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# Drought - Is it time to rethink our approach to this not so exceptional circumstance?[i]

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As the current drought effecting most of Australia's' food and fibre producing zones draws toward its inevitable break, it is time for us to reflect upon its effects and, most importantly, our preparedness for the next major drought.

The end of each drought in Australia signals many things, including the start of the process of 'forgetting' the lessons that drought has to teach us. If we were to take the reaction of farming groups, state and federal government and the media and their collective surprise at the effects of the drought to the current drought as a yardstick, it would seem that the 'big dry' of 02/03 is the first time Australia has faced such a phenomenon.

As a community we should be better prepared for the next major drought, initially by accepting the fact that we are living in a semi-arid climate, that drought is normal part of the climate in Australia, its to be expected and it will be with us again soon. We have to adapt our expectation of the environment and the industries that rely on the environment, to the environmental conditions that prevail.

Perhaps, because of the history of our European settlement, we have a lingering 'community memory' that tricks us into thinking we are actually living in temperate climes. But Australia is one of the driest continents on earth. In many places in Australia, drought is the 'normal' state of affairs, where drought conditions can be expected 5 or 6 (or more) years out of every 10.

Why, for example, is Australia not a world leader in water management and water recycling? Why are we not credited with leading the world in developing water saving technologies and then exporting these technologies to other arid parts of the world? Our position as a technologically advanced and wealthy nation makes our current and continued failure to adequately address drought and water use questions unforgivable.

Perhaps our inability to prepare for drought or to modify the way in which we interact with our harsh environment is a function of political will and focus. Politicians (and political organisations) are driven by what is popular. What is popular, particularly in this day and age, is determined by what is in the media (and thus by default, what is in the media must be popular).

It's almost impossible to talk about drought issues (including the availability of water) when there isn't one. No one is really interested in fixing drought problems when seasons are good and attention is directed toward other issues.

Surely with the accumulated knowledge of 200 years of agribusiness in Australia (and 100 years of irrigation schemes) we can do better than suggest that building more dams will fix the drought problem? (Late 2002 saw the re-emergence of the hare brained scheme to turn east flowing rivers west to 'drought proof' the interior).

Each time a drought develops to a point where it starts to have economic impacts, state and federal governments start wrangling over who is 'responsible' for drought relief.

The problem with drought relief in its current form is that the policy determining the 'relief' is caught in a twilight zone between industry subsidy and social welfare. A paper published by this Association in its online publication *Connections* by John Freebairn, Professor and Head of the Department of Economics at The University of Melbourne titled Drought argues this very point.

Subsidies that underwrite one sector disadvantage other sectors by artificially boosting prices and generally getting in the way of effective market operation. Freebairn argues that drought subsidies disrupt investment patterns and cause the misallocation of capital across the community – in the case of the current assistance measures to the tune of over $900 million.

The abovementioned figure is the estimated total of current Federal drought assistance, based on commitments to February 2003. This figure doesn't include the estimated $450 million in foregone tax revenue[1] on the current $1.97 billion in farm management deposits held by just under 42 000 farmers (as at September 2002).

Drought assistance should be recognised (and reorganised) as social welfare policy and not exist as industry support. There should be assistance to individuals and families who are seriously disadvantaged by drought (be they farmers, workers or regional business reliant on food and fibre production) and this assistance should be delivered via the current social welfare network. In a compassionate society no one should be consigned to the poor house as a result of drought conditions. But equally, taxpayers should not be expected to underwrite the economic survival of farm businesses.

[1] While the government quotes this figure as foregone tax collection, it is not a net amount, where the income earned from interest or other investments related to these funds are off set against the nominal tax 'loss'.

If Australia is serious about maintaining economic and environmental sustainability in the food and fibre production sector (you can't have one without the other), measures such as drought subsidies have to be phased out, or replaced with an expanded system similar to the current FMD scheme, where enterprises can 'bank' funds with the federal government that can be withdrawn when incomes fall due to drought conditions, or when a farmer leaves the industry.

In Australia the numerical majority of farms only account for a small proportion of total production and most of these are financially marginal enterprises. The following figures from the ABS are enlightening.

In 1999-2000, 24,000 or 23% of Australian farm businesses had a turnover of $300,000 or more and contributed 66% of the total turnover of all Australian farms. Their average turnover was $778,000 and the average cash operating surplus (a measure of profitability) was $138,000. The farm business profit margin (the ratio of cash operating surplus to turnover) for these businesses was 18%.

At the other end of the scale, 19,000 farms (18%) had a turnover of less than $50,000. These farm businesses contributed only 2% of the total turnover, at an average of $33,000. These farms had an average cash operating surplus of $1,000 per farm, which equated to a farm business profit margin of 3%.

Just over half of the total of 103 800 farming enterprises in Australia had a turnover of less than $150 000 in 1999 / 00

Many, if not most of the farms quoted above (say, half of all farms in Australia) will be more seriously effected by prolonged droughts than the larger more profitable enterprises, simply because they are economically marginal or even unprofitable in good years.

If the next big drought means that marginal cropping or livestock enterprises are forced to close (but their owners are saved from poverty by the social security system) then that should be allowed to happen. The government should not intervene in this process of economic rationalisation. After all the government doesn't intervene to save private business in the same way in other sectors of the economy.

Using the figures from the ABS, if the 19 000 farms referred to above were to cease operating, the reduction in their contribution to total sector turnover (2%) would be easily accounted for by the normal average annual increase in the sector. In other words, their contribution would not be missed.

Doomsayers will oppose this view by saying that such moves will be the death of regional Australia and the ruination of the rural economy.

However in Australia over the last 40 years farmer numbers have been falling, yet there has been real growth in the food and fibre production. The same trend has been happening in other developed countries. Fewer farmers doesn't mean less production, in fact the opposite is true.

It is true that rural communities have been effected by a reduction in the number of farms.

At the heart of the drought policy dilemma is a question of social values versus economic values – social policy versus economic reality. Are we talking about creating a vibrant profitable and sustainable food and fibre production sector, or preserving a way of life?

Do we want food and fibre production to be a profitable and efficient sector of industry that delivers cheap, safe high quality food and fibre to consumers? If so the sector has to become like any other sector of industry, where enterprises sink or swim on the basis of their economic viability – a sector where 'business' replaces 'culture'.

A new wild card to deal with is resource (land and water) management. Profitable enterprises are good for the environment because they are able to generate excess cash to invest in technology and practices that preserve land and water, or they can afford to set aside resources in the interests of lessening their environmental impact. On the other hand, unprofitable enterprises are very bad for the environment, simply because they cant afford to invest in reducing their environmental impact.

Putting aside industry economics, from a simple environmental sustainability aspect, many of the unprofitable enterprises should be eliminated as soon as possible because they are the ones that are least sustainable.

Could we see the merging of economics and environmentalism as the new driver of farm sector rationalisation?

Perhaps it is time to support the calls by people like Greens Senator Bob Brown for a thorough review of policies of all governments that relate to food and fibre production and natural resource management.

Putting aside the more radical fundamental views that exist within both the environmental and the farm lobbies, there is a significant amount of common ground – they both value land and water, one for its natural characteristics and one to feed and clothe the population. That common ground is not a bad position from which to start a review.

Lets hope that we can finally start to learn some of the lessons that droughts present to us, so we can be in a better position to alleviate the economic hardships, human suffering and environmental impacts that drought brings with it when the next big dry arrives.

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[i] The opinions expressed in this article are those of the author, David Ginns, and do not necessarily represent those of the members of the Agribusiness Association of Australia. The opinions expressed are for the purpose of advancing debate and discussion on the issues raised.