

Government needs to get balance right in regulating agriculture

Written by John Freebairn, Professor, Department of Economics, University of Melbourne

The Productivity Commission's [latest draft report](#) on the regulation of agriculture highlights the need to get the balance right, as to when the government should and shouldn't intervene in this industry, and then how to intervene.

The report is part of a nine-month public inquiry into the regulatory burden on farm businesses. It covers a wide range of issues from land and water use to labour and foreign investment.

Agriculture is fairly unique in that market competition is pervasive. Competitive markets provide the incentives and rewards for businesses to find cost-effective production methods, develop new products valued by buyers, and to adopt technology. At the same time, agriculture has to compete against alternative uses of limited national natural resources, labour and capital, and the sector has to pay market rates for these inputs.

Markets work well only with well-defined property rights, ranging from weights and measures for the products produced, through to the rights and responsibilities of owners in the use of land, water, labour, transport infrastructure, and other key inputs. Here, the Productivity Commission's report questions current regulations on some property rights. For example, they restrict decisions on the potential use of land for agriculture versus for the environment, urban use and mining, and they restrict the opportunities for non-resident investment in agriculture much more than investment in mining and manufacturing.

The commission proposes that regulations should balance the opportunity costs of alternative uses of land, or restrictions on the use of land. For example, the value of land regulated for use for agriculture should be compared with the value to society if instead the land was restricted to the provision of the environment, mining or urban growth.

It also proposes the government intervene to correct market failures. This could include for example the effects of the exercise of market power, external costs and lack of information necessary for buyers and sellers to make informed decisions.

Examples of external costs include run-off of chemicals to rivers and the ocean, irrigation in some areas increasing salinity downstream, and biosecurity. Often Australian food markets do

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not provide buyers with required information about the production systems used, for example organic or GMO, about food safety and nutrition.

As the Productivity Commission notes, regulation is not the only form of government intervention and often it is not the best way to correct a market failure. For example, the creation of government environmental water managers with water property rights similar to those used by irrigators for the Murray-Darling Basin seems to be a more effective way to restore a balance of water use between irrigation and the environment, than previous restrictions on water available for irrigation.

Sometimes government failure, either from lack of information or the dominance of political considerations, can result in regulations with larger social costs than those for the market failure. Essentially this is reflected in the report's argument that some regulations are counter productive, such as the banning of GMO and regulation the sugar industry again.

Where regulation is a proposed solution to the market failure, a next step is to design the regulation. The objective is to balance the benefits and costs to society, and not just for agriculture, of the restrictions imposed on the products produced and the production methods used.

In many cases these social benefit cost assessments will be very challenging and with legitimate debates on key costs and benefits. Regulations on animal welfare illustrate. There are challenges in providing robust measures of animal welfare and even in obtaining estimates of the different values and attitudes people place on different levels of animal welfare.

Forthcoming information about the side effects of new chemicals and production methods, as well as the evolution of society preferences, likely will justify adapting and changing regulations over time as new information becomes available.

A particular area of excessive regulation cost affecting Australian agriculture identified by the Productivity Commission concerns over-lapping, and sometimes conflicting, regulations across the three levels of government.

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Greater inter-government cooperation over the design and conduct of regulations is what the Productivity Commission draft report proposes and the government would do well to listen.

John Freebairn does not work for, consult, own shares in or receive funding from any company or organization that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.

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