

THE IMPACT OF RECENT GOVERNMENT POLICIES
ON THE ECONOMICS OF SOUTH ISLAND
HILL AND HIGH COUNTRY FARMING

I.G.C. Kerr* and N.W. Taylor**

May, 1986

*Centre for Resource Management/

**NZ Meat & Wool Boards' Economic Service

Information Paper *no. 7*

Centre for Resource Management,
Lincoln College & University of Canterbury

ISSN 0112-0875

CONTENTS

TITLE	PAGE
List of Tables	(i)
List of Figures	(i)
Introduction	1
Production	3
Wool	4
Meat	7
Beef	9
Other	10
Net farm income	10
Development	11
Income and Expenditure	12
Impact of 1984 Budget	17
Taxation	19
Land Protection Policies	19
Outlook	19
Discussion	21
References	27

LIST OF TABLES	PAGE
1. Estimated livestock units per farm.	3
2. Wool net return.	5
3. Wool sold - N.Z. auction sales.	6
4. Wool production.	6
5. Export lamb - net return.	7
6. Mutton - net returns.	8
7. Lamb sales in hill and high country farms.	8
8. Physical and financial data, South Island hill and high country, 1982/83.	10
9. Economics of development, 1984/85.	11
10. Income and expenditure.	14-15
11. Income and expenditure, 1984/85 to 1985/86.	16
12. Distribution of net farm income, 1983/84.	17
13. Impact of 1984 Budget.	18
14. Impact of 1984 Budget, South Island hill and high country.	18
15. Assistance to pastoral farming	23

LIST OF FIGURES	PAGE
1. Price - Fineness Relationships	5

THE IMPACT OF RECENT GOVERNMENT POLICIES ON THE ECONOMICS OF
SOUTH ISLAND HILL AND HIGH COUNTRY FARMING

I.G.C. Kerr* and N.W. Taylor**

*Centre for Resource Management/

**NZ Meat & Wool Boards' Economic Service

INTRODUCTION

The policies of the present Government for the management of the New Zealand economy are clearly 'more market' (Douglas, 1984). The economy, in the judgement of the Government and its economic advisor, The Treasury, is most efficient when there is free competition for resources and prices are determined by the market. The role of Government is, nevertheless, important to provide an administrative and legal framework for the economy and for society; provide those goods and services (such as defence and policing) that cannot satisfactorily be provided by the private sector; and, maintain equity between the members of society (Berthold, 1985).

For hill and high country farmers the 'more market' economic policy issues which are of principal concern are inflation, exchange rates, industry assistance, financial controls and prospects for the sheepmeats industry.

With the rapid rise (albeit with a recent fall) in the value of the New Zealand dollar, many of the advantages to pastoral farmers of the November 1984 devaluation are fading. Other adjustments being made to achieve a 'more market' economy (such as removal of financial controls, renewal of industry assistance etc.) and the imminent prospect of a goods and services tax, indicate a moderate level of inflation is likely to continue for at least two years even though present indications show a downward trend. Fluctuations in exchange rates combined with inflation can

only increase business risks and reduce hill and high country pastoral farm incomes even after allowing for a marked (or even total) fall in farm maintenance and development.

Assistance to many sectors of the manufacturing industry in New Zealand is seen by most farmers as a cause of much of their inflated input costs. The effective rates of assistance for pastoral agriculture have, with the removal of SMP's (supplementary minimum prices) fallen from almost 40% to about 10% (The Treasury, 1984). Tariffs and quotas on imports have allowed many manufacturing industries to benefit from effective rates of assistance of more than 50% (Syntec, 1984). While it is admitted by most farmers that there will be more jobs lost through removal of assistance to manufacturing industries, few see justice in an uneven application of 'more market' policies when pastoral farmers seem (to them) to be bearing an undue proportion of the burden of the costs of restructuring the economy.

Sheep farmers relying on the sale of export lambs for much of their gross income will be acutely aware of likely lower farm gate returns from lambs. Many farmers, wary of four years of an almost collapsed sheepmeats industry, will be examining their options for sheep production carefully.

In summary, the principal effects of recent government policies on the economics of South Island hill and high country farming arise from:

- (a) fluctuations in and devaluation of the NZ dollar
- (b) removal of output subsidies
- (c) removal of input subsidies
- (d) adjustments to income taxation.

This paper is intended to summarise the short term effects of these policy changes and outline some of their potential long term effects on hill and high country farmers.

PRODUCTION

Livestock production for average South Island hill and high country farms (and for all sheep and beef farms) in recent years is reported to be as follows:

TABLE 1: Estimated livestock units per farm.

Class of farms	High*	Hill**	All***
1981/82	8644	5552	3367
1982/83	8605	5637	3322
1983/84	9486	5580	3190
1984/85 (provisional)	9979	5725	3251
81/82 to 84/85	+15%	+3%	-3%

NB: * South high country ** South Island hill country

*** All sheep and beef farms (This notation is used throughout this paper)

SOURCE: NZ Meat and Wool Board Economic Services 1984a

Kerr and Lefever (1984) reported on the rapid rate of increase in high country production up to 1984/85. This is expected to continue but at a substantially lesser rate for the next few years. Conversely there is expected to be a slight reduction in livestock numbers on hill country farms and sheep and beef farms as a whole (Ministry of Agriculture and Fisheries, 1985b).

Livestock production in the high country recently increased because of the unrealised potential and incentive programmes available. These programmes were the Land Development Encouragement Loan Scheme (LDEL), and the Livestock Incentive Scheme (LIS). These schemes were supplemented by Rural Bank development loans which had the objective of

rapidly increasing pastoral production.

Other farming adjustments that are being made in response to 'more market' conditions include: a change to fine wool production; introduction of, or increases in merino wether flocks; production of heavier lambs; increases in cattle, deer, and goats; a growing interest in live sheep exports; reduction in expenditure on labour and fertiliser; and improved livestock performance from fewer total stock. Major changes in hill and high country enterprises towards large scale forestry or commercial recreation are often limited by the important considerations of location, economics and skill.

WOOL

The 20% devaluation of the New Zealand dollar in 1984 immediately increased wool prices by about 16% overall. However this gain was soon partially offset by upwards revaluation of the New Zealand dollar when the dollar was floated in 1985. A significant margin for wools finer than 21 microns has been generally maintained.

The average net return per kilogram of greasy wool for average South Island hill and high country farms and for the average of all classes of farms is shown in Table 2.

TABLE 2: Wool net return (cents/kg).

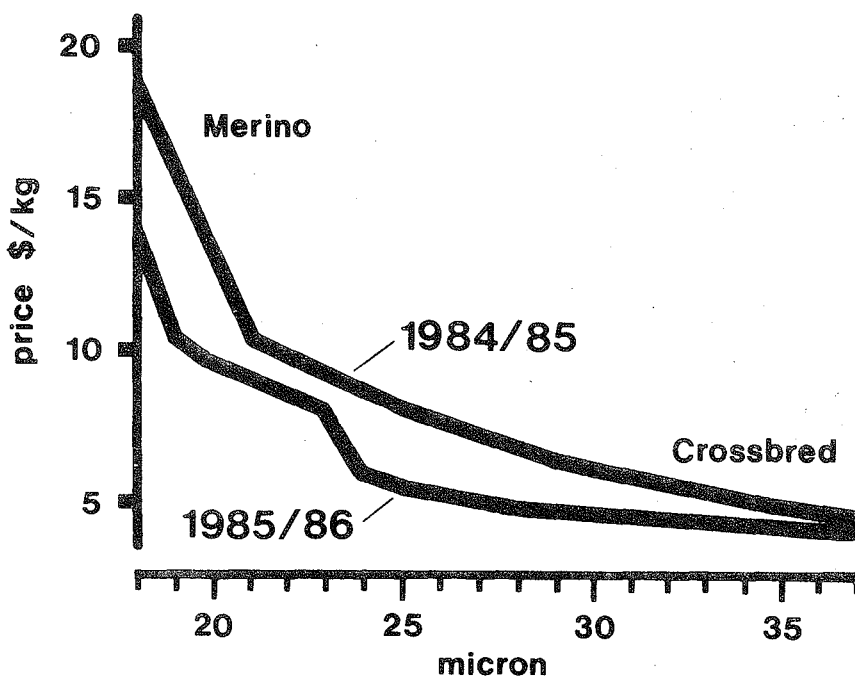
	High	Hill	All
1981/82	417.9	308.5	292.9
1982/83	417.6	314.4	298.4
1983/84	406.5	299.6	289.0
1984/85*	475.6	344.7	337.8
1985/86*			313.5

NB: * provisional

SOURCE: NZ Meat & Wool Boards' Economic Service 1985(a).

The relationship between price and fineness for full fleece wools for the 1984/85 and the 1985/86 seasons is shown in Figure 1 below. The market premium for fine wool has not been sustained and the incomes of most fine wool producers has dropped. Nevertheless the price advantage of merino wools over their crossbred counterpart is sufficient to attract a considerable interest in the merino breed, and available stock (especially at 20 microns and less) are keenly sought after at higher than usual prices.

Figure 1. Price - Fineness Relationships



For the 1983/84 season the volume of wool sold at auction is shown in Table 3.

TABLE 3: Wool sold - NZ auction sales (1983/384).

Micron	Tonnes	Percentage
18-24 (merino)	6 275	2.4
25-30 (halfbred-corriedale)	46 713	17.8
31-37 (crossbred)	206 664	79.0
38-41 (course wooled)	1 976	0.8

SOURCE: NZ Wool Board 1985(b).

Of the merino wools (18-24 micron) those within the 18-20 micron range attracted a marked premium price, but the volume of wools in this range is small (1 504 tonnes, or 0.6%).

The favourable growing season in 1983/84 and 1984/85, coupled with an increase in the numbers of sheep carried, resulted in substantial increases in the amount of wool sold per farm (and per sheep) for both the hill and high country of the South Island.

TABLE 4: Wool production (kg/farm).

	High	Hill	All
1981/82	31 075	19 254	13 282
1982/83	30 985	18 473	13 215
1983/84	33 637	19 392	13 018
1984/85*	37 149	21 819	12 497

NB: * provisional

SOURCE: NZ Meat and Wool Boards' Economic Service 1984(a).

MEAT

The overall position of sheepmeats is dominated by:

- (a) An accumulated deficit in the Meat Industry Stabilisation Account (MISA) of \$882 m at the end of the 1984/85 season.
- (b) SMP support for sheepmeats amounting to \$654 m until the scheme was discontinued in 1985.
- (c) Over one third of the total returns for sheepmeats during the four years to 1985 had been supported by SMP or MISA funds to the extent of \$1500m.

The farm gate returns for export lamb and export mutton have been maintained by support prices and latterly substantial payments for skin and wool. The following two tables have been derived from published information (NZ Meat and Wool Boards' Economic Service, 1984(a); NZ Meat Producers' Board, 1984; Stringleman, 1984).

TABLE 5: Export lamb - net return (\$/head): All grades.

	Carcase	Skin	Support**	Total (Farm gate)
1981/82	14.06	2.52	4.09	20.67
1982/83	7.83	2.55	10.43	20.81
1983/84	10.38	3.59	8.67	22.64
1984/85*	7.35	6.70	10.16	24.21
1985/86*	6.90	5.50	0	12.40

NB: * Provisional

** Support from industry and government

It is apparent that without recent price support schemes, farm gate lamb prices would be substantially lower. Projected seasonal average export lamb prices (at farm gate) for 1985/86 are estimated to be as much as \$10 less than for 1984/85 which will result in a fall of approximately \$9,000

in gross form incomes for both hill and high country farms. (NZ Meat and Wool Boards' Economic Service, 1985(b); Ministry of Agriculture and Fisheries, 1985).

The return for mutton is even less satisfactory, as shown in Table 6.

TABLE 6: Mutton - net returns (\$/head): All grades.

	Carcase	Skin	Support**	Total (Farm gate)
1981/82	2.69	1.89	5.36	9.94
1982/83	-4.02	2.88	11.60	10.46
1983/84	-9.85	4.10	17.87	12.12
1984/85	-5.12	8.30	11.67	14.85
1985/86*	-4.00	6.00	0	2.00

NB: * Provisional

** Price support from industry and government

The recent lamb sales position is much the same for South Island hill and high country farmers as it is for all sheep farmers.

TABLE 7: Lamb sales (number and \$/head/farm) in hill and high country farms.

	High		Hill	
	Store	Export	Store	Export
1981/82	534 (\$14.35)	1 530 (\$17.98)	328 (\$14.45)	1 408 (\$16.96)
1982/83	335 (\$11.59)	1 449 (\$18.78)	296 (\$16.24)	1 249 (\$19.64)
1983/84*	367 (\$15.07)	1 419 (\$21.27)	313 (\$16.37)	1 276 (\$20.54)
1984/85*	531 (\$14.17)	1 545 (\$21.47)	377 (\$15.98)	1 455 (\$22.20)

NB: * Provisional

SOURCE: NZ Meat & Wool Boards' Economic Service 1984(a).

It is patently clear that sheep farmers (and processors) were, for the four years up to 1984/85, shielded from the realities of the sheepmeats market by government backed support and incentive programmes. It is probably that the decisions of individual farmers, if made with knowledge of real market signals would have been substantially different from those made in an unreal market environment.

Happily, for many farmers, particularly in the hill and high country of the South Island, the concentration on production of fine wool has reduced (but not avoided) the impact of a rapid fall in income from sheepmeats. Unhappily not all have so positioned.

It is self evident that there is a desperate struggle taking place between farmers and meat processing and export companies for a 'fair' share of diminished returns from sheepmeats. It appears to be essential that market returns for lamb particularly be greatly increased by further processing either in New Zealand or offshore, and by a lower exchange rate for the New Zealand dollar. Unless this happens New Zealand's largest industry will rapidly retrench and export income sharply fall. One estimate (Hutton, pers comm) gives a reduction of four million lambs per year for the next three years (an overall fall in output by one third).

BEEF

The devaluation of the New Zealand dollar and strengthening of the US dollar has resulted in a strong demand for beef. The 1984/85 returns were 30% greater than the previous year, but 1985/86 expectations have fallen again by 22%. Since 1982/83 there has been no government or industry price support for beef.

OTHER

Deer have become firmly established as a growth industry on about 10% of all hill and high country farms, and on these farms contribute substantially to income. On average however, on average over all the hill and high country, income from deer amounted to less than 2% of gross farm income in 1983/84 of hill and high country farms though this proposition is expected to increase rapidly.

A very recent advent in hill and high country farming is the domestication of goats for fibre and meat production. As yet income from the source is not substantial.

NET FARM INCOME

Some idea of the importance of livestock performance to net farm incomes can be gauged from a comparison of the physical and financial results of two groups of farms in both the hill and high country. The 'high' performance group is the average of all those farms above the average gross income per stock unit and the 'low' group, those below.

TABLE 8: Physical and financial data, South Island hill and high country, 1982/83.

	High		Hill	
	High*	Low**	High*	Low**
Physical				
Stock units (su)	8177	9032	5920	5367
Wool/sheep (kg)	4.0	3.4	3.9	3.4
Lambing (%)	87.0	76.4	89.3	81.6
Calving (%)	82.2	77.0	83.8	68.1
Fertiliser (kg/su)	14.3	13.9	12.1	13.6
Financial				
Income (\$/su)	27.32	18.81	24.43	18.39
Expenditure (\$/su)	22.22	17.76	21.07	18.25
Net (\$/su)	5.10	1.05	3.36	0.14
Net (\$/farm)	41703	9484	19891	751

NB: * 'High' performance group

** 'Low' performance group

SOURCE: NZ Meat & Wool Boards' Economic Service 1985.

It is evident that hill and high country farms with a high stock performance are substantially better businesses, while there is relatively little difference in the amount of interest paid per stock unit in each group (\$2.35, \$2.02, and \$3.48, \$3.90 respectively). It is obvious that the high equity, high performance, high country farms are much better able to withstand any decrease in income levels or fall in land values.

DEVELOPMENT

Economic returns from land development for pastoral production by subdivision, oversowing and topdressing and additional stock has been assessed for the 1984/85 season at pre-budget costs and prices. Results were obtained for two speeds of development ('slow' and 'fast'), stocking rates ('low' and 'high') increases, and gross margins (GM) ('low' = \$20.50/su, and 'high' = \$27.50/su) actually experienced by farmers. The internal rates of return (IRR) from the pre-tax cash costs and benefits of development are shown in Table 9 below. The analysis covered a 15 year development and maintenance period at constant prices.

TABLE 9: Economics of development, 1984/85 (pre-budget).

Stocking Rate	Speed	Internal rate of return	
		'Low' G.M.	'High' G.M.***
Low (2 su/ha)	slow*	7.9	14.6
	fast**	10.3	18.3
High (4 su/ha)	slow	15.1	21.8
	fast	21.1	30.1

NB: * 'slow' development = 4 years to maximum stocking rate
** 'fast' development = 2 years to maximum stocking rate
*** G.M. = Gross margin

Plainly evident from the above figures are the low returns to investment in farm development experienced by low increases in stocking rate, slow rate of development and low gross margins. Unfortunately such a result is likely to be experienced by many farmers on hard hill country especially in cases where the costs of development are even higher than the 'average' used for this analysis. Conversely there were high returns from development for farmers with high stock performance, high gross margins and rapid development.

Additional costs imposed by the 1984 Budget will, after two to three years, marginally reduce further the returns from land development. The reasons for this may be in the high cost of maintaining development, which is now only marginally economic at best, coupled with the cost of servicing and repaying ancilliary development loans. This has resulted in many hill and high country farmers reducing (or cancelling) their development plans and postponing (or abandoning) fertiliser maintenance and stock increases. Recently, Government has recognised the difficulties that could result from the now costly maintenance and other conditions applied to the special incentive schemes (LDEL, LIS) and has waived the maintenance conditions (Douglas, 1985).

INCOME AND EXPENDITURE

The most recent New Zealand Meat and Wool Boards' Economic Service estimates of average income and expenditure per farm class are shown in Table 10.

It should be noted that because most farm accounts do not separate 'development' from 'farm working expenses', re-investment of income in farm development is included in farm working expenses.

The increased farm incomes for South Island hill and high country farmers in 1983/84 and 1984/85 reflects the exceptionally high levels of production brought about mainly by favourable seasons. The immediate effect of devaluation is clearly apparent in the 1984/85 estimates.

TABLE 10: Income and expenditure (\$/farm).

(a) South Island high country:

	81/82	82/83	83/84	84/85*	85/86*
Income:					
Wool	131 318	131 115	137 145	202 800	160 700
Sheep	35 302	39 075	45 628	56 100	283 000
Cattle	21 533	23 675	31 943	32 200	27 200
Other	3 510	2 810	4 612	4 300	11 400
Total	191 663	196 675	219 328	295 400	227 600
Expenditure:					
Working	125 639	129 249	124 206		
Standing	26 646	29 068	34 410		
Deprecn	9 849	12 753	13 883		
Total	162 134	171 070	172 499	206 300	171 000
Net income:					
	29 529	25 605	46 829	89 100	56 600

(b) South Island hill country:

	81/82	82/83	83/84	84/85*	85/86*
Income:					
Wool	59 250	58 946	62 518	80 200	68 200
Sheep	42 249	38 200	46 763	61 400	27 900
Cattle	22 491	22 082	20 681	34 800	24 200
Other	2 835	1 932	5 664	3 600	5 000
Total	126 825	121 160	116 612	130 000	125 300
Expenditure:					
Working	77 642	77 486	81 896		
Standing	20 458	27 449	27 824		
Deprecn	6 816	6 114	6 892		
Total	104 916	111 049	116 612	145 700	113 700
Net income:					
	21 909	10 111	19 014	34 800	11 600

(c) All classes sheep and beef farm (weighted average):

	81/82	82/83	83/84	84/85*	85/86*
Income:					
Wool	39 046	39 434	38 448	46 700	47 000
Sheep	32 086	34 521	36 154	43 600	20 900
Cattle	14 650	17 811	14 023	20 000	15 500
Other	9 804	13 608	16 150	18 100	18 200
Total	95 586	105 374	104 775	128 400	95 300
Expenditure:					
Working	51 023	55 169	57 301		
Standing	17 138	20 882	22 789		
Deprcn	6 024	5 927	6 194		
Total	74 185	81 978	86 284	97 800	85 700
Net income:					
	21 401	23 396	18 491	30 600	9 600

NB: * provisional

SOURCE: NZ Meat & Wool Boards' Economic Service 1984a, 1984b, 1985a, 1985b.

Net income refers to 'per farm', not per farmer and must meet all drawings, tax, capital repayments and much of any new development costs. The combined impact of removal of exchange rate control, input subsidies, and output subsidies is being dramatically experienced by the 'average' sheep and beef farmer in 1985/86. The present advantages of predominantly wool producing and larger enterprises is obvious.

Further evidence of the downward trend in farm incomes for 1985/86 is confirmed by the Ministry of Agriculture and Fisheries Farm Monitoring programmes (MAF, 1986). Preliminary projection for 1986/87 is for a further decline.

TABLE 11: Income and expenditure (% change) 1984/85 to 1985/86.

INCOME	High	Hill	All
Wool	-6	-15	-13
Sheep	-46	-45	-46
Cattle	-12	-9	-18
Total	-21	-25	-24
EXPENDITURE			
Farm working	-11	-26	-18
Standing	+19	+5	+13
Development	-67	-75	-83
Personal	-5	-1	-2
Tax	+181	+49	-7
Cash Balance	-218	-170	-102

SOURCE: Ministry of Agriculture & Fisheries 1986.

Those enterprises with a high dependence on wool are somewhat insulated from the depression of income from sheep meats. Farm working expenditure will be reduced (principally through reductions in expenditure on fertiliser and maintenance) and standing charges will rise by 13% on average. Notable is a large reduction in development expenditure by all farmers and an increased tax commitment for hill and high country farmers. The projected liability for taxation arises from the previous years high income and lower level of reinvestment. Some reduction in this liability may be possible after reassessment of 1985/86 and 1986/87 incomes.

Due to wide differences in farm efficiency and in the means of financing development, the very wide range in net farm incomes per farm is not always appreciated. The distribution in net farm incomes of South Island hill and high country farms and of all classes of sheep and beef

farms for 1983/84 (the latest year for which this information is available) are shown in Table 12 which follows.

TABLE 12: Distribution of net farm income 1983/84 (% farms).

	High 83/84	Hill 83/84	All 83/84
Below -\$20 000	3.1	10.0	5.7
-\$20 000 to -\$10 000	0	2.5	2.6
-\$10 000 to \$0	6.3	2.5	6.7
\$0 to \$10 000	12.5	15.0	20.6
\$10 000 to \$20 000	3.1	22.5	18.7
\$20 000 to \$30 000	15.6	5.0	21.3
\$30 000 to \$40 000	12.5	27.5	10.3
\$40 000 to \$50 000	9.4	5.0	5.0
\$50 000 to \$60 000	9.4	5.0	3.9
\$60 000 to \$70 000	0	5.0	2.4
\$70 000 to \$80 000	6.3	0	0.3
Over \$80 000	21.9	0	2.5

SOURCE: NZ Meat & Wool Boards' Economic Service 1985, 1986.

It is likely that many of the farms with low levels of net farm income were also reinvesting income in farm development.

IMPACT OF 1984 BUDGET

The November 1984 Budget was expected to have the following impact (after two years) on the All Classes Average sheep and beef farm (Table 13):

TABLE 13: Impact of 1984 budget (\$/farm).

	All Classes Average		
	Pre-Budget	Post-Budget	Change
Interest	15 100	17 100	2 000
Meat Inspection	-	1 100	1 100
Fertiliser	12 200	13 490	1 290
Transport	2 200	2 350	150
Fuel	2 200	2 270	70
Electricity	700	875	175

		(per annum)	\$4 785

SOURCE: NZ Meat & Wool Boards' Economic Service 1984(a).

The added expenditure per year amounts to a 15% increase in costs of affected items, or about 5% of total farm expenditure (NZ Meat & Wool Boards' Economic Service 1984).

The increased cost of items of South which directly affected Island hill and high country farms has been estimated and is shown in Table 14.

TABLE 14: Impact of 1984 budget (\$/farm), S.I. hill and high country.

	Total
High country	\$11 697 p.a.
Hill country	\$ 7 922 p.a.

SOURCE: Ministry of Agriculture & Fisheries 1984.

The above estimates for hill and high country amount to about 8-9% of total farm expenditure for the farms monitored.

TAXATION

Recently new requirements have been set for livestock valuation. Generally livestock must now be valued annually at current market value and any change in value included in taxation assessments. The result will be an end to the standard value system and, after a transition period, a 'tax neutral' environment for business decisions involving livestock.

LAND PROTECTION POLICIES

Government constraints in public expenditure to reduce activity in the soil conservation, agricultural pest control and weed control areas. Weed and pest control is now regarded by the government as the total responsibility of the land occupier. Slightly reduced grants for soil conservation will require a greater input from farmers involved in cost sharing programmes. The long term impact of these policies is uncertain but they are likely to be detrimental to the care and protection of grazing land and may in the long term incur high rehabilitation costs.

OUTLOOK

The high levels of production experienced in 1984/85 must be regarded as exceptional and, given a 'normal' year, are unlikely to be repeated.

The effect of the 20% devaluation (in November 1984) of the New Zealand dollar resulted in an immediate increase in export prices. This at first appeared to be sustainable, and was reinforced by an upward revaluation of the United States dollar. After devaluation a marked upward trend in the New Zealand dollar (against the United States dollar) seriously reduced the beneficial effects of devaluation on farmers' gross incomes. Recently there has been a weakening of the New Zealand dollar but the longer term level is

uncertain. Stated Government policy (Douglas 1984, 1985) gives priority to controlling inflation to levels below those of major trading partners, but there is evidence to suggest that Government is having difficulty in meeting this objective - particularly as far as farm input costs are concerned.

The prospects for a sustained reduction in interest rates to ten or even fifteen percent seems remote. The effect on farmers exposed to significant levels of debt will continue to be obvious, and it is likely that some hill and high country farm businesses will fail because of this.

Government policies for agriculture will have an increasing impact on hill and high country farmers over the next few years with the prospect of lower net farm incomes. Many hill and high country farmers will reduce expenditure on maintenance and development and adopt 'consolidation' or 'fortress' policies. Only those farmers with superior efficiency, high output (particularly of fine wool) and most likely with larger enterprises will be able to maintain more than minimum levels of borrowing and reinvestment to make rapid adjustments to new economic circumstances.

Already the rural real estate market has noted the reduced earning capacity of pastoral farmers (Horsley, 1986). In the present economic climate there can be little prospect of a return to the rapid escalation in land prices in the late 1970s and the early 1980s. This increase in land prices was deemed by one commentator (Hutton, 1981) to be a 'disaster for New Zealand' because Government assistance to farming was being rapidly capitalised and the prospects of the keen young farmer with limited capital were being put at serious risk.

DISCUSSION

There is no doubt that all South Island hill and high country farmers are being, or will soon be, affected by recent government economic policies. The policy and market (particularly sheepmeats) changes will result in a volatile economic existence for many hill and high country farmers in the next few years. Many of the policies were called for over several years by the farming industry (Federated Farmers of N.Z. Inc., 1984). Control of inflation and removal of the costs to farmers of protection of secondary industries are issues that were identified as of serious concern to all farmers a long time ago (Phillpot, 1963).

The virtual collapse of the sheepmeats market (the impact of which was reflected in farm gate prices only after the removal of SMP's) is a market signal only those hill and high country farmers wholly reliant on wool and beef can afford to ignore.

Now that the 'more market' economy is in place what is the future for farmers in the hill and high country of the South Island? Firstly it is clear that only those with improved economic efficiency will maintain the income enjoyed in the past. Whilst it could be said that, in the hill and high country there will be 'free competition for resources' the immediate social cost may be great and may seriously affect the perceived longterm benefits of 'more market' policy.

One apparent objective of government policy is to encourage the price of land to reflect its true earning capacity and to be an indicator of capital employed in production. The price of land also determines the opportunities for new entrants to farming to get a start at realistic equity and borrowing levels. With the effective removal of restraints on land amalgamation it is possible that many of the large number of farms for sale will be purchased by existing

farmers who have a record of earning and with adequate capital net worth. From a social viewpoint, excessive farmland amalgamation may result in some depopulation of rural areas, but this has to be compared with any economic depression of some rural districts which may result from sharply reduced incomes of sheep farmers.

It is unfortunate that the institutionalised monoculture of extensive pastoralism in the high country is reinforced by the pastoral leasehold tenure. This somewhat compromises the goal a free competition for resources. A wider view of high country land use opportunities (as an alternative or complement to pastoralism) could be encouraged by removing the implied and actual constraints imposed by tenure (Kerr, 1981). An example of a market failure is the special rental conditions that are likely to be imposed on forestry or commercial recreation enterprises on pastoral land irrespective of whether may be the 'highest and best' use of the land (Land Settlement Board, 1980, 1986). Similar barriers to land use decisions abound in many District Schemes (e.g. Malvern District Scheme, 1985). Many such barriers may be necessary to meet non market objectives - but it is imperative that the benefits and costs of administrative devices are thoroughly evaluated.

The issue of assistance to the pastoral industry has been of increasing political significance in recent years (Bayley, 1983; Treasury, 1984). The level of assistance in recent years has been as follows:

TABLE 15: Assistance to pastoral farming.

	79/80	80/81	81/82	82/83	83/84
Net assistance (\$m)	36	51	418	512	443
Assistance*					
All pastoral (%)	4	5	44	51	38
Wool (%)	-5	-3	54	97	24
Sheepmeats (%)	8	8	100+	100+	100+
Beef (%)	-9	-4	21	21	-2

NB * As a percentage of value added.

SOURCE: The Treasury, 1984.

The above estimates assume a 20% cost excess on inputs to agriculture from protection of manufacturing industries. This amounted to about \$400m 1983/84 so that the total assistance to agriculture in that year amounted to more than \$800m. Periodically some products achieved high prices (e.g. beef and wool) but even without SMP's they were in fact still negatively assisted because of the high cost excess of production brought about by protection of industry. By 1986/87, when the effects of the present policies will be fully in place, the level of assistance will be about \$500m. Over a similar period protection to import substitution industries will be reduced (by about 40%) to a level when 'assistance to different industries is broadly in line' (Bushnell, 1985). The problem for most pastoral farmers is that they already feel the effect of government policies. They do not see other industries being subjected, in many cases, to similar restructuring moves. Bearing in mind the potential consequences to employment of the removal of protection for some industries (such as textile, weaving, motor vehicles, apparel and leather) there may be no short term means of 'redressing the balance' towards meeting the concern of farmers.

One of the chief agents of government in the provision of assistance to pastoral farmers has been (and still is) the Rural Banking and Finance Corporation. The Rural Bank is now the dominant rural mortgagee through land settlement, farm development, special incentive and other loans. These loans are now costing considerably more than was anticipated but nevertheless offer less than the market rate for mortgages. The Rural Bank is now required to finance its lending from its own funds or from money borrowed on the open market. The average lending rate for the Rural Bank is substantially less than the market rate for funds. It is obvious that this policy cannot continue indefinitely - either the Bank's lending rate must soon rise or the market interest rate must soon fall markedly. There is some evidence of the latter happening, but as yet, not enough to enable the Rural Bank to contemplate reductions in lending rates. Many of the borrowers from the Rural Bank will be regretting their action in accepting the enticements of government policies encouraging them to participate in the now abandoned incentive schemes.

The fall in earning capacity of most pastoral farmers (and the associated fall in land values) puts farm mortgages and other loans at risk. Even a Government agency (the Rural Bank) which was largely responsible for implementing Government policies (LDEL, LIS, etc) aimed at increasing pastoral production is experiencing defaulting mortgagors. The use by Government of a commercial lending agency (albeit a Government one) for the promotion of what is now regarded as uneconomic development raises the question of liability for the payment of 'failed' mortgages arranged in good faith as part of a 'failed' policy. Clear separation of the operations of the Rural Bank from Government is considered to be both urgent and desirable as a means of minimising similar ad hoc political interventions by Government in the rural finance market.

The contribution of agriculture to the economy and to export receipts has also been the subject of some review (Treasury, 1984; Woods and Rankin, 1985). The direct contribution (net of inputs) of agriculture to gross domestic product in 1984 was about 8% and indirectly (through processing, input supply, wholesale/retail and transport) about 18%. The pattern has altered little over recent years.

Traditionally, the contribution by agriculture to export receipt has been considered vital to the economy and much of the recent assistance offered pastoral farmers in particular has been made with foreign exchange earnings in mind. A recent Planning Council discussion paper (Woods and Rankin, 1985) suggests the contribution of pastoral agriculture to total overseas earnings (including service earnings) has fallen over the last 30 years from 85% to less than 40%, and that manufactured and processed products now earn one third of all export receipts. This view is strongly challenged by the N.Z. Meat and Wool Boards' Economic Service and suggest this figure is misleading. When calculated in the traditional way agricultural exports still make up two thirds of the merchandise trade and half of the total export trade and that pastoral agriculture comprises 90% of receipts from agriculture in total. Moreover, the import content of agriculture is about half of that of other exporting industries so the net export receipts from agriculture are 70% of the total merchandise receipts (N.Z. Meat and Wool Boards' Economic Service, 1985(e)).

The plain fact is, pastoral agriculture remains the principal earner of foreign exchange, for the New Zealand economy. Bearing in mind the part annual foreign exchange earnings play in the payment for imports and the servicing of capital commitments, any policy (as distinct from a market) which purposefully reduces pastoral production (and

export earnings) substantially, may result in a marked depression of the national economy. Such a policy will require substantial counterveiling advantages (such as gains in efficiency) to prevent the national economy from being seriously affected. These advantages are not immediately apparent.

The dilemma facing hill and high country farmers (and other pastoral farmers) is what to do in the face of a depressing outlook for sheepmeats and in a 'more market' economy. Most will gradually change policies to meet new circumstances but with seemingly a lower level of earnings, some will fail altogether as businesses, many will seek new opportunities. It is to be hoped that the outstanding enterprise already demonstrated within the hill and high country will realise whatever opportunities emerge. Unfortunately it is unrealistic to expect dramatic 'diversification' changes to take place - there are comparatively few recognised farm scale options available and those with greatest need will be short of capital, prone to risk, and insufficiently liquid (as a business) to fund the change. Moreover the biological system of pastoral farming is inherently incapable of very rapid change. Each pastoral farming enterprise will have to find its own solution in an environment in which there is 'a free competition for resources and prices are determined by the market' (Berthold, 1985). It is yet to be proved that this policy will assist the achievement a more efficient New Zealand economy with its wide range of social goals. Meantime there is little comfort for those hill and high country farmers who have become victims of a rapid change in economic policy.

REFERENCES

- Bayley, J.G. 1983. Farming without SMPs: Commentary Proceeding of 1983 Hill and High Country Seminar. Centre for Resource Management, Lincoln College.
- Berthold, T.M. 1985. Water a broader policy issue. N.Z. Agriculture Economist Vol. 6 No.3. M.A.F. Information Services, Wellington.
- Bushnell, P.G. 1985. Recent changes improve market signals. N.Z. Agricultural Economist Vol. 6 No.3. M.A.F. Information Services, Wellington.
- Douglas, R.G. 1984. Financial Statement. Government Printer, Wellington.
- Douglas, R.G. 1985. Financial Statement. Government Printer, Wellington.
- Federated Farmers of N.Z. (Inc.) 1984. Agriculture - the anchors of the economy. General Election Policy Statement 1984, Federated Farmers of N.Z. Inc., Wellington.
- Horsley, G.J. 1986. Annual report, N.Z. Institute of Valuers, Wellington.
- Hutton, A.R. 1982. How far can land prices go? Proceedings of 1981 Hill and High Country Seminar Tussock Grasslands and Mountain Lands Institute Lincoln College.
- Kerr, I.G.C., Lefever, K.R. 1984. High country farming 1966-82. Tussock Grasslands and Mountain Lands Institute Review No. 42. Centre for Resource Management, Lincoln College.
- Ministry of Agriculture and Fisheries Advisory Services, 1984. Farm monitoring report. Sheep and beef, November 1984. Ministry of Agriculture and Fisheries, Wellington.

Ministry of Agriculture and Fisheries Advisory Services, 1985. Farm monitoring report. Sheep and beef, March, 1985. Ministry of Agriculture and Fisheries, Wellington.

Ministry of Agriculture and Fisheries Advisory Services 1985. Form monitoring report. Sheep and beef, March 1986, Ministry of Agriculture and Fisheries, Wellington.

NZ Meat Producers' Board, 1985. Annual Report 1983/84. Meat Producers' Board, Wellington.

NZ Meat and Wool Boards' Economic Service, 1984(a). Sheep and beef farm income and production estimates, 1984/85. Paper No. C242. NZ Meat and Wool Boards' Economic Service, Wellington.

NZ Meat and Wool Boards' Economic Service, 1985(a). Sheep and beef farm outlook for 1985/86. Paper 1915(a), NZ Meat and Wool Boards' Economic Service, Wellington.

NZ Meat and Wool Boards' Economic Service, 1985(b). Sheep and beef farm income and expenditure outlook for 1985/86. Paper 1915(c), NZ Meat and Wool Boards' Economic Service, Wellington.

NZ Meat and Wool Boards' Economic Service, 1985(c). Some physical and financial data for class 1 and 2 farms. Paper No. C244, NZ Meat and Wool Boards' Economic Service, Wellington.

NZ Meat and Wool Boards' Economic Service, 1985(d). Sheep and beef farm survey 1983-84: production and financial analysis. NZ Meat and Wool Boards' Economic Service, Wellington.

- NZ Meat and Wool Boards' Economic Service, 1985(e).
Agriculture's contribution to FOB receipt. Paper
T 100, NZ Meat and Wool Boards' Economic Service,
Wellington.
- NZ Wool Board, 1985. Statistical Handbook 1983-84 season.
NZ Wool Board, Wellington.
- NZ Wool Board, 1985. Major price influences. Wool
Production Vol. 4, No. 1. NZ Wool Board,
Wellington.
- Phillpot, B.P. 1963. Economic implications at the industry
level. N.Z. Institute of Agricultural Science
Proceedings, 1963.
- Stringleman, H. 1984. Farmers face the meat future with a
giant hangover. The Press, November 16 1984.
Christchurch Press Co. Ltd., Christchurch.
- Syntac Economic Services 1984. The structure of industry
assistance in New Zealand. An explanatory
analysis, Wellington.
- The Treasury 1984. Economic management: Land use issues.
New Zealand Treasury, Wellington.
- Valuation Department 1985. The rural real estate market in
New Zealand 1985, Half year to June 1985.
Research Paper 85/4, Valuation Department,
Wellington.
- Woods, N.R. and Rankin, P.J. 1985. Is farm support the
answer? Discussion paper, N.Z. Planning Council,
Wellington.

