
  - Forest Service and the Lands ministry bought land that would not sell to kept land prices high,
- **Policy focused on compensating farmers for inefficiency elsewhere,**
  - subsidies were captured by suppliers, shippers and slaughter houses.

# Change

- **1984 the country was near bankrupt, days away from default, just before a General Election,**
  - had to devalue NZ\$ by 20 percent before the Cabinet sworn in,
  - crisis budget to cope with the deteriorating government budget position,
  - had to reduce agricultural subsidies

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# No Alternative

- **1984 Government had no choice it had to fix things:**
  - was NZ's first "Post War" Government
  - young, well educated Members of Parliament, not after a career, there to do a job,
  - saw Asia as an opportunity not as a threat,
  - took the attitude, lets fix things, then worry about the politics,



## From 1984 over 5 years

- **Subsidies and tax expenditures were withdrawn,**
  - subsidised interest rates, tax expenditures and low cost services withdrawn,
  - land settlement and low cost credit to marketing boards were stopped,
  - charging for agricultural sector services,
  - cost-recovery of the costs of individual services,
- **Led to reforms in the state sector, ports, transport,**
  - reduced costs meant cheaper to market production,
  - rail freight costs fell 50 percent, port charges fell 75 percent,
  - reduced port charges increased the forestry hinterland from 80 km to 120 km in 1 year,
- **Within 8 years agriculture led an export led boom,**



# Keep Close To The Market

- **Industry is there to serve the needs of its customers,**
  - without customers, no industry can survive,
- **New Zealand had been production driven,**
  - subsidies and tax incentives drove production in the wrong direction,
- **Reforms brought NZ closer to the market**
  - still has a long way to go,
  - if people are not prepared or able to pay for what you produce, don't produce it, do something else.

# Diversifications

- **Search for Cash:**

- golf courses, farm stay (tourism for Korean, Japanese and Chinese tourists),
- move to goats, deer, specialised horticulture,
- move from sheep to beef cattle,
- wine,
- game parks, climbing and hiking tours, whale watching.

- **Government should work at the market end:**

- market intelligence, push for multilateral free trade, feasibility studies,
- marketing support etc not tax incentives,

## **Subsidies Nearly Killed NZ Agriculture**

- **Farmers did not want them,**
- **Farmers led the push to get rid of them,**
- **Today there are none, and nobody would dream of bringing them back,**
- **Agriculture is more prosperous today than at any time in the last 40 years.**
- **If you want to kill Agriculture, subsidise it.**