Government Responses to Farm Poverty 1989-1998

The policy development process

A report for the Rural Industries Research and Development Corporation

by Linda Botterill

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Foreword

Poverty and income variability have been a feature of Australian agriculture for decades and various programs have been incorporated within rural reconstruction and rural adjustment schemes over the years to provide household support to farmers experiencing financial hardship. In recent years there has been a series of complex schemes developed to respond to the needs of farm families in difficulty, including the Farm Household Support Scheme, the Drought Relief Payment and, more recently, the Farm Family Restart/Farm Help Scheme.

These schemes have been developed by the Department of Primary Industries and Energy and its successor Agriculture Fisheries and Forestry Australia in the context of the Department's structural adjustment objectives for the farm sector. This Report sets out the history of Government rural adjustment and drought policy and related responses to farm poverty in the period from 1989 to 1998 and highlights the incremental nature of the policy development process. It examines a number of theories employed by political scientists for understanding policy making and how they can improve our understanding of policy making.

Most academic work on rural issues has been undertaken to date by sociologists, agricultural economists and physical scientists. This report aims to broaden the understanding of government responses to farm poverty by examining the policy development process from a political science perspective.

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Simon Hearn
Managing Director
Rural Industries Research and Development Corporation
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# Abbreviations

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<th>Abbreviation</th>
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<tr>
<td>AAA</td>
<td>The &quot;Agriculture Advancing Australia&quot; policy package introduced by Minister Anderson in September 1997</td>
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<td>AAC</td>
<td>Australian Agricultural Council</td>
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<td>ABARE</td>
<td>Australian Bureau of Agricultural and Resource Economics</td>
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<td>ACANZ</td>
<td>Agricultural Council of Australia and New Zealand, name of the AAC which was briefly adopted in 1992 following the inclusion of New Zealand in the Ministerial Council.</td>
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<td>AFFA</td>
<td>Agriculture Fisheries and Forestry - Australia</td>
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<td>ALP</td>
<td>Australian Labor Party</td>
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<td>ARMCANZ</td>
<td>Agriculture and Resource Management Council of Australia and New Zealand, successor organisation to the AAC and ACANZ (see above)</td>
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<td>BAE</td>
<td>Bureau of Agricultural Economics, predecessor of ABARE</td>
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<td>DPIE</td>
<td>Department of Primary Industries and Energy</td>
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<td>DPRTF</td>
<td>Drought Policy Review Task Force</td>
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<td>DRP</td>
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<td>DSS</td>
<td>Department of Social Security</td>
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<td>FHS</td>
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<td>GDP</td>
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<td>IAC</td>
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<td>Natural Disaster Relief Arrangements</td>
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<td>NSA</td>
<td>NewStart Allowance (unemployment benefit)</td>
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<td>Retirement Assistance for Farmers Scheme</td>
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<td>RAS</td>
<td>Rural Adjustment Scheme</td>
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<td>RASAC</td>
<td>Rural Adjustment Scheme Advisory Council</td>
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<td>SCARM</td>
<td>Standing Committee on Agriculture and Resource Management — the Standing Committee of Officials responsible to ARMCANZ</td>
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Executive Summary

Government concern with farm poverty has been a feature of Australian agricultural policy for many years, as have rural adjustment and rural reconstruction policies, which have incorporated household support components. The linkage between rural adjustment and farm welfare policy has been based on an assessment that inadequate farm incomes are largely a function of a slower than optimum adjustment process within agriculture. Public awareness of farm poverty has increased over the past twenty years or so for a variety of reasons, including increased focus on the welfare of farm families during the drought of the early 1990s.

Farm poverty is both difficult to measure and define. However, there is little doubt that inadequate incomes have been a feature of Australian agriculture for many years. Poverty can occur as a result of temporary stresses on the farm such as drought or low commodity prices, it can result from inadequate resources such as in areas where properties may be undersized and it can result from the long term structural changes within an industry. The asset-rich, income-poor status of many farm families can deny them access to the general social security safety net and can make the identification of true hardship problematic. The picture is further complicated by the structure of the family farm and the blurring of farm family and farm business.

Over the decade from 1989, the Commonwealth Government introduced a series of schemes aimed at alleviating low farm incomes. These schemes were linked to the Government’s structural adjustment objectives for the sector in an effort to ensure that programs aimed at supporting farm incomes were not providing de facto support for otherwise unviable business operations. This report sets out to illustrate the incremental nature of government responses to farm poverty in the period 1989 to 1998. Farm income support policy evolved over the ten years from its position as part of the 1988 version of the Rural Adjustment Scheme to the establishment of separate programs under the Agriculture Advancing Australia package which was announced in 1997.

Political scientists have been engaged in an ongoing debate about the nature of the policy process and, in spite of a strong attachment by some to the ideal of a rational process, there is general agreement that, in the real world, policy is developed incrementally. The following description supports this latter position by illustrating the incremental nature of Australian Government responses to farm poverty over a ten year period.
FIGURE ONE: PROGRAMS AND POLICY ACTIVITY 1989-1993

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Chapter 1: Introduction

1.1 Farm Poverty

There is frequent reference in the rural adjustment and farm policy literature to the “low income problem” in farming and the existence of poverty among farm families (Musgrave et al. 1975, p10; Campbell 1980, p83; Lawrence et al. 1992, p11; Rolley and Humphreys 1993, p248). However, no large scale systematic research has been undertaken to either define or measure farm poverty. In 1976, Vincent argued that

While legitimate doubts may be held concerning the actual number of farm families whose welfare is below socially acceptable standards, the evidence clearly points to a sizeable group whose incomes are chronically low and a larger group whose incomes are low in some years. (Vincent 1976, p112)

Based on 1986 figures, Davidson and Lees concluded that

After allowing for all adjustments, the levels of poverty range from 13 per cent for wage and salary farmer households, to 24 per cent for employer farmer households, and to 33 per cent for self-employed farmer households. (Davidson and Lees 1993, p45)

The adjustments referred to by the authors include allowance for the perquisites of farming, such as rent and motor vehicle use, for wealth increases and the opportunities for tax minimisation, as well as for regional differences (Davidson and Lees 1993, p45).

Defining and measuring poverty is a complex issue which is beyond the scope of this report. Putting aside the particular difficulties associated with assessing poverty among the self-employed (including farmers) there is ongoing debate in the social welfare literature about the appropriate means of defining and measuring poverty (Nicolaou 1998, p5). Saunders argues that “[i]t is not easy to produce a precise definition of poverty, even in its narrow meaning in relation to material well-being or ‘primary poverty’” (Saunders 1998, p12). Debate includes whether poverty should be defined to incorporate social exclusion, concepts of relative deprivation, choice and social context and whether measurement should focus on income, expenditure, level of choice or the budget-standards approach. The latter attempts to determine precisely how much it costs to live at a basic level by assembling a basket of goods and services and determining the budget necessary for their purchase (Henman 1998, p103). Townsend argues that

Poverty can be defined objectively and applied consistently only in terms of the concept of relative deprivation. … Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diet, participate in the activities and have the living conditions and amenities which are customary, or are at least widely encouraged or approved in the societies in which they belong. (Townsend 1979, p31)

Within Australia, the Henderson poverty line has been used since the mid-1960s as a threshold for determining the level of poverty within the community and also as a factor in the determination of the level of social welfare payments. Although there has been criticism of the poverty line in terms of its arbitrary nature, the method it employs to adjust for differing family composition and the means for updating, it is generally regarded as useful (Saunders and Whiteford 1989). It should be noted that the criticisms that apply to the Henderson poverty line are also levelled in different degrees at other forms of poverty line (Atkinson 1989, p23). In assessing the number of farmers in poverty, a 1973 survey of farm households by the Australian Bureau of Statistics set the poverty line at 80 per cent of 60 per cent of average earnings. This compared with a poverty line of 60 per cent of average earnings for the community at large, the difference due to the fact that farmers did not generally face the housing costs of non-farm low income earners (Vincent et al. 1975, pp81-82).
The inclusion of farmers in the 1973 survey was unusual as the self-employed are generally excluded from poverty research. This is because their true financial situation is difficult to determine due to the blurring of business and family expenditure. Johnson explains:

There are several problems with analysing poverty among the self-employed. First many household expenditures such as housing costs, may have been paid wholly or in part by the business so there is an unidentified in-kind source of income; second many businesses may receive tax discounts on expenditures that apply to their households as well as to their business; third businesses may have the opportunity to average income over several years so that negative income may be recorded, and finally the structure of the business may involve more than one income unit making attribution of income difficult. (Johnson 1996, p53).

The situation with respect to farmers is further complicated by the nature of farming. As noted in the research report prepared for the Henderson Commission, “Financial Aspects of Rural Poverty”,

Money income in farming is likely to be a misleading and inappropriate measure of farm poverty. Even extremely low farm incomes need not necessarily indicate a poverty situation. (Vincent et al. 1975, p82)

One of the main factors which hinders the accurate measurement of farm poverty is the large amount of capital tied up in the land. This often results in a situation where a farm family is asset-rich and income-poor. This arises due to both the generally low returns earned by agricultural land and the propensity of farmers to accumulate capital (Vincent et al. 1975, p86). Vincent et al argue that, for farmers, capital accumulation “has traditionally commanded a very high priority, often at the expense of income”. This tendency is exacerbated by a focus on tax minimisation among farmers rather than on income maximisation. Having converted income into capital for various reasons the farmer is unable easily to reconvert the asset for consumption purposes. Vincent et al suggest that

Current income and current wealth together provide a more functional measure of welfare, because the possession of assets gives access to loanable funds which can be used by an individual to increase his command over goods and services. (Vincent et al. 1975, p83)

However, this is not a realistic assumption. As Hefford points out:

most lenders expect loans to be repaid over some specified period: in fact, it is inconceivable that private institutional lenders would be willing to provide advances for consumption purposes, allowing indebtedness to grow, year after year, with no prospect of repayment prior to the death or retirement of clients and ultimate sale of their farm assets. (Hefford 1985, p288)

If farmers are receiving inadequate returns from their investment in land, they could perhaps be expected to remove their capital from farming and reinvest in an activity which produces higher returns. This response to low incomes is rare among family farmers, resulting in delays in the adjustment of the sector to declining terms of trade. Then Director of the Bureau of Agricultural Economics, Stuart Harris, explained in 1970:

If farmers transferred quickly to alternative occupations when their incomes reached relatively low levels, the supply of agricultural products would better adjust itself to commercial demand and, while the prices of the non-labour resources in agriculture would also fall, average farm incomes would be maintained at levels closer to those obtainable elsewhere. For various reasons, farmers tend not to leave agriculture until forced out by low levels of income and/or high debt. (Harris 1970)

The continued failure of farmers to respond to adjustment pressures over the thirty years since these remarks were made is illustrated by the existence of the various income support measures outlined in this Report.
Government concern with farm poverty is therefore not new; it has been a feature of Australian agricultural policy for many years. Mauldon and Schapper report that, in the late 1960s and early 1970s, “[i]nadequate income for a large and growing number of family farm businesses was a major feature of agriculture” (Mauldon and Schapper 1974, p109). Rural adjustment and rural reconstruction policies, which incorporated household support components, have been a feature of Australian rural policy for decades. However, public awareness of farm poverty has increased over the past twenty years or so for a variety of reasons, including increased focus on the welfare of farm families during the drought of the early 1990s.

Saunders and Whiteford suggest that poverty alleviation extends beyond the provision of income support underlining the “importance of both income support and the provision of public services in any effective strategy to combat poverty” (Saunders and Whiteford 1989, p12 — emphasis in original). The issue of equitable access to services is of particular relevance to people in rural and remote Australia and has received increased attention in recent years from both government and the National Farmers’ Federation. Concerns about access to services apply to otherwise wealthy farmers as well as to those in hardship, and although the issue of equitable access to telecommunications, health and other services is important, this study focuses on the specific issue of income inadequacy and how governments have responded to the needs of the income-poor in the farming community. Improved access to services will increase the overall well-being of poor farmers, however consideration needs also to be given to the issue of low incomes which give rise to conditions of poverty.

This Report accepts Musgrave’s proposition that “[p]overty exists when the income available to the household is inadequate for essential items” (Musgrave et al. 1975, p10). Although lacking in definitional precision, given the ongoing debate about poverty mentioned above this is considered appropriate for the following consideration of government responses to farm poverty in Australia. Musgrave et al. also propose a useful typology of farm poverty which helps clarify its various forms:

- **Type A poverty** which results from inadequate resources (land, capital and/or labour) so that income is low even though prices and productive conditions may be satisfactory. This problem has plagued most closer settlement schemes.

- **Type B poverty** which is of a temporary nature due to a short term fall in prices or adverse seasonal conditions…

- **Type C poverty** which is widespread within an industry and is of a long term or structural nature. (Musgrave et al. 1975, p9)

McKenzie (McKenzie 1985, p29) and Lawrence (Lawrence 1987, p46) identify similar forms of poverty. As will be shown, Government policies have in various ways attempted to address all three types of farm poverty.

### 1.2 Government Responses to Farm Poverty

A number of writers have pointed to the lack of coherent rural policy in the first half of the twentieth century (Lewis 1967; Throsby 1972b). In the 1930s and 1940s Governments were clearly concerned about inadequate farm incomes and there were reports of “outright poverty in many rural areas and industries” (McKay 1972, p29) and assistance provided to farmers was “essentially a form of income relief” (McKay 1972, p23). The outbreak of the Second World War saw the introduction of organised marketing schemes and price stabilisation for agricultural products. These schemes had a range of objectives including the control of inflation, control of output and ensuring a reasonable income for producers (McKay 1972).

In 1952, State and Commonwealth Ministers with responsibility for agriculture shifted the emphasis of agricultural policy from income stability to the expansion of exports. Agriculture was seen as having a crucial role in generating the export income required to fund the import requirements of a
growing economy. In a statement which he later described as “the most important declaration of agricultural policy ever made in peace time by the Commonwealth Government” (McEwen 1959, p252), Commerce Minister John McEwen told the 1952 meeting of the Australian Agricultural Council (AAC) that

The Commonwealth Government has decided to adopt as its policy objective a Commonwealth-wide programme of agricultural expansion not only to meet direct defence requirements but also to provide food for the growing population, to maintain our capacity to import and to make our proper contribution to relieving the dollar problem. (McEwen 1952)

The AAC announced a set of production aims with a target date of 1957-58. Due to the good conditions prevailing in agriculture in the early fifties these targets were in fact met by 1955-56 (McEwen 1959). Concern about farm income levels continued to be addressed by guaranteed minimum prices to producers.

In light of difficulties in the wool and wheat industries and widespread drought in the late 1960s, the Bureau of Agricultural Economics undertook an inquiry into The Immediate and Longer Term Needs for debt reconstruction and farm adjustment with special reference to the sheep industry (BAE 1971). This report provided background for the development and implementation of the 1971 Rural Reconstruction Scheme. The legislation stated that “the over-riding objective is to help restore to economic viability those farms and farmers with the capacity to maintain viability once achieved”. In 1972, Throsby reported that, with this scheme “the emphasis of policy has shifted more to the traditional welfare considerations of maintaining and stabilizing farm incomes” (Throsby 1972a, p13).

The Henderson inquiry into poverty in the early 1970s concluded that “much of the chronic poverty among farmers is due to the inability of farmers to adjust to changing economic circumstances”. While including a caveat about the measurement of farm incomes, the Commission concluded that between 5.7 and 7.3 per cent of farmers had incomes below 20 per cent of the poverty line after housing costs and a further 5.5 to 5.6 per cent were living on between 20 and 100 per cent of the poverty line after housing costs (Henderson 1975, p179). Accordingly, the Report suggested that short term income support measures should be provided for farmers undergoing structural adjustment or exiting farming. The Commission explained that its “primary concern [was] to advocate a set of policies that promote[d] individual welfare, on an equitable basis, and farm efficiency” (Henderson 1975, p184). It went on to express its suspicion that “practically all farmers with low incomes which cause the family to be in poverty are in need of long-term [adjustment] assistance” (Henderson 1975, p185). This tendency to address farm poverty in terms of structural adjustment policy has been a consistent feature of Government policy towards farm poverty for several decades. Even after a shift in the direction of government rural adjustment assistance from income support to adjustment support in the 1970s, the various programs included household support components aimed at helping farmers meet the day to day expenses of the family unit. The prominence of welfare objectives in these schemes has been a matter of debate with some reviews suggesting that rural adjustment type schemes were the most appropriate means for delivering such support (Henderson 1975; DPRTF 1990), while others have urged the separation of adjustment and welfare objectives (Synapse Consulting (Aust) Pty Ltd 1992; McColl et al. 1997).

The standard social security safety net is not tailored to deal with either the self-employed or the asset-rich/income poor. Farm land is generally a low-yielding investment and it is not easily liquidated. Selling off part of a property to overcome low income problems is not a realistic option as reducing the size of the land holding is likely to reduce further the farm's long-term viability. In addition, finding a buyer for very small parcels of land is problematic, particularly during a downturn. The assets test which has been applied to social security payments since the mid 1980s is therefore a major obstacle to farmers' accessing support. During the drought of the 1990s, many farmers' spouses who were genuinely available and looking for employment were unable to gain the unemployment benefit due to the value of the farm, even if it was not generating any income. The hardship provisions within the social security system required that the farm be placed on the market before the assets test could be waived, a course of action with little appeal. The uncertainties of farming also create problems. After years of treating drought as a natural disaster and compensating farmers
accordingly under the Natural Disaster Relief Arrangements, 1989 saw a shift to an official position that drought is a normal feature of the farmer's operating environment and should be managed like any other risk, such as fluctuations in commodity prices.

Responding to farm welfare needs poses particular problems for policy makers. The direction of rural policy over the past decade or so has been driven by economic liberalism and the pressures of international competition, leaving little scope for addressing seriously the welfare impact of these policies. The Industry Commission summed up the dilemma of addressing farm poverty in this climate in its submission to the 1996 mid-term review of the Rural Adjustment Scheme: “[t]he obvious danger with income support is that it could undermine the incentives of farmers to adopt their own risk management strategies” (Industry Commission 1996, p57).

As there had been in the past (BAE 1971; IAC 1976; IAC 1977; IAC 1978; IAC 1984), there were numerous reviews of Government policy towards rural adjustment and farm welfare over the decade from 1989 (DPRTF 1990; Synapse Consulting (Aust) Pty Ltd 1992; Senate Rural and Regional Affairs and Transport References Committee 1994; McColl et al. 1997). Although these reports are replete with sympathetic references to the difficulties experienced by farm families, the underlying message remains consistent with an overall policy direction of reduced Government intervention and increased self-reliance. None of the inquiries over the period questioned the underlying paradigm that farming is a business and should be managed as such, with drought treated like any other business risk. The key words which sum up this approach are productivity, sustainability (both economic and ecological) and self-reliance, with government support targeted at farmers with prospects of long term profitability — and emergency assistance only available in exceptional circumstances. For example, the Senate Inquiry into Rural Adjustment, Rural Debt and Rural Reconstruction was “convinced that sound financial and management skills are the key to a robust, profitable and flexible farm sector”. The Committee also expressed the view that “individual landholders within rural industries should be responsible for preparing and managing for variable climatic, seasonable and industry conditions” (Senate Rural and Regional Affairs and Transport References Committee 1994, p xi).

### 1.3 Government Support for Rural Adjustment

The Commonwealth Government first became involved in developing policies in response to rural adjustment pressures with a debt reconstruction and farm build up scheme in 1935. Since that time there has been a variety of rural reconstruction and rural adjustment schemes, the most recent ending in 1997 following a review of the 1992 version of the Rural Adjustment Scheme. Early schemes, which were run predominantly by Coalition governments, were aimed at supporting farm incomes. From about the mid 1970s the focus began to shift from income support and assistance based on financial need to enhancing the economic performance of the farm sector by emphasising productivity and sustainability and improved farm management. By 1990 this shift was being clearly articulated as Government policy for the farm sector. The approach was based on the principle of self-reliance, terminology which appealed to the self-image of the rugged, individualist farmer. The implications of this policy were that

> governments should not interfere to distort market prices or outputs. Government policy must work within the confines of the marketplace, by removing distortions or disincentives to appropriate activities, and by providing positive incentives where markets fail to provide sufficient inducements to act in the community interest. (DPRTF 1990, p9)

This report sets set out to illustrate the incremental nature of government responses to farm poverty in the period 1989 to 1998. Farm income support policy evolved over the ten years from its position as part of the 1988 version of the Rural Adjustment Scheme to the establishment of separate programs under the Agriculture Advancing Australia package which was announced in 1997. Chapter Two covers the period to 1993 at which time the government had a new rural policy package in place and was confident that it had accounted for the various adjustment and income support needs of Australia’s farmers. Chapter Three examines the policies developed from 1994 to 1998. Chapter Four examines the nature of the policy process underpinning the various programs, discussing some
theoretical approaches which can contribute to understanding the nature of the Government’s responses to farm poverty.
Chapter 2: Farm Income Support Policy
1989 to 1993

The outlook for the agricultural sector at the beginning of 1989 was promising. In December 1988, the Australian Bureau of Agricultural and Resource Economics (ABARE) issued an up-beat forecast, reporting that “short term prospects for Australian rural industries are sound”. A strong recovery from low returns in the mid 1980s led ABARE to report “the most favourable rural outlook since the beginning of this decade” (ABARE 1988, p310). However, by late 1990 Australia was experiencing the recession it “had to have” (Kelly 1994, p617). In 1991 ABARE reported that the “Australian rural economy is in a period of sharp decline, caused primarily by falls in the prices of several important commodities” (Hall et al. 1991, p7). This was part of a long term trend which was exacerbated by the growth in agricultural protectionism among traditional importers of agricultural produce and a subsequent downward pressure on world free market prices (Musgrave 1990, p248). By mid 1992 the situation had deteriorated further as drought conditions worsened. In 1994, ABARE estimated that Australia's national income had been reduced by around $2 billion as a result of the drought, or equivalent to 0.5 percentage points lower than would otherwise have been the case for the financial year 1994-95 (ARMCANZ 1994b, p7).

As outlined above, the Commonwealth Government has been concerned with farm incomes for decades. For many years the market for primary produce was subject to “a bewildering array of policy instruments” affecting farm prices (Throsby 1972a, p13) and these provided a mechanism for addressing inadequate farm incomes (Lewis 1967, p303). As the Australian economy has developed, agriculture’s contribution to both GDP and, more recently, exports has declined along with farmers’ terms of trade. As a result, rural Australia has been under varying degrees of economic pressure with the expression “rural crisis” in common usage for many years.

These economic pressures were accompanied in the 1990s by stress on farm families and on rural communities. For many communities, the downturn was accompanied by the withdrawal of government and other services. Many farmers found themselves seeking financial assistance to meet household needs for the first time in their lives. Providing that assistance proved to be a policy challenge for governments, as they struggled to ensure that any welfare measures did not undercut their economic policy objectives for the farm sector.

In recent years, the government’s broader rural policy objectives, particularly in the area of rural adjustment policy, have set the parameters within which responses to inadequate farm incomes have been developed. As a result of this close linkage between structural adjustment in the farm sector and poverty, this study examines the Government’s rural adjustment policy and drought policy, both of which have included income support measures.

This account is limited to policies directly aimed at income support for farmers who are unable to meet the day to day needs of the family. It excludes consideration of the aged pension, pensions payable to veterans and education support programs such as Austudy, although it should be noted that many of the issues confronting farmers in gaining access to income support, such as the application of an assets test, also apply to these other forms of assistance. Family payments have also been excluded, as during the period under review farming families did not appear to have been unduly disadvantaged by the means tests applied to this payment and their rate of access to this benefit equated with that of the general population (Senate Rural and Regional Affairs and Transport References Committee 1995b, p xviii). This study commences in 1989 with the introduction of the revised Rural Adjustment Scheme which had been reviewed in 1988 and the watershed announcement by the Government that drought was to be removed from the Commonwealth-State arrangements for responding to natural disasters, the Natural Disaster Relief Arrangements (NDRA).
2.1 The Issues

In responding to farm poverty, governments are confronted with a number of important policy issues. First, policy-makers are faced with the structure of the family farm and how, or whether, an attempt should be made to separate the farm business from the farm family. This is a key issue in the second policy issue: an appropriate government policy towards drought. It is also a contributor to the third issue, the application of the assets test to social security payments.

A major difficulty for farmers seeking support, and for policy makers developing schemes to provide support, is the “unity of business and household” (Mauldon and Schapper 1974, p65) within the family farm, and the perception that any assistance provided to the farm family is a de facto subsidy to the farm business. This concern has ensured that consideration of income support for farmers has been very closely linked to the Government's structural adjustment objectives for the farm sector. In 1988 then Minister for Primary Industries and Energy, John Kerin set out clearly the philosophy underpinning the government’s approach to rural adjustment:

> the purpose of this scheme is to allow effective structural adjustment to take place in farm business enterprises. It is not aimed at keeping farmers on the land. Using the scheme to prop up businesses that are not viable in the long term is not on. The scheme is aimed at making farm businesses independent of assistance as soon as possible or, if this cannot occur, helping farmers to leave the sector with dignity. The retention of farming as a desirable lifestyle will be a result of effective management of farm businesses and effective adjustment, not an objective of it. (Kerin 1988)

This approach sets limits on the ability of governments to respond to poverty per se as structural adjustment remains the key objective.

The onset of drought exacerbates underlying farm adjustment problems and poverty is highlighted as an issue requiring a government response. It was mostly in this context that farm welfare needs were considered in the 1990s, particularly during the first half of the decade when large numbers of farmers were affected by severe drought conditions. The drought followed a period of low commodity prices and high interest rates and many farmers experienced financial hardship. The approach articulated by Kerin ensured that while responding to the growing welfare needs of this group, policy makers were also focusing on the structural adjustment needs of the farm sector, including the perceived need to facilitate farm exit by less productive farmers to improve the overall productivity of the sector and increase its international competitiveness.

The general social security system does not cope well with the needs of farmers. Australia's social security system has three distinct types of payments: allowances (such as the unemployment benefit — the NewStart Allowance), family payments, and pensions (eg age and disability) (Senate Rural and Regional Affairs and Transport References Committee 1995b, p2). Since 1984, assets tests have been applied to social security payments in Australia, with the most stringent tests applying to unemployment benefits. Initially designed to prevent wealthy people from rearranging their affairs in order to gain access to welfare support, the assets test has hit farm families disproportionately hard (Synapse Consulting (Aust) Pty Ltd 1992, p49). This outcome is a result of the low yielding nature of investments in farm land and other primary production assets. None of these issues has been conclusively resolved and will no doubt continue to test policy makers. Hardship provisions are available within the general welfare system, however they are not seen as sympathetic to the needs of farm families as one of the eligibility criteria has been that the farm be offered for sale.

2.2 Government policies

The Australian Labor Party was in Government for the period covered by this chapter. In 1989 the Minister for Primary Industries and Energy was John Kerin, who held the portfolio from the election of the Hawke Government in 1983 until June 1991. His replacement, Simon Crean, was almost immediately faced with dealing with a worsening drought and the effects of the rural crisis. In December 1993, the portfolio passed to Senator Bob Collins who held the position until the defeat of
the ALP Government at the March 1996 election and whose term as Minister was also largely dominated by the drought.

Table One: Major Policy Developments 1989-1993

<table>
<thead>
<tr>
<th>Year</th>
<th>Development</th>
<th>Key Income Support Features</th>
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</table>
| 1989 | Removal of drought from the Natural Disaster Relief Arrangements | • Part C Household Support, available for up to two years, in theory the first six months to be a grant for those leaving farming, the balance to be repaid or deducted from a subsequent re-establishment grant  
• Drought support provided through Part B carry-on assistance  
• Re-establishment grant |
| 1990 | Commencement of the Rural Adjustment Scheme 1988 | • Recommended RAS as the most appropriate mechanism for delivering farm welfare support |
| 1990 | Report of the Drought Policy Review Task Force | • Recommended RAS as the most appropriate mechanism for delivering farm welfare support |
| 1991 | Modified JobSearch Allowance | • Access to social security benefits for "financial hardship" farmers who were long term viable and ineligible for Part C support  
• Provided exemption from assets test for on-farm assets |
| 1992 | Review of RAS 88 | • Consultants recommend the separation of welfare assistance from adjustment support |
| 1992 | National Drought Policy | • Agreed policy framework based on principles of self-reliance and risk management  
• Announced intention to establish a separate farm household support scheme |
| 1993 | Commencement of the Rural Adjustment Scheme 1992 | • Introduction of exceptional circumstances provisions which provided access to enhanced interest rate subsidies during times of severe downturn  
• Limited to farmers with long term prospects of profitability and sustainability in the farm sector  
• Re-establishment provisions for farmers choosing to leave the sector |
| 1993 | Farm Household Support Scheme | • Provided household support payments at the level of the JobSearch Allowance to farmers unable to access commercial financial support  
• Available for up to two years  
• For farmers leaving the land, the first nine months of payments converted to a grant, the balance a loan repayable with interest  
• For farmers not leaving the land, the full amount was repayable with interest |

Table One sets out the various programs considered in this chapter, the date of their introduction and their key income support features.

Between 1989 and 1998, income support for farm families was variously provided through the Rural Adjustment Scheme, a modified unemployment benefit, the Farm Household Support Scheme, the Drought Relief Payment and, where eligibility criteria were met, the standard social security system.
2.3 RAS 88

The 1988 version of the Rural Adjustment Scheme (RAS 88) came into effect on 1 January 1989 and continued with some minor amendments until 31 December 1992. Although largely funded by the Commonwealth Government, the scheme was delivered by the States through Government Departments or Statutory Authorities, known collectively as the State RAS Authorities.

The 1988 Rural Adjustment Scheme increased the focus of the program on long term structural adjustment and microeconomic reform and there was to be greater emphasis on training, professional advice and diagnosis of adjustment needs than had been the case under the 1985 version of the scheme (Musgrave 1990, p255). According to the legislation, the primary purpose of the scheme was to assist in maintaining and improving the efficiency of Australian rural industry and so better place the industry to meet international competition and contribute to the national economy. (States and Northern Territory Grants (Rural Adjustment) Act 1988, Section 4 (1))

RAS 88 was divided into three parts: A, B and C.

Part A of the scheme, “improving the farm”, was aimed at lifting farm performance through the acquisition of improved skill levels, the adoption of technological developments, an increase in farm size or capital intensity, farm program changes and access to information on technological developments and their application, training needs and opportunities, and appropriate farm programs (States and Northern Territory Grants (Rural Adjustment) Act 1988, Section 6 (2)). Support was delivered in the form of interest rate subsidies on borrowed finance, or loans or grants offered by the States. These features were aimed at viable farmers with a long term future in agriculture.

Part B of the scheme, “maintaining the farm”, provided carry-on assistance for farmers in difficulty due to circumstances beyond their control (DPRTF 1990, Volume 3, p74). These provisions were used to deliver support to farmers during drought in the period January 1989 to December 1992 and for the establishment of a crop planting scheme in 1992 which delivered a 75 per cent interest rate subsidy on commercial finance for those growers unable to access such finance in the absence of a subsidy (Burdon 1996a, p24).

Part C, “leaving the farm”, was the main income support measure in the 1988 Rural Adjustment Scheme. It provided household support payments and re-establishment assistance “to permit farmers to make an orderly exit from rural industry” (States and Northern Territory Grants (Rural Adjustment) Act 1988, Section 6(3)). Under Part C, farmers were to receive household support for up to two years during which time they arranged the sale of the farm. On leaving the farm, they could apply for a re-establishment grant, subject to an assets test. When the 1988 legislation was passed, this grant was worth up to $28,000 and was subject to an assets test equivalent to the grant, which reduced on a dollar for dollar basis until it cut out completely at an assets level of $56,000. The grant was indexed annually to the Consumer Price Index and by 1992 was worth around $35,000. The intention was that the value of the re-establishment grant be reduced by any household support payments received in excess of six months, however, the funding for RAS 88 was such that there was little incentive for the State RAS authorities to make this deduction. These funds were repayable to the Commonwealth and the Policy Guidelines for the scheme gave the State RAS Authorities the discretion to convert household support payments to a grant if the farmer left farming within two years. As a result, many farmers received the household support payments as a grant for the full two years.

Under the 1988 Rural Adjustment Scheme, the policy dilemma of the unity of farm and family was dealt with by treating the farm as a single entity. Household income support was available under Part C as a component of the re-establishment package, which contributed to the structural adjustment objectives of RAS. As noted, drought was included under Part B of RAS, again treating the farm as a single entity with support in the form of carry-on finance. To use Musgrave et al’s typology of poverty referred to earlier (Musgrave et al. 1975), the 1988 Rural Adjustment Scheme provided support for farmers experiencing structural poverty, either Type A or C, but only if the non-viable farmers were prepared to leave the industry. Those suffering more temporary (Type B) poverty were
supported through carry-on assistance. Expenditure on the income support components of RAS was small compared with the structural adjustment elements of the scheme, as illustrated in Table Two.

**Table Two: Expenditure on RAS 88 ($'000)**

<table>
<thead>
<tr>
<th></th>
<th>Part A</th>
<th>Part B</th>
<th>Part C</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988/89</td>
<td>40,384</td>
<td>7</td>
<td>5,690</td>
</tr>
<tr>
<td>1989/90</td>
<td>43,384</td>
<td>53</td>
<td>5,156</td>
</tr>
<tr>
<td>1990/91</td>
<td>49,384</td>
<td>35</td>
<td>5,233</td>
</tr>
<tr>
<td>1991/92</td>
<td>105,470</td>
<td>18,600</td>
<td>18,777</td>
</tr>
</tbody>
</table>

(Table drawn from Synapse Consulting (Aust) Pty Ltd 1992, Appendix 6; Rural Adjustment Scheme 1993, p16)

In later work, Musgrave observed of the 1988 Rural Adjustment Scheme:

> The resource-oriented components of debt reconstruction, farm build-up, carry-on finances and farm improvement would seem to have a major welfare dimension.

> ...Despite this, the type of measures included in the scheme lead to the neglect of some classes of welfare problem associated with adjustment, particularly the problems of those applicants to the scheme who are classed as non-viable but who stay on the farm. (Musgrave 1990, p259)

This highlights one of the problems with attempting to address welfare issues in an adjustment context. Not all applicants will agree with the assessment that they are not viable. In so doing they do not accept the re-establishment option and are then deprived of household support. Particularly during downturns, this can have severe effects on individual farm families. Musgrave concluded of RAS 88 that “the scheme would not seem to be particularly efficient or effective in dealing with farm poverty” (Musgrave 1990, p262). It is worth noting the small numbers of farmers supported through the carry-on, household support and re-establishment provisions of RAS 88 between 1988-89 and the scheme’s replacement in 1992. Table Three sets out the number of applicants approved for assistance under these provisions.

**Table Three: Applications approved for Part B carry-on and Part C support under RAS 88**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Part B carry-on</td>
<td>23</td>
<td>4</td>
<td>1</td>
<td>2671</td>
<td>887</td>
</tr>
<tr>
<td>Household support</td>
<td>254</td>
<td>172</td>
<td>516</td>
<td>622</td>
<td>273</td>
</tr>
<tr>
<td>Re-establishment</td>
<td>188</td>
<td>126</td>
<td>207</td>
<td>438</td>
<td>313</td>
</tr>
</tbody>
</table>

(Table drawn from RASAC 1993, p96)
The relatively high number of applicants approved for carry-on finance in 1991-92 reflects the fact that this was the “first year since the early 1980’s that Part B had been activated in a significant way” (Rural Adjustment Scheme 1993, p15) as it became a vehicle for providing support to drought-affected farmers in Queensland and New South Wales.

2.4 Drought Policy Review

Shortly after the 1988 version of the Rural Adjustment Scheme commenced, the Government introduced a policy change which fundamentally altered its approach to drought relief — the removal of drought from the Natural Disaster Relief Arrangements. This was followed by the establishment of a Drought Policy Review Task Force to examine the most appropriate form of government response to drought. Although the purpose of the review did not mention income support explicitly, the Review Team made some recommendations in this area.

2.4.1 Natural Disaster Relief Arrangements

Drought had been included under the Natural Disaster Relief Arrangements (NDRA) in 1971 (Synapse Consulting (Aust) Pty Ltd 1992, p44). The NDRA are a Commonwealth-State arrangement for responding to natural disasters, with the details set out in Terms and Conditions determined by the Commonwealth Minister for Finance. The States and Territories have primary responsibility for disaster relief and provide the initial financial resources to respond to a disaster event. The Commonwealth provides financial support once a predetermined spending threshold has been triggered by the States and also provides benefits to victims through the Department of Family and Community Services (Department of Finance and Administration 1999). Prior to 1996, this support was provided through the Department of Social Security.

On 13 April 1989, Finance Minister Peter Walsh announced that drought was no longer to be covered by the NDRA. Although it was becoming increasingly untenable to argue that drought was an unforeseen event in a country as dry as Australia, the decision to remove drought from the NDRA was not universally accepted. The National Party saw its removal as a weakness in the Government's approach to rural adjustment. Deputy Leader Bruce Scott went so far as to promise that

the coalition will be putting severe drought — and I emphasise that it is only severe drought, not ordinary dry periods — back into the cooperative Federal State natural disaster arrangements (Scott 1992).

Wettenhall has argued that “[d]isasters are social, not physical events: they happen to human communities” (Wettenhall 1991, p356). In that context drought, particularly extreme drought, would seem to qualify. However, the new approach to drought policy with its emphasis on economic concepts of productivity and sustainability changed the mood of drought policy. Drought was no longer seen as a social event affecting human communities — the response was tailored to addressing the economic impact on producers. Aside from arguments about the validity of its removal from the NDRA in policy terms, the move signified a major shift in attitudes towards drought.

In spite of Bruce Scott’s remarks, the Coalition government after 1996 gave no consideration to the reinstatement of drought into NDRA. Australia is the driest inhabited continent on earth and extreme climatic variability is a feature of Australian farming (Burdon 1996b, p75). As such, drought of some magnitude is a common occurrence. In addition, recent advances in the understanding of climate patterns, and particularly the influence of the El Niño phenomenon on Australia's rainfall, have increased the predictability of dry seasons.

2.4.2 Drought Policy Review Task Force

In May 1989, an independent Drought Policy Review Task Force was appointed by the Minister for Primary Industries and Energy, John Kerin, to look at Australia's drought policy framework. The objectives of the review were to:
(1) identify policy options which encourage primary producers and other segments of rural Australia to adopt self-reliant approaches to the management of drought

(2) consider the integration of drought policy with other relevant policy issues; and

(3) advise on priorities for Commonwealth Government action in minimising the effects of drought in the rural sector. (DPRTF 1990, Vol 1 p2)

The Task Force rejected the concept of drought as a natural disaster and placed its emphasis on the uncertainty of the farming environment and the need for farmers to employ risk management approaches to dealing with commodity price pressures, other economic pressures and drought. This emphasis was reflected in the description of drought adopted by the Task Force which was that “[d]rought represents the risk that existing agricultural activity may not be sustainable, given spatial and temporal variation in rainfall and other climate conditions” (DPRTF 1990, Vol 1, p3). Climate variability was seen as “clearly the norm” with extreme drought occurring when “agricultural production has been out of equilibrium with variable climatic conditions for extended periods of time” (DPRTF 1990, Vol 1, p4).

The Task Force called for the implementation of a National Drought Policy and laid down a number of principles which should underpin the provision of Government assistance during drought. These included that assistance:

• be provided in an adjustment context
• be based on a loans-only policy
• permit the income support needs of rural households to be addressed in more extreme situations. (DPRTF 1990, Vol 1 p18)

The Review included an overview of the income support arrangements available through the universal Social Security system and concluded that “[t]he income support needs of rural families in severe financial difficulties are appropriately addressed through the Rural Adjustment Scheme” (DPRTF 1990, Vol 1, p27). The Task Force argued that the “key to this issue is to consider welfare needs, while a producer stays in farming, as a logical extension of industry adjustment”. The Review also concluded that changes to the general Social Security system to address the income support needs of farmers were “not appropriate” (DPRTF 1990, Vol 2, p163). In explaining its preference for retaining welfare support within RAS, the Task Force explained that it was

anxious that the integrity of the social security system should be respected. The possible extension of the unemployment benefit to cover the specific needs of primary producers and their families during periods of adversity, while they still remain in farming, would seem to be inappropriate. (DPRTF 1990, Vol 3 p68)

This position was consistent with the views of the Department of Social Security which opposed arrangements providing special treatment for a group of self-employed business people through the existing social security structure.
2.4.3 Senate Inquiry into Drought Policy

In November 1991, the Senate Standing Committee on Rural and Regional Affairs received a reference to inquire into and report on *A National Drought Policy: Appropriate Government responses to the recommendations of the Drought Policy Review Task Force*. The Committee reinforced the directions and recommendations of the Drought Policy Review Task Force, expressing its concern that, by early 1992, the Government had yet to respond to most of the Review’s recommendations (Senate Standing Committee on Rural and Regional Affairs 1992, p3). Like the Task Force, the Senate Committee recommended against the reinstatement of drought into the Natural Disaster Relief Arrangements in recognition that drought is a recurring feature of Australia's climate “that must be prepared for and managed” (Senate Standing Committee on Rural and Regional Affairs 1992, p xi). It also made a distinction between normal climate variation and severe drought, stating that

> The Committee is of the view that individual landholders within rural industries should be responsible for preparing and managing variable climatic and seasonal conditions. However, it considers that there are limits to the self-reliance of farmers to cope with severe drought. (Senate Standing Committee on Rural and Regional Affairs 1992, p xvi)

The Committee touched only briefly on income support arrangements in its consideration of drought policy, identifying some problems with “the interaction of RAS with social security provisions” (Senate Standing Committee on Rural and Regional Affairs 1992, p19), particularly with respect to the new “modified” JobSearch Allowance.

2.5 “Modified” JobSearch Allowance

The Drought Policy Review had endorsed the long held view that inadequate farm incomes were the result of adjustment pressures and therefore appropriately addressed through the Rural Adjustment Scheme. However, while consideration of a National Drought Policy was under way in 1991, there was a perception among policy makers that the income support provisions of the 1988 Rural Adjustment Scheme and the standard Social Security safety net were not addressing all of the welfare needs of farmers experiencing hardship due to the rural downturn. As a result, a scheme was announced in October 1991 which became known as “modified JSA” (Senate Standing Committee on Rural and Regional Affairs 1992, p16). It allowed limited access for some farmers to the unemployment benefit or JobSearch Allowance (JSA) through modifications to the scheme’s eligibility criteria. The Minister for Primary Industries and Energy, Simon Crean explained that the scheme was targeted at “farmers in severe financial hardship whose farms, whilst not profitable at present, are potentially profitable” (Crean 1991, p3678). The scheme was initiated by the Department of Primary Industries and Energy and, reluctantly, given effect by an amendment to legislation within the social security portfolio. The scheme was very unpopular with the Department of Social Security because it created a very specific category within social security legislation which was then subject to differential treatment. The Department was concerned about the “special precedents” created by these arrangements which allowed people of workforce age special exemptions from the general eligibility requirements for support (Synapse Consulting (Aust) Pty Ltd 1992, p48).

Under modified JSA, farmers were able to obtain an exemption for farm assets, including livestock and machinery, from the assets test which normally applied to the JobSearch Allowance (Social Security Act 1991, Section 27(2)). These were defined under the legislation as “unrealisable assets” and were those considered by the relevant State Rural Adjustment Authority to be “essential to the long-term profitability” of the farm (Social Security Act 1991, Section 27(1)). The scheme also exempted farmers from the JobSearch Allowance “activity test” which required that applicants “must be actively seeking and willing to undertake suitable paid work or willing to undertake suitable vocational training” (Senate Rural and Regional Affairs and Transport References Committee 1995b, p5). Under the modified JSA arrangements, the RAS authorities issued a “financial hardship farmer” certificate which was current for a period of up to 12 weeks. These certificates were then presented to the Department of Social Security as evidence that the applicant qualified for benefits under the new provisions. In order to qualify for a certificate, a farmer needed to be in “severe financial hardship”,

14
although the farm was “likely to be profitable in the long-term” (Social Security Act 1991, Section 26(5)). The farmer also needed to apply for Part C assistance under the Rural Adjustment Scheme and to be ruled ineligible, and be unable to access commercial carry-on finance. The scheme was targeted at a very specific group, which was seen to be viable in the long term, and therefore ineligible for the household support and exit provisions of RAS, unable to access commercial finance, and ineligible for standard social security support due to the assets test. The scheme was not linked to specific events such as drought and, subject to the eligibility criteria described above, was available across Australia.

The scheme was an attempt to address poverty among viable farmers who failed to qualify for support through the social security system and at the same time could not obtain commercial financial backing. It addressed the problem of the assets test by exempting farm assets and as such, it was hoped that the modified scheme would alleviate the hardship of many farm families in difficulty. However, after nearly a year of operation by August 1992 only 285 farmers had accessed the modified JobSearch Allowance (Burdon 1996a, p41). The low take-up was attributed by some to the complexity of applications, requiring assessment by up to three different agencies before support was forthcoming (Senate Standing Committee on Rural and Regional Affairs 1992, p17). Like support under the Rural Adjustment Scheme, the scheme relied on farmers' accepting the RAS authority's assessment of their viability. Although the scheme was targeted at those who were viable, farmers approaching the RAS Authorities for a determination ran the risk of being told they were non-viable, and therefore candidates for support under the income support and exit provisions of Part C of RAS. As was described to the Senate Standing Committee on Rural and Regional Affairs:

Many farmers in poor financial situations who are not receiving benefits had in fact been assessed as eligible for Part C but because they were not prepared to accept this verdict, were foregoing the available income support. (Senate Standing Committee on Rural and Regional Affairs 1992, p18)

To return to the typology of Musgrave et al, modified JSA was set up to address type B or temporary poverty which, as noted above, was not covered by the household support provisions of the Rural Adjustment Scheme. However, it did not meet the needs of non-viable farmers who chose to stay on the land. The scheme was explicitly linked to the Rural Adjustment Scheme with the Minister suggesting that it would “underpin” the government’s “farm restructuring strategy”. He went on to say that “[t]he aim of this package, together with the money provided through the rural adjustment scheme, is to ensure that we protect our asset base” (Crean 1991, p3679). Modified JSA provided welfare support to a small number of farmers but it was very much a temporary measure and was abolished with the commencement of the new Farm Household Support Scheme in March 1993.

### 2.6 The National Drought Policy

In August 1991 a working group of officials of the State and Commonwealth governments was set up by the Australian Agricultural Council (AAC) to agree a National Drought Policy (AAC 1991, p9). While this work was taking place, the Rural Adjustment Scheme was also under review, along with the Income Equalisation Deposits Scheme.

In February 1992, the AAC “noted that limited progress had been made ... in gaining Commonwealth and State agreement on the framework for and components of a national drought policy” (AAC 1992, p23). Ministers agreed that a National Drought Policy would be based on the principles of self-reliance, risk management and recognition of drought as a natural feature of the climate. It was also agreed that the Rural Adjustment Scheme would be the principal source of Commonwealth drought assistance and that drought would not be reinstated within the Natural Disaster Relief Arrangements. In cases of “severe and exceptional drought”, consideration would be given by the States and the Commonwealth to an appropriate response (AAC 1992, p25).

A new National Drought Policy was announced following the July 1992 meeting of the Ministerial Council. Consistent with the recommendations of the Drought Policy Review Task Force, the policy was centred around the revised Rural Adjustment and Income Equalisation Deposits Schemes on the basis that “drought is one of several sources of uncertainty facing farm businesses and is part of the
farmer’s normal operating environment” (ACANZ 1992, p13). Farmers were therefore to be encouraged to manage the risk of drought, with the Rural Adjustment Scheme to provide “support to farmers who have prospects of sustainable long-term profitability with a view to improving the productivity of their farm units” (Rural Adjustment Act 1992, Section 3(2)(b)).

The new arrangements foreshadowed the development of a separate Farm Household Support Scheme to provide assistance to needy farmers to meet day to day living expenses. The policy was based on “principles of sustainable development, risk management, productivity growth and structural adjustment in the farm sector” (ACANZ 1992, p13). The objectives of the National Drought Policy were to

- encourage primary producers and other sections of rural Australia to adopt self-reliant approaches to managing climatic variability
- maintain and protect Australia's agricultural and environmental resource base during periods of extreme climate stress; and
- ensure early recovery of agricultural and rural industries, consistent with long-term sustainable levels. (ACANZ 1992, p13)

As was subsequently pointed out, “there were difficulties with the move to make farmers more self-reliant during harsh conditions of high interest rates and drought” (Senate Rural and Regional Affairs and Transport References Committee 1994, p14), although at the time of the development of the policy in 1992, it could not be known that the severe drought conditions would continue well into 1996.

The policy made one significant departure from the recommendations of the Drought Policy Review Task Force and that was the decision to address farm welfare needs separately from the Rural Adjustment Scheme through a new Farm Household Support Scheme. However, the integrity of the social security system was to remain intact as it was agreed that the scheme be established under new, separate legislation in the Primary Industries and Energy portfolio. This scheme would address the income support needs of all eligible farmers, not just those in drought-affected areas, but like the household support and exit provisions of the 1988 Rural Adjustment Scheme and the modified JobSearch Allowance before it, it would retain a structural adjustment objective. The Farm Household Support Scheme is discussed later in this chapter.

2.7 The Review of RAS 88

Concurrently with the work on the National Drought Policy, a review of the 1988 Rural Adjustment Scheme was being undertaken by Synapse Consulting. The consultants recommended an overhaul of the scheme to increase the focus on farm adjustment and to “target those farms that can make a difference, those that can make a significant economic contribution”. The Review Team noted that

> The prime modus operandi of RAS has been intervention in farm financing for which, in theory there should be less and less justification due to deregulation of the financial sector ... (Synapse Consulting (Aust) Pty Ltd 1992, p iii)

They went on to argue that

> The intent of any intervention in farm financing should be to improve the effectiveness of commercial financing rather than as a mechanism to replace the commercial sector with a subsidised sector. (Synapse Consulting (Aust) Pty Ltd 1992, p33)

In contrast to the Drought Policy Review Task Force, the consultants were critical of the household support provisions in the Rural Adjustment Scheme, arguing that the “inclusion of income support measures within RAS detracts from the focus of the Scheme upon farm adjustment”, although they recommended the retention of the re-establishment provisions (Synapse Consulting (Aust) Pty Ltd...
In spite of this, the Report recognised the importance of addressing the income support needs of farmers as

Farmers in serious financial difficulty are more likely to take short-term decisions that cause land degradation than farmers who are in more secure economic situations. (Synapse Consulting (Aust) Pty Ltd 1992, p47)

The Review Team identified three possible income support options for consideration by government:

- a new income support category within the Rural Adjustment Scheme
- modification of existing social security arrangements; or
- changes to taxation arrangements to provide temporary income support.

The first option was for a new “Part D” income support category within RAS which would be a temporary arrangement aimed at viable farmers and/or non-viable farmers yet to accept Part C support to exit farming. Alternatively, it was suggested that a combined Department of Social Security/Department of Primary Industries and Energy program could be developed especially for primary producers, with a time limit on the availability of support. Two to three years was suggested.

The second option would see the replacement of the hardship provisions in the Social Security system with a modified assets test which applied only to off-farm assets, of which up to $100,000 would be exempt to allow for working capital for the farm.

The third option proposed cashing out the value of accumulated tax losses at a standard rate of tax, for example the company tax rate, up to a set annual amount. It was proposed that the relevant JobSearch Allowance (unemployment benefit) rate was the appropriate ceiling. This option had the advantage of simplicity of administration, lower total cost to Government revenue and possible extension to other self-employed.

Each of these options indicates that the consultants continued the approach of linking any welfare support to farm families with the economic objectives of structural adjustment policy. In addition, they were very concerned about the equity of welfare responses to farm hardship arguing that

...the government cannot as a matter of general principle apply different income support arrangements to primary producers unless these can be justified by reference to special conditions applying to this category of people. Thus, there is a need to ensure that the treatment of primary producers is consistent with that of other groups, particularly self-employed business people. (Synapse Consulting (Aust) Pty Ltd 1992, p48)

With respect to “emergency situations”, including drought, the consultants recommended that “there would be no change to the eligibility and assessment criteria [for RAS] ... but the levels of interest subsidies could be raised” (Synapse Consulting (Aust) Pty Ltd 1992, p xiii). This meant that drought support would be targeted at farm businesses not farm families — and only at those businesses with viable futures in the industry.
2.8 RAS 92

In presenting the *Rural Adjustment Bill 1992* to the House of Representatives, the Minister for Primary Industries and Energy, Simon Crean, described the scheme as “the cornerstone of the Government’s overall rural policy approach for achieving a more sustainable, productive and profitable farm sector” (Crean 1992b).

One of the notable features of the 1992 Rural Adjustment Scheme was the further move towards the market. In contrast to RAS 88, under which the State RAS authorities had determined whether farmers were viable in the long term, and therefore eligible for assistance, RAS 92 moved the assessment of “viability” into the commercial financial sector. Farmers who were able to convince a commercial financial institution to continue supporting them were seen to be viable in the eyes of the market, and therefore were viable in the context of the 1992 Rural Adjustment Scheme. This shift was intended to ensure that the scheme “should support the commercial financial system rather than act to usurp or compete with commercial institutions” (Crean 1992b). The rationale for support under RAS 92 therefore was to encourage productivity improvement by these viable farmers to strengthen their self-reliance and ultimately move them off the Rural Adjustment Scheme altogether. Support available through RAS 92 was in the form of interest subsidies on loans for productivity improvement measures and grants for training, planning, appraisal and support services.

The new RAS retained re-establishment grants as an incentive for non-viable farmers to leave the industry, however household support was moved into a new stand-alone Farm Household Support scheme. The level of the re-establishment grant was increased significantly from around $35,000 to $45,000.

2.8.1 Linkage with the National Drought Policy

As outlined above, the new RAS was a key part of the National Drought Policy agreed at the July 1992 meeting of the Ministerial Council. It was focused on “improved farm productivity, profitability and sustainability through structural adjustment and more effective management of the farm business” while still allowing the Government to “respond to crises, but in a consistent, structured way rather than through ad hoc policy changes” (Crean 1992b). This crisis response was in the form of the new “exceptional circumstances” provisions which were introduced into the scheme to address such contingencies as severe drought or substantial commodity price downturns. When these provisions were triggered, the maximum interest rate subsidy available to eligible farmers was increased from 50 per cent to 100 per cent. Consistent with the Rural Adjustment Scheme’s focus on supporting viable farmers, exceptional circumstances support was not available to marginal farmers.

2.8.2 RASAC

The 1992 Rural Adjustment Act also established the Rural Adjustment Scheme Advisory Council (RASAC). This Council was set up to provide the Minister for Primary Industries and Energy with independent, expert advice on the operation of RAS from a national and strategic perspective, to recommend the Budget for the scheme and to advise of the existence of exceptional circumstances (Crean 1992b). The Council’s membership comprised up to seven members with one member to represent the States, an officer of the Commonwealth Department of Primary Industries and Energy, a representative of the National Farmers’ Federation and up to four “special expertise” members selected “because of their expertise in economics, financial administration, banking, sustainable agriculture, farm management or training” (Rural Adjustment Act 1992, Section 6(3)). Due to the worsening drought, the work program of RASAC in its first three years was dominated by consideration of applications for exceptional circumstances drought declarations.

Although RASAC’s role did not initially impact on policy towards farm poverty, the subsequent introduction of the drought relief payment created a link between exceptional circumstances drought declarations and income support, increasing the pressure on the Council to find in favour of the existence of exceptional circumstances. The Drought Relief Payment is discussed in the next chapter.
2.9 Farm Household Support Scheme

As indicated above, a new Farm Household Support Scheme was introduced along with the 1992 Rural Adjustment Scheme as part of the National Drought Policy package. This was intended to complement the structural adjustment objectives of RAS 92 as reflected in the Objects of the Act which were:

(a) to provide financial assistance to farmers who are unable to meet day-to-day living expenses and cannot obtain commercial loans; and

(b) to provide a financial incentive for such persons to leave farming. (Farm Household Support Act 1992, Section 6)

The scheme replaced the income support component of the 1988 Rural Adjustment Scheme (Part C) and was aimed at those farmers who were unable to access commercial finance and were therefore ineligible for RAS support, other than re-establishment assistance. The scheme also replaced the modified JobSearch Allowance which had been introduced in late 1991. Farm Household Support (FHS) was offered as a loan at commercial rates of interest for a period up to two years. Payments were made fortnightly at the level of the JobSearch Allowance. If the farm was sold within nine months of commencing on FHS, the balance of the nine months of payments was received as a lump sum. If the farm was not sold, all of the FHS payments received were repayable to the Commonwealth with interest. If the farmer sold within two years, payments received in excess of nine months were also repayable (Senate Rural and Regional Affairs and Transport References Committee 1994, p7). This basic structure was similar to the 1988 household support arrangements except that the loan nature of the payments was explicit.

In light of the move towards the determination of viability by the commercial finance market, one would have thought there was no need for a household support scheme of any type. The Rural Adjustment Scheme guidelines included household expenses in the assessment of a farm's sustainable long term profitability (Senate Rural and Regional Affairs and Transport References Committee 1994, p10), so “viable” farmers should have been able to meet household expenses. Farmers who no longer had the support of their financial institution should technically have been eligible for re-establishment support.

However, the Department of Primary Industries and Energy argued successfully that market failure was occurring in the delivery of farm finance and that a scheme along the lines of Farm Household Support was required to address the needs of two groups: those who were accessing the re-establishment provisions of the Rural Adjustment Scheme and required ongoing finance to meet household needs while they arranged the sale of the farm and, secondly, those farmers who were denied commercial finance but who believed in their future on the land and would be in a position to “prove” themselves to their financial institution (Crean 1992a). As indicated above, this latter group would then need to repay the household support they had received from the Commonwealth government, with interest. In combination with RAS 92, FHS had the capacity to address all types of poverty experienced by farmers. However, those experiencing structural poverty arising from inadequate resources or long term industry conditions (Musgrave et al’s types A and C), and who did not subsequently leave farming, were left with a debt at commercial rates of interest and no avenues for obtaining further income support.

The Farm Household Support Scheme was generally considered to have been a failure. It was subject to a great deal of criticism for its loan nature, being represented by the Opposition and others as unfair because farmers were seen as the only group in the community required to repay “welfare” payments. In April 1994 there were 346 farmers receiving FHS (Senate Rural and Regional Affairs and Transport References Committee 1994, p7). By contrast, in late 1993, 920 farm families were in receipt of either the JobSearch Allowance or the NewStart Allowance, in spite of the difficulties faced by farmers in accessing standard Social Security benefits. The Department of Social Security reported in 1994 that “a significant majority of benefits were being paid to spouses” (Senate Rural and Regional Affairs and Transport References Committee 1994, p8). In June 1995 the number of Farm
Household Support recipients had dropped to 107 (DSS 1995, p347) and by June 1996 there were only 42 farmers using the scheme (DSS 1996, p362).

The development of the Farm Household Support Scheme was hampered by both the need to justify the scheme in purely economic terms and the incremental approach to the development of the scheme — it needed to be like Part C of the 1988 Rural Adjustment Scheme to facilitate the transition of farmers between the schemes but offer more of an incentive to farmers to consider leaving the land. The scheme was ultimately a hybrid — it was designed to be consistent with the government's structural adjustment objectives for the farm sector by not providing incentives for “non viable” farmers to remain on their farms. At the same time, its origins in Part C of RAS 88 and its linkage with the JobSearch Allowance in terms of the amount of support payable presented the scheme as a welfare measure. As a mechanism for adjustment, FHS could be justified as addressing market failure in the delivery of commercial finance to farm businesses. As a welfare scheme, it was subject to much criticism due to the loan nature of the scheme

2.10 Farm Household Support and Part C compared

As explained above, the Farm Household Support Scheme was developed to complement the new 1992 Rural Adjustment Scheme following the Synapse review of the 1988 RAS. Although there were some superficial differences between FHS and the household support provisions of RAS 88 that it replaced, the overall scheme was only incrementally different from its predecessor.

The main apparent differences between the two schemes were the legislative framework for the scheme and the explicit loan nature of Farm Household Support. Under the 1992 rural policy package, separate farm household support legislation was developed in an attempt to make a clear distinction between support for the farm business and assistance to the farm family. The linkage between FHS and other rural policy elements was clear though as the legislation was enacted in the Primary Industries and Energy portfolio not the Social Security portfolio. The loan nature of the scheme was developed to give farmers who were leaving the land the option of paying back any household support debt out of their re-establishment grant or, if they wished to keep the grant intact to purchase a home etc, to repay the debt over time. This choice was not offered to farmers under Part C. Their re-establishment grants were automatically reduced by the amount of the debt. However, as this reduction was disguised, the loan nature of the household support under the 1988 scheme was in effect hidden and, as explained, in some cases the debt was waived altogether by the State RAS Authorities who had little interest in its collection.

Where household support payments under Part C of the 1988 scheme were made to farmers by the State RAS authorities, payments under the 1992 Farm Household Support Scheme were made by the Department of Social Security acting on an agency basis for the Department of Primary Industries and Energy. This effectively shifted responsibility for the administration of the farm household support component of rural adjustment policy from the States to the Commonwealth. The State RAS authorities were no longer involved in assessing the viability of farmers seeking household support as the main eligibility criterion was inability to access further commercial finance. Evidence for this was provided through a certificate provided by a commercial financial institution. The explicit loan nature of Farm Household Support also meant that the RAS Authorities did not need to include household support payments in their calculation of re-establishment grants. Both FHS and Part C of RAS 88 linked household support payments to farm exit, although the Farm Household Support scheme was also intended to help farmers who no longer had bank support but believed they were viable. Household support payments under the 1988 scheme were intended to be provided as a grant for six months, while FHS extended this to nine months.

The overall philosophy of the schemes was the same. Farm poverty was regarded as a result of a slower than optimum pace of adjustment. The view was that, with the Rural Adjustment Scheme to improve the productivity of those farmers with potential and to provide incentives for exit to those who were not viable in the long term, there was little need for a household support program, except in the cases of financial market failure as outlined above.
At first glance, the 1992 FHS scheme appeared to be a radical departure from the household support provisions of the 1988 RAS. It was not delivered by the RAS Authorities, it was a loan and a certificate was required from a financial institution to prove eligibility. These changes were, however, largely cosmetic. In terms of its overall objectives, the underlying approach to farm poverty, the amount of money available and who was eligible, little had changed.

2.11 Conclusion

The use of structural adjustment programs such as the Rural Adjustment Scheme to address farm poverty has always been a problem. It has been argued that a scheme designed to deliver economic adjustment has no role in addressing welfare issues. Musgrave suggests that

if the objective of policy is to improve the efficiency of resource use, then it should operate on those resources and their markets ... if the objective of policy is to redistribute income, it should be founded on methods of operating directly on incomes and not on the market for resources. (Musgrave 1990, p52)

However, a welfare type response in the context of the private enterprise nature of the farm business raised concerns among policy makers about providing an indirect subsidy for unviable businesses. This concern was not new. Writing in 1974, Mauldon, and Schapper observed that

unity of farm business and farm household, which is an inherent feature of typical commercial family farms, makes it difficult to sustain the distinction between social assistance which increases farm-business profit or reduces loss, and that which increases farm-household income. (Mauldon and Schapper 1974, p116)

In its submission to the later review of RAS 92, the Industries Commission picked up this point arguing that the “obvious danger with income support is that it could undermine the incentives of farmers to adopt their own risk management strategies” (Industry Commission 1996, p57).

By early 1993, the Government had in place a complete policy package which it regarded as capable of supporting the farm sector to become more self-reliant, productive and sustainable (Crean 1992b). The package included support for productivity improvement, mechanisms such as income equalisation deposits to enhance risk management through accumulation of financial reserves, farm household support for those unable to access commercial finance or social security, and exit support through the re-establishment provisions. Farm poverty was regarded as a result of adjustment pressures and the Government’s response was carefully constructed to ensure the adjustment process was not undermined. It was believed that the enhanced interest rate subsidies available under the new exceptional circumstances provisions of RAS 92 would prove sufficient to see viable farmers through severe events. As the Minister said of RAS 92:

This [scheme] will have, over the remainder of this decade, a significant impact on the development of a stronger, more resilient and more competitive farm sector. It will drive the process of structural adjustment necessary to address the formidable economic and environmental problems facing the sector.

...The provisions for exceptional circumstances will allow us to respond quickly and appropriately to severe downturns without undermining the direction and purpose of the scheme as a whole. (Crean 1992b)

This optimism was short lived. Over the next two years, the Minister was responding to a continuous stream of requests for exceptional circumstances declarations and there were ongoing debates about the definition of drought and at what point it became exceptional. Incidences of farm poverty began to attract media attention and the issue began to grow in importance as the drought worsened.

The Commonwealth's rural policy package had come into effect at the beginning of 1993. The exceptional circumstances provisions of the Rural Adjustment Scheme were triggered almost immediately and became the largest expenditure item in the RAS 92 budget over the next four years. At the end of 1994, the drought which had been emerging was being described as “the worst in history” (Wahlquist and Kidman 1994). As the drought continued through 1994, pressure increased on the Commonwealth Government to respond with further assistance to farm families. The media increasingly ran stories on the severity of the drought, and the Southern Oscillation Index and El Niño became part of the public vocabulary.

Throughout 1994, the Rural Adjustment Scheme Advisory Council undertook a series of investigations into State claims for new “exceptional circumstances” declarations for drought affected areas. As the declarations were made, increased resources were made available through RAS, however, consistent with the National Drought Policy, this support remained targeted at farmers with prospects of long term profitability in the sector. For farmers who were unable to access commercial finance and were therefore ineligible for RAS support, the options remained re-establishment assistance and exit from farming, the loans-based FHS or, if possible, the JobSearch Allowance under its standard provisions.

There remained a group of farmers who were in need but not receiving assistance from the government in any form — those who no longer had the support of a commercial lender but who either did not wish to leave farming, had exhausted the maximum two years on FHS or did not wish to take on any further debt. From October 1994, some members of this group were assisted through the Drought Relief Payment.

3.1 The Policy Process

From early 1994 as the drought worsened, the issue of support for struggling farm families became much more politically sensitive than it had been previously. Between 1989 and 1993 there had been broad bipartisan agreement on the National Drought Policy and the direction of rural adjustment policy. Increased media attention provided the opportunity for drought policy to become a more political issue. In 1993 as Minister for Primary Industries and Energy, Simon Crean had faced fewer than ten questions without notice on rural adjustment, drought or the rural downturn, several of which were friendly “Dorothy Dixers” from Labor backbenchers. In 1994 the new Minister, Senator Bob Collins responded to an increasing number of questions on drought-related issues with 35 being asked in the parliamentary sitting period between 23 August and 8 December 1994 alone. The Prime Minister also answered a number of questions on the drought in September following his visit to southwest Queensland. The tone of the questions also changed with more emotive and colourful language being used by Opposition members. For example on 19 September 1994, Senator Tierney referred to the “sheer human misery that has been created by what is possibly the worst drought this century” (Tierney 1994). In August 1994, Senator Grant Tambling suggested that “drought is probably the most important issue that this parliament can currently address” (Tambling 1994).

Politics also became important in the relationship between the Commonwealth and State governments. There was much debate between State and Commonwealth Ministers about the declaration of exceptional circumstances drought, arising from the lack of a clear definition of “exceptional circumstances”. This was compounded by the different drought declaration procedures in place in the different States, varying from the declaration by the members of the individual Rural Lands Protection Boards (RLPBs) in NSW to a more rigorous and scientific approach in Queensland. Accordingly, the Commonwealth developed a rough yardstick of two years of drought in three to determine whether a case may exist for an exceptional circumstances declaration.
At the Departmental level, the Standing Committee on Agriculture and Resource Management convened a drought declaration Workshop on 18 October 1994 to consider a uniform national process for exceptional circumstances drought declarations (ARMCANZ 1994a, p5). Later that month, at its meeting on 28 October 1994, the Agriculture and Resource Management Council of Australia and New Zealand agreed on a harmonised system for considering future drought declarations based on the following common set of core criteria which are to be taken into account by both the Commonwealth and the States/Territories in future consideration of any drought and exceptional circumstances declarations:

1. meteorological conditions;
2. agronomic and stock conditions;
3. water supplies;
4. environmental impacts;
5. farm income levels; and
6. scale of the event. (ARMCANZ 1994a, p3)

Policy makers continued to respond within the broad framework of the National Drought Policy, without really addressing the key issues of delivering effective income support to Australia's farm families. By mid-1996, the drought was mostly over and there had been a change of government at the Commonwealth level.

### Table Four: Major Policy developments 1994-1998

<table>
<thead>
<tr>
<th>Year</th>
<th>Development</th>
<th>Key Income Support Features</th>
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<tbody>
<tr>
<td>1994</td>
<td>Farm Hand Appeal</td>
<td>• Public Appeal to assist farmers with meeting day to day necessities</td>
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<tr>
<td></td>
<td></td>
<td>• Funds raised were matched dollar for dollar by the Commonwealth Government</td>
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<tr>
<td>1994</td>
<td>Drought Relief Payment</td>
<td>• Available as a grant in drought exceptional circumstances areas</td>
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<td></td>
<td></td>
<td>• Assets test on off-farm assets only</td>
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<td></td>
<td></td>
<td>• Not limited to farmers with long term prospects in farming</td>
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<td></td>
<td></td>
<td>• Available at the rate of the JSA</td>
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<td></td>
<td></td>
<td>• Included exemption from the Austudy assets test and access to a Health Care Card</td>
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<tr>
<td>1994</td>
<td>Senate Inquiry into Rural Adjustment, Rural Debt and Rural Reconstruction</td>
<td>• Welcomed the introduction of the Drought Relief Payment</td>
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<tr>
<td></td>
<td></td>
<td>• Called for a significant overhaul of the Farm Household Support Scheme</td>
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<tr>
<td>1996</td>
<td>National Rural Finance Summit</td>
<td>• Called for a &quot;welfare system that works for rural Australians&quot;</td>
</tr>
<tr>
<td>1996</td>
<td>Special Rural Task Force Review of the Assets Test</td>
<td>• 21 recommendations to improve the operation of the assets test</td>
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<td></td>
<td></td>
<td>• Recommended that the requirement to offer the farm for sale be removed from social security hardship provisions</td>
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<td>1996</td>
<td>Review of RAS 92</td>
<td>• Concluded that RAS was not appropriate to the adjustment needs of Australian agriculture</td>
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<tr>
<td></td>
<td></td>
<td>• Called for more responsive welfare arrangements</td>
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<tr>
<td>1997</td>
<td>Agriculture Advancing Australia</td>
<td>• Extended the Drought Relief Payment to a new Exceptional Circumstances Relief Payment</td>
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<tr>
<td></td>
<td></td>
<td>• Introduced the Farm Family Restart Scheme which provided household support payments</td>
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<tr>
<td></td>
<td></td>
<td>• Re-establishment grants available for the first two years of the scheme</td>
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</table>
The new Minister for Primary Industries and Energy, John Anderson instituted an ambitious review of rural policy in the first twelve months of the new Coalition Government. In fulfilment of an election promise, a National Rural Finance Summit was held in Canberra in June 1996. Reviews of the Rural Adjustment Scheme and of the impact of the Social Security assets test on farmers were also commenced, followed in early 1997 by a review of the National Drought Policy. Policy responses to the issues of farm poverty continued to evolve based on principles of self-reliance and enhanced productivity. The path of this evolution was barely interrupted by the election of the Coalition Government as the changes which the new Government implemented were in many ways a natural progression from the policy developments which took place under Labor. Mr Anderson was replaced by Mr Mark Vaile following the 1998 election in the new, smaller portfolio of Agriculture, Fisheries and Forestry.

Table Four sets out the policy developments in the period 1994 to 1998 along with their main features. Like the schemes outlined in the previous chapter, these programs continued to be developed incrementally and in the context of the government’s structural adjustment objectives.

3.2 Farm Hand

While both State and Commonwealth Governments attempted to contain their policy responses to the drought within the confines of the 1992 National Drought Policy, pressure was building from the churches and welfare groups to respond to a perceived welfare crisis in rural areas, particularly in the worst hit regions of southwest Queensland and northern New South Wales. Television news stories in metropolitan Australia were including nightly reports of the drought, with graphic footage of dying sheep and parched landscapes. In August 1994, the Farm Hand appeal was launched by television personality Ray Martin, seeking public donations to assist farm families who were having difficulty meeting day-to-day living expenses (Burdon 1996b, p117). The fund collected $10 million during its existence and this was matched by the Commonwealth Government. The objective of the fund was specifically to address farmers’ problems with meeting living expenses and the only non-household debts which were assisted were basic necessities such as car registration or tyres in cases where families were particularly dependent on their vehicles. Most of those who received support had around $10,000-$12,000 of identifiably personal or family debt, as distinct from debt associated with the farm business. These debts were largely owed to the local community so Farm Hand had the added benefit of easing the impact of the drought on small non-farm businesses in drought affected areas. The assistance was originally targeted at supporting families in areas declared to be in drought exceptional circumstances, however, following the introduction of the Drought Relief Payment, the emphasis shifted to families in need outside these areas.

Over 7,000 families were assisted by Farm Hand at an average level of around $2,700, with most families receiving in excess of $1,000. The assistance was based on an honour system — applicants were not required to provide details of tax file numbers, sources of income or large amounts of personal information. The organisers uncovered some attempts at double dipping where families applied under both their town and farm addresses and around $100,000 was probably saved in this area through cross-checking the Farm Hand database. Donations to the Fund were largely from the general public. There were also donations from corporations, including the banks, and the Maritime Union of Australia made a significant donation of nearly $70,000 to the appeal (Nicholson 1999, pers comm). Farm Hand raised awareness in urban Australia of the plight of many farmers and it also brought home to the farmers themselves that they were not alone, easing some of the stigma of seeking assistance.

3.3 The Drought Relief Payment

In September 1994, Prime Minister Keating visited drought-affected areas of Queensland to meet farmers and see conditions first hand. Keating’s visit marked a shift in the Government’s attitude to

1This section on Farm Hand based on an Interview with Doug Miel, Farm Hand Appeal Coordinator, Canberra, 2 February 1999
supporting drought-affected farmers. In a speech to farmers, he said that “much of the Australian legend is tied to the bush, and it's time the rest of the country helped battling farmers”. He went on to say that the Government “won't leave the country people of this nation behind” (Wright 1994).

During the week following his visit, on 21 September 1994, the Prime Minister announced the introduction of the Drought Relief Payment (DRP). This was to be paid to farm families, in areas declared to be in exceptional circumstances drought, at the level of the JobSearch Allowance. Importantly, the payment was not linked to the viability of the farm business. Farm assets were excluded from the assets test, although a test on off-farm assets applied. In recognition that the difficulties of the drought would not cease immediately with the first rains, the DRP was to be available for six months after the exceptional circumstances declaration was lifted. Farmers in receipt of Farm Household Support in drought exceptional circumstances areas could transfer without penalty to the DRP. By 30 May 1995, 10,500 farm families were in receipt of the Drought Relief Payment, benefiting over 30,000 people (Collins 1995).

One of the consequences of the introduction of the DRP was that obtaining a drought exceptional circumstances declaration became much more attractive. Where previously such a declaration provided interest rate subsidies of up to 100 per cent, after October 1994 this was accompanied by possible access to the DRP, a Health Care Card and exemption from the assets test for Austudy. This increased the pressure on the Rural Adjustment Scheme Advisory Council to find in favour of applications for exceptional circumstances declarations.

The combination of media attention and the Prime Minister’s involvement lent a sense of urgency to the policy process as government responses to farm poverty moved into the public spotlight. The DRP was implemented by an amendment to the Farm Household Support Act 1992 and arrangements were made for payments to begin immediately and to be back-dated to 1 October 1994 (Beddall 1994). This urgency contrasted sharply with applications for the modified JSA which had taken eight to ten weeks to process (Senate Standing Committee on Rural and Regional Affairs 1992, p17). Unlike FHS, which was developed as part of an overall policy package in 1992, the drought relief payment was very much a response by the Government to mounting public pressure and to a perception that the existing schemes were inadequate to address the welfare needs brought on by the prolonged drought conditions. As a result, there was no need to present the DRP as part of a structural adjustment package, addressing an identified market failure. The only concession to the objectives of the National Drought Policy was that DRP payments were linked to drought exceptional circumstances declarations made under the Rural Adjustment Scheme and were not available outside these areas. However, within drought exceptional circumstances areas, no distinction was made between farmers with long term prospects in the industry and those who were no longer viable. The support was available to meet the cost of daily necessities for all who passed the income and off-farm assets test — irrespective of the health of their business. The Drought Relief Payment was therefore a significant departure from previous policies in that, instead of seeing the family's welfare as an adjunct to the farm business, the farm household was given priority and its needs were addressed. The welfare of farming families was no longer subordinated to structural adjustment and farm poverty could be addressed more effectively. Throughout 1995-96 an average of 10,000 families per month received the Drought Relief Payment at a cost to the Commonwealth of $129 million. In June 1996, the Department of Social Security reported that 9,710 farmers were benefiting from the scheme — by contrast there were 42 recipients of Farm Household Support (DSS 1996).

3.4 Senate Inquiry into Rural Adjustment, Rural Debt and Rural Reconstruction

In March 1994 the Senate Rural and Regional Affairs and Transport References Committee received a reference into rural adjustment, rural debt and rural reconstruction. The Committee’s recommendations were consistent with the overall direction of government policy with its focus on self-reliance and risk management. However, the Report did express the view that there was “considerable confusion in the rural community about the focus and objectives of RAS 92” (Senate Rural and Regional Affairs and Transport References Committee 1994, p ix). Part of this concern
related to the dominance within the scheme of the exceptional circumstances component. The Committee recommended that the exceptional circumstances provisions be removed from RAS and set up as a separate scheme subject to a Commonwealth-State agreement. With respect to farm poverty, the Report welcomed the introduction of the Drought Relief Payment but called for the Farm Household Support Scheme to be overhauled significantly (Senate Rural and Regional Affairs and Transport References Committee 1994, p xiii).

### 3.5 Senate Inquiry into the Operation of the Assets Test

The difficulties associated with providing appropriate welfare support to families in hardship due to the drought once again focused attention on the assets tests that applied to social security payments. It had long been recognised that the low yielding nature of farm assets, the application of the superannuation investment and family home exemptions, and the difficulty of partially liquidating farm assets to meet current expenditure cause special problems for farmers. It has been suggested that, in combination, “these constraints on primary producers ... ensure a much harsher impact of DSS ... assets tests than applies to the population generally” (Synapse Consulting (Aust) Pty Ltd 1992, p49).

The Senate Rural and Regional Affairs and Transport References Committee received two references in 1994 relating to the impact of the assets test on farm families. The first, referred on 30 June 1994, related to the assets test applying to Austudy and the second, received on 24 August 1994, related to the impact of the assets test on social security benefits. On 31 August the two references were combined (Senate Rural and Regional Affairs and Transport References Committee 1995a, p xi). The Committee noted that the JobSearch and NewStart Allowances were “not designed to provide a guaranteed minimum income regardless of circumstances” but were programs “designed for those unemployed people who are actively seeking work” (Senate Rural and Regional Affairs and Transport References Committee 1995a, p xvii). To qualify for JSA, applicants needed to be unemployed and registered as such with the Commonwealth Employment Service, and pass the activity test and the income and assets tests. While many farmers could not satisfy the activity test due to ongoing maintenance requirements of the farm property, many of their spouses were genuinely seeking off-farm employment and were satisfying the income and activity tests. However, this group was often prevented from accessing benefits because the assets test was applied to the total assets of the couple, ie they were not apportioned. In order to avoid the assets test, farmers could apply for assistance under the hardship provisions, which required that the farm be offered for sale. Many farmers did not comply with this requirement because they were “hoping that their viability would improve” (Senate Rural and Regional Affairs and Transport References Committee 1995a, p8).

The Senate Committee recommended that “applicants for social security payments under the hardship provisions for JobSearch or NewStart Allowances should no longer be required to offer their property for sale.” (Senate Rural and Regional Affairs and Transport References Committee 1995a, pxvii) While recommending against the general exemption of all farm assets from the assets test on social security payments, the Senate Committee did recommend an urgent review by the Minister for Social Security of the hardship provisions of all social security payments (Senate Rural and Regional Affairs and Transport References Committee 1995a, p xxi).

### 3.6 National Rural Finance Summit

As promised by the incoming Coalition government, a National Rural Finance Summit was held in Canberra from 3-5 July 1996. It involved 230 participants and was aimed at developing “a greater appreciation of farm financial issues” and identifying strategies to “contribute to long term sustainability, profitability and international competitiveness of the farm sector” (ARMCANZ 1996, p87). Following the Summit an Activating Committee was established, chaired by the Parliamentary Secretary to the Minister for Primary Industries and Energy, to examine the 135 recommendations which came out of the summit. A Final Report of the Activating Committee was provided to the Minister in February 1997.
Key points raised by the Summit included recognition of the need for “a welfare system that works for rural Australians” and for more effective rural adjustment arrangements (Special Rural Task Force 1997, P45). Along with a Business Plan for Australian Agriculture, these were also the priorities identified by Minister Anderson in his closing address to the Summit (ARMCANZ 1996, p87).

3.7 The National Drought Policy Revisited

The August 1995 meeting of the Ministerial Council, ARMCANZ, had agreed to review the responses of Governments to the drought, consistent with the objectives of the National Drought Policy. The Review was set up to

- examine existing drought response measures and evaluate the impact and appropriateness of these measures and the relative contributions of the Commonwealth and drought-affected States, in meeting the objectives of the National Drought Policy (NDP);
- identify policy options for future droughts which would continue the development of a self-reliant, competitive and environmentally sustainable farming sector. (ARMCANZ 1995, p85)

A draft Future National Drought Policy Statement was considered by Ministers at the September 1996 ARMCANZ meeting. This draft included consideration of farm welfare measures and suggested that the Commonwealth

review the ability of farmers to access general welfare measures through a Department of Social Security Rural Task Force with a view to ensuring farmers have equitable access to welfare (ARMCANZ 1996, p10).

The February 1997 ARMCANZ meeting discussed drought policy in the broader context of farm business risk management. Ministers “accepted the need to integrate the approaches to risk management, adjustment and welfare” and also that “business support needed to be reoriented away from relief measures, including interest rate subsidies, and towards preparedness measures” (ARMCANZ 1997, p19). Ministers agreed to an “integrated National Risk Management (including Drought) Policy” which was focused on self reliance, good natural resource management, structural adjustment, risk management and ensuring farm families could secure their welfare requirements (ARMCANZ 1997, p21).

This approach differed little in substance from previous policy directions. It continued to rest on principles of self-reliance and risk management. There was incremental movement in the area of farm poverty as the Social Security portfolio was drawn into the policy net. Up until this point the Department of Social Security’s involvement with poor farmers had been limited to the delivery of programs on an agency basis for the Department of Primary Industries and Energy.

3.8 Special Rural Task Force Review of the Assets Test

On 11 September 1996, the Minister for Social Security announced the establishment of a Special Rural Task Force to investigate the impact of the assets test on the ability of farm families to access social security benefits. The Task Force was set up “in response to concerns across rural communities that the current Social Security assets tests and hardship provisions may disadvantage farming families” (Special Rural Task Force 1997, p4). The Terms of Reference for the Task Force drew particular attention to the impact of the assets test in situations where farmers were unable to sell their properties “due to market conditions”; the position of farmers on small, non-viable holdings; the operation of the hardship provisions; the impact of the assets test on inter-generational transfer and the valuation of land and curtilage (up to 2 hectares surrounding the house) for the purposes of the assets test.
In terms of the main income support measure being sought by farmers, unemployment payments, the income and assets tests were particularly tight. The rationale for this was the need “to maintain workforce incentives and to reinforce the fact that these payments are not intended for long-term support” (Special Rural Task Force 1997, p12). Farmers in difficulty had been able to access benefits through the hardship provisions of the Social Security Act, however, these provisions were quite stringent requiring the farmer to demonstrate that they:

- could not sell their property because there was no buyer or there was some legal impediment to selling;
- could not use their property as security for borrowing; and
- were not receiving or were not eligible to receive other income support payments, such as Farm Household Support (Special Rural Task Force 1997, p13).

The requirement that the farmer offer the farm for sale was considered “proof that they have relinquished the ongoing commitment to their farm” (Special Rural Task Force 1997, p20). This was considered particularly harsh as in most cases this also meant selling the family home.

The Task Force noted that there were many cases where farmers were not accessing support to which they were entitled for a variety of reasons, including wrongly self-assessing themselves as ineligible (Special Rural Task Force 1997, p18) and a reluctance to seek “welfare” (Special Rural Task Force 1997, p41). The valuation of the farm family home was also an issue of concern as the assets test exempts the family home, resulting in the perception that urban home owners with million dollar homes could access social security benefits while farms with similar (non-exempt) asset levels were excluded from support (Special Rural Task Force 1997, p37).

The Special Task Force made 21 recommendations in response to its Terms of Reference. With respect to the hardship provisions, it recommended that

the Social Security Act be amended to remove the requirement for people claiming an allowance payment ... to offer their property for sale. However, a test of reasonableness ... will apply to ensure applicants could demonstrate an attachment to the farm as well as a two year time limit on accessing Social Security payments. (Special Rural Task Force 1997, p7)

The Task Force proposed amending the activity test to “reflect rural and farming situations”, possibly by allowing participation in “Landcare, environmental or other community activities that contribute to the social and physical capital of the area” (Special Rural Task Force 1997, p7). With respect to the valuation of the farm home and curtilage, the Task Force recommended that the “national average value of pensioner house, as determined by the ABS, be assigned to the farm house and curtilage” (Special Rural Task Force 1997, p9).

The Task Force also addressed the welfare position of farm families in the context of the ongoing adjustment process, emphasising the need to separate business support from farm welfare (Special Rural Task Force 1997, p31). The recommendation in this area was that a “time limited, income triggered payment to farmers in severe financial circumstances” be developed. This payment would be for farmers who were accessing an adjustment package and would be “conditional upon farmers entering financial counselling and whole farm planning” (Special Rural Task Force 1997, p8).

### 3.9 The Review of RAS 92

On 10 September 1996, the Minister for Primary Industries and Energy, John Anderson announced a comprehensive mid-term review of the Rural Adjustment Scheme. The Review was to consider the appropriateness of the program, its performance, and the management, administration and delivery of the Scheme (Anderson 1996).
The Review Report emphasised the need for Government policy to focus on profitability, sustainability, competitiveness and self reliance, however, it concluded that “RAS 92 is not appropriate to the adjustment needs of Australian agriculture in either today's business environment or that expected in the next century” (McColl et al. 1997, p ix), stating that “RAS 92 has generally addressed symptoms rather than causes” (McColl et al. 1997, p118). The Report was critical of the scheme's main support mechanism, interest rate subsidies, arguing that “[t]here appears to be no compelling evidence of significant failure of financial markets warranting government intervention to lower farmers' borrowing costs” (McColl et al. 1997, p 37). It is worth noting that the Synapse Review of 1992 had been similarly concerned about the use of interest rate subsidies, recommending that they “be viewed, at best, as fall back strategies” (Synapse Consulting (Aust) Pty Ltd 1992, p35).

The 1997 Review identified a number of major themes, including the need for farmers and government to distinguish clearly between the objectives and needs of the farm business and the farm family. The Review Team recommended the termination of RAS 92, to be replaced by a new Farm Business Improvement Scheme, which focused on skills enhancement, a separate re-establishment scheme, and “more responsive welfare arrangements” to meet short term welfare needs (McColl et al. 1997, p xii).

Like the Senate Inquiry, the Review team was very concerned about the confusion over the purpose of RAS 92, noting that RAS expenditure up to 1997 had been dominated by funding ongoing commitments under RAS 88 and exceptional circumstances interest subsidies. While recognising that “acute welfare problems” (McColl et al. 1997, p114) had occurred during the drought, the Review team argued that

[w]elfare assistance should not be delivered through instruments that assist businesses. Such an approach confuses the objective of the intervention, doesn't effectively target the welfare problem and distorts market signals to farm businesses receiving assistance. (McColl et al. 1997, p38)

The Review endorsed the recommendations of the Special Rural Task Force, stating that these recommendations “should make the welfare system a more effective safety net for farmers” (McColl et al. 1997, p141).

The Government's response to the review of RAS 92 was to announce that the scheme was to be wound up and replaced by a new program. In announcing his decision, the Minister for Primary Industries and Energy, John Anderson said that the

Government intends to wind up the RAS and replace it with a better program tuned to the need to encourage farmers to improve their planning and risk management skills, or to coin a phrase, to get smart (Anderson 1997d — italics in original).

A special meeting of ARMCANZ was held in June 1997 at which Minister Anderson sought the input from State Ministers into an Integrated Rural Policy Package aimed at addressing rural adjustment, risk management, drought, farm welfare, farmer business management skills development and training and rural community development (ARMCANZ 1997, p4).

3.10 Agriculture Advancing Australia (AAA) Package

On 14 September 1997, John Anderson announced the Agriculture Advancing Australia integrated rural policy package. Mr Anderson identified four key objectives of the package

• to help individual farm businesses profit from change;
• to provide positive incentives for on-going farm adjustment;
• to encourage social and economic development in rural areas; and
• to ensure the farm sector had access to an adequate welfare safety net (Anderson 1997b).
In introducing the Bill to Parliament, the Minister addressed the issue of the structure of farm businesses and farm households, stating

> In the past, the interrelationship between rural welfare and business policy objectives has not been fully appreciated. In a sense, the integration of family life and welfare with the management of the farm business has been taken for granted. This interrelationship needs to be recognised in addressing the welfare needs of farming families. It is imperative if we are to ensure the current transition in outlook from the family farm to the family farm business runs to a successful conclusion. This means that welfare measures need to be distinct from measures targeted at improving the profitability of farming businesses. (Anderson 1997b)

Although expressed in a new way, the emphasis on farming as a business was not original. In 1992, Simon Crean was referring to farmers as “farm business managers” (Crean 1992b). Elements of the package also sounded familiar, addressing “issues of rural adjustment, farm business risk management and skills development, drought, farm family welfare and rural community development” (Anderson 1997c). The package contained a number of components, including:

- a new tax-linked Farm Management Deposit Scheme, replacing the existing Income Equalisation Deposits and Farm Management Bonds;
- a Farm Business Improvement Program to improve farmers' business management skills;
- assistance to facilitate inter-generational transfer of farm ownership;
- continuation of exceptional circumstances provisions but with a phase down of the maximum level of interest subsidy available and the extension of the DRP to an exceptional circumstances relief payment; and
- a Farm Family Restart Scheme providing welfare support and re-establishment assistance (Anderson 1997c).

The influence of the Special Rural Task Force was most evident in the Retirement Assistance for Farmers Scheme (RAFS) — the main innovation in the AAA package. RAFS was a scheme to facilitate intergenerational transfers of farm ownership by amending the gifting provisions associated with the age pension. Under the provisions of the Social Security legislation, a person in receipt of the age pension could make gifts of up to $10,000 per year without their eligibility for the pension being reassessed. Until the AAA package, farmers who handed the farm on to a family member found that they were ineligible for the age pension for five years as the gift was worth more than $10,000. The Retirement Assistance for Farmers program provided a short time period during which this provision was waived for farmers, allowing them to access the age pension as soon as the farm had passed on to the next generation.

Family income support components of the AAA package were incorporated in the new Exceptional Circumstances Relief Payment and the new Farm Family Restart package.

### 3.10.1 Exceptional Circumstances

The exceptional circumstances package remained little different from the RAS 92 exceptional circumstances provisions. The benefits were to apply in the event of “exceptional circumstances, such as severe drought, beyond the scope of normal risk management” (DPIE 1998). The key difference was the extension of the Drought Relief Payment to cover exceptional circumstances other than drought under the new Exceptional Circumstances Relief Payment. The extended payment would be available “to farmers suffering financial hardship as a result of rare and severe events including, but not restricted to, extreme drought” (Anderson 1997b). As was the case with the Drought Relief Payment, eligibility for the payment would not be limited to long-term viable farming operations.
3.10.2 Farm Family Restart Scheme

The Farm Family Restart Scheme (FFRS) was set up as “the government's key program for delivering income support to the farm sector” (Anderson 1997b). It was targeted at low income farmers experiencing financial hardship who could not borrow further against their assets. Payments would be available for up to one year at the equivalent of the unemployment benefit, now known as the NewStart Allowance. There was to be no activity test and no requirement to offer the farm for sale. The scheme imposed a binding obligation on recipients to obtain professional advice on the future viability of the business, and career counselling where appropriate. Financial support was made available to obtain this advice (Anderson 1997a).

Farm Family Restart provided support irrespective of whether the farmer stayed or left. The new scheme addressed both structural and temporary poverty, however, it was time limited and once farmers reached their support limit they were again faced with the choice between exit and poverty.

3.11 The AAA package and its predecessors compared

3.11.1 Farm Family Restart and FHS

The most obvious difference between FFRS and the Farm Household Support Scheme appeared to be that FFRS was not a loans scheme. This was true of farmers who remained on the land. However, farmers who accepted re-establishment grants had them reduced by the amount of household support payments received, making the new scheme more like Part C of RAS 88 that FHS had replaced. Both FFRS and its predecessor were available only to farmers unable to access further commercial finance and both were time limited. Where FHS was delivered by the Department of Social Security, FFRS was managed by the government’s new welfare delivery agency, Centrelink.

Both FFRS and FHS were developed as part of an overall structural adjustment package for agriculture and both had economic objectives. There is nothing in the structure of the FFRS package to suggest that policy makers looked much beyond the existing policy framework in devising the new scheme. The underlying rationale for the scheme remained unchanged and the amendments that were made were incremental in nature.

3.11.2 The Exceptional Circumstances Payment and the DRP

The exceptional circumstances payment was a straightforward extension of the DRP to allow for payment to farmers subject to exceptional circumstances declarations other than drought. The revised payment appears to be very generous and, as with the introduction of the DRP, will increase pressure on politicians to declare exceptional circumstances events. Like its predecessors, this benefit does not address the needs of farm families outside declared areas.

3.11.3 Re-establishment Grants

While the package retained the re-establishment grant for those leaving farming, it was only to be available during the first two years of the scheme's operation. This move suggested a shift away from earlier policy. Re-establishment grants have been a feature of rural adjustment support for many years and, during the drought, enhanced grants were offered to farmers in exceptional circumstances drought areas as a further sweetener for those considering farm exit.

The objective of re-establishment grants has been to facilitate the structural adjustment of the farm sector by supporting those farmers without long term prospects of productivity to leave farming with dignity and some resources on which to draw in establishing post-farming. However, this approach only works if the farmer is prepared to accept the judgement that they are not viable and takes the incentive to leave. As Synapse suggested, there is a further potential problem with re-establishment grants:

There is some evidence to suggest that farmers with higher levels of human capital exhibit a higher tendency to leave the industry under adjustment pressure (owing to their greater
potential for alternative employment, and linked often to age). If these are also the ones with the greatest potential to make a contribution to wealth creation/economic efficiency in farming then there are opportunity costs associated with not having that potential recognised. The apparent inability or unwillingness on the part of lending institutions to allow for this potential should ... be recognised as a market failure. (Synapse Consulting (Aust) Pty Ltd 1992, p26)

Supporting farmers who wish to stay on the land raises the issue of whether the community should be expected to support what is essentially a lifestyle choice by this group to remain in farming by ensuring they have an adequate income to meet household requirements. Mauldon and Schapper, writing in the early 1970s argued that

People in ... [other] self-employed occupational groups expect, and are expected to look after themselves. If they cannot earn adequate income within their occupation they expect and are expected to change to another. Nor is this thought to be unreasonable for farmers under the conditions of prosperity and full employment which Australia has been experiencing for the last three decades. (Mauldon and Schapper 1974, p110)

The situation is arguably quite different in an era in which unemployment in Australia appears to be a persistent problem. Coupled with the fact that the average age of Australia's farmers is approaching fifty (Haberkorn et al. 1999, p56), the prospects of a farmer taking a re-establishment package and finding alternative paid employment are slim. If the family simply moves to the nearest rural town in order to preserve established social and community networks, employment opportunities are even more limited. A review of the Farm Family Restart Scheme undertaken in March 2000 found that of those farmers who took re-establishment grants, 71 per cent took up residence in the same postcode area after exit (O'Neil et al. 2000, p i).

The other major difference between the farmer and other self-employed people is the nature of family farming. In a study on the causes of stress on family farms, Gray and Lawrence stated that

[t]he feature of farm life which distinguishes it from other occupations is the intimate connection between the farm as workplace, home, career and family tradition. A threat to one is a threat to all. (Gray and Lawrence 1996, p175)

Under these circumstances, a re-establishment grant may not be the incentive to leave the farm sector that its designers intended (Botterill 2001). In spite of the 1997 RAS Review finding that “there is no objective evidence that availability of re-establishment grants has been a major factor in decisions by farmers to leave agriculture” (McColl et al. 1997, p51), the government has continued to offer the grants. The AAA package initially included a sunset clause on such grants, however this has been extended twice so that they are now available until 30 November 2003.
Chapter 4: Farm Poverty: The Policy Development Process

There has been ongoing debate in the political science literature about how policy is actually made, how it should be made, and whether the process is rational and logical or a sort of intelligent "muddling through" (Lindblom 1959). This chapter discusses that debate in the light of the account in Chapters Two and Three of the policies which were developed in response to farm poverty from 1989 to 1998. The question of how policy is made is an important one and can assist analysts in the task of identifying the strengths and weaknesses in government policy and how they came about.

One of the seminal contributions to the discussion was Charles Lindblom’s 1959 article, "The Science of "Muddling Through"" (Lindblom 1959) in which he provided a description of the policy development process. Although it is nearly half a century since its publication, the article still contains insights into policy making which are valuable to analysts and Lindblom’s description of incrementalism has been widely accepted as an accurate summary of how policy is made in the real world (Wildavsky 1979; Hogwood and Peters 1983; Hogwood and Gunn 1984; Hayes 1992; Weiss and Woodhouse 1992; Ham and Hill 1993; Albaek 1995). He expanded on the model in later work (Braybrooke and Lindblom 1963; Lindblom 1964; Lindblom 1979; Lindblom 1982; Lindblom and Woodhouse 1993). The 1959 article has been reprinted in about 40 anthologies (Bendor 1995, p819), is "one of the most highly cited articles in the Social Science Citation Index" (Weiss and Woodhouse 1992, p267) and has been described as one of the "classics" (Curnow 1988, p320) and "one of the most influential and most widely read articles written in recent decades" (Lessman 1989, p453). Attempts have been made to formalise the model mathematically (Bendor 1995) and it has been drawn on to explain policy development in areas as diverse as the Budget process in pre-reunification West Germany (Lessman 1989) and the utilisation of social science research in public policy making (Albaek 1995).

The following sets out the key arguments about how policy is made in the real world and these will then be tested against the case outlined above.

4.1 Rational-comprehensive policy making

Wiltshire has described the rational policy making process as "that golden fleece of public administration" (Wiltshire 1990, p28), based on the perception that good policy arises from an organised, orderly and structured process. The rational-comprehensive model suggests that policy makers seek to apply a scientific approach to decision making. Good policy is arrived at through a process which encompasses the setting of objectives and priorities, the collection of information, and the construction of options which are measured against the objectives, thereby arriving at the answer to the policy problem. This approach has been described as being "deeply rooted in Western thought" (Forester 1984, p24) and part of the "mastery-via-understanding tradition of Western civilization" (Weiss and Woodhouse 1992, p267).

Although intellectually appealing, complete rationality in decision-making has been recognised by many writers as an unachievable ideal. Simon explains:

Rationality implies a complete, and unattainable, knowledge of the exact consequences of each choice. In actuality, the human being never has more than a fragmentary knowledge of the conditions surrounding his action, nor more than a slight insight into the regularities and laws that would permit him to induce future consequences from a knowledge of present circumstances. (Simon 1953, p81)

Charles Lindblom’s 1959 paper pointed to the gap between the rational-comprehensive model of how policy was made and the practice of real life policy administrators. He rejected the concept that policy
could be developed in a rational, or in his words "synoptic" manner, arguing that the policy analyst's cognitive limitations combined with resource constraints made this approach to policy development unattainable (Lindblom 1959). Lindblom rejected the rational model's assumption that objectives and values are determined before policy options are considered, on the basis that agreement could never be reached on the values to serve as the criteria for decision. Even if such agreement could be achieved, the relative weight given to the range of objectives could not be determined. He argued that, in reality, the objectives to be achieved are determined at the same time as policy options are selected: "one simultaneously chooses a policy to attain certain objectives and chooses the objectives themselves" (Lindblom 1959, p82). Related to this point, Lindblom argued that the real world policy maker does not search for the best means to reach agreed ends. The test of "good" policy therefore becomes, not an assessment of whether the means achieve the ends, but whether there is agreement on the policy (the means) itself.

Criticism of the practicality of complete rationality has been generally accepted. Gordon et al describe it as a "dignified myth" (Gordon et al. 1993, p8) while Albaek suggests that

The rational decision-making model is an idealized model … its basic demands on a rational decision-making process are misleading, impracticable and inappropriate, and on the whole fundamentally irreconcilable with the way decisions are made in the real world. (Albaek 1995, p83)

John argues that

Even if the political system could adopt a rational decision-making strategy, the costs of reaching the standards required would probably paralyse decision-making processes, frustrate the groups involved in the policy process and limit the opportunities for policy-learning. (John 1998, p125)

Simon suggests in the passage quoted above that the problem is even more fundamental than lack of time and resources — the limitations of human cognitive capacity. Lindblom describes this problem succinctly: "The human condition is small brain, big problems" (Lindblom 1977, p66).

In spite of these criticisms, Ham and Hill suggest that the ideal of rational decision-making is alive and well and point to the introduction of such management techniques as program budgeting as examples of attempts to pursue rationality (Ham and Hill 1993, p87). These attempts have met with mixed success. Writing of the New Zealand experience with program planning and budgeting, Boston and Pallot explain:

Even in the best-managed organizations, formal planning systems seemed to degenerate into medium-term control mechanisms largely divorced from the issues of strategic choice and organizational action...Governments faced additional problems including a lack of high level political/bureaucratic support, interagency rivalries, the tendency for longer term considerations to be crowded out by short-term political crises, and a failure to integrate strategic, budgetary, and performance management systems. Not surprisingly, given the sheer scope, scale, and complexity of governmental activity, the resources available to carry out the necessary analysis proved inadequate. (Boston and Pallot 1997, p384)

In addition to being unattainable, the rational-comprehensive model is seen by Davis et al as facing other "important constraints", which happen to be of particular relevance in a policy area such as farm poverty, due to the high level of non-rational factors which drive farmer behaviour. These include a bias toward variables which can be measured, the arbitrary costs attributed to some variables and the danger of the technical overwhelming the ethical (Davis et al. 1993, p163).

### 4.2 Bounded rationality
Having rejected the pure rational-comprehensive model as unattainable, theorists have suggested more realistic explanations of how policy is developed. Simon does not reject rational decision making completely but suggests that limits are set on the field of policy search to make the problem more manageable.

Simon makes the distinction between means and ends. He argues that "whereas reason may provide powerful help in finding means to reach our ends, it has little to say about the ends themselves" (Simon 1983, p7). Therefore, if the ends are predetermined, rational decision making processes can be applied to arrive at the one correct answer to the problem (Simon 1944, p19). The concept of restricting the area of search is referred to by Simon as "bounded rationality" — the decision making process is rational within certain limits set by an organisation's goals, the ability to pursue those goals and availability of information surrounding the decision-maker's action. These bounds are not necessarily "rational", incorporating irrational and non-rational elements. However, once they are set, Simon argues "[t]wo persons, given the same possible alternatives, the same values, the same knowledge can rationally reach only the same decision" (Simon 1953, p241).

Like Simon, Kenneth Arrow does not reject synopsis completely. He argues that "from a purely formal point of view, the presence of uncertainty does not destroy the synoptic ideal" (Arrow 1964, p585) He also calls for the bounding of the decision making process,

In short, I would argue that in any given problem area, we should create as well as we can a closed system of values and facts and act as if it were more or less the whole truth. In reality, it will not be, and in time we will know it not to be. (Arrow 1964, p587)

In explaining bounded rationality, Simon suggests that the parameters are set by the organisation within which the decision-maker operates. He argues,

One function that an organization performs is to place the organization members in a psychological environment that will adapt their decisions to the organization objectives, and will provide them with the information needed to make these decisions correctly. (Simon 1953, p79)

The organisation removes the requirement to be completely comprehensive and limits the search area to a manageable size:

If an administrator, each time he is faced with a decision, must perforce evaluate that decision in terms of the whole range of human values, rationality in administration is impossible. If he need consider the decision only in the light of limited organizational aims, his task is more nearly within the range of human powers. (Simon 1944, p22)

If decisions are made within the boundaries set by the organisation, reflecting its priorities and value system, this raises the question of which organisation should make which decisions. Placing responsibility for a particular issue in an inappropriate organisation, resulting decisions could also be inappropriate. Where the issue under consideration is not part of an agency's "core" business, the location of policy responsibility in a particular portfolio can adversely influence the outcome of the policy development process. Gordon et al write that

It has been suggested that in every government department there are 'deep structures' of policy — the implicit collection of beliefs about the aims and intentions of the departments and about the relevant actors who influence or benefit from the policy (Gordon et al. 1993, p9)

Lindblom also recognises the potential impact of the allocation of policy responsibility on the weighting given to particular values (Lindblom 1965, p238). The approach of the Department of Primary Industries and Energy, which had policy responsibility for farm poverty, suggests that its 'deep structures' were not well-suited to coping with a welfare issue, in spite of the good intentions of individual officers within the Department working on the problem. The situation was compounded by organisational objectives which were apparently in conflict with each other.
In addition to limiting the area of policy search, Simon suggests that policy makers arrive at their decisions by "satisficing", ceasing the search for a solution once the first satisfactory answer has been found — it may not be the optimum outcome but it will suffice. With March, Simon argued that

Most human decision-making, whether individual or organizational, is concerned with the discovery and selection of satisfactory alternatives: only in exceptional cases is it concerned with the discovery and selection of optimal alternatives. (March and Simon 1958, p141 – italics in original)

Simon also argues that this satisficing approach assists in balancing conflicting values:

Reconciling alternative points of view and different weightings of values become somewhat easier if we adopt a satisficing point of view: if we look for good enough solutions rather than insisting that only the best solutions will do, it may be possible — and it often is possible — to find courses of action that almost everyone in society will tolerate, and that many people will even like, provided we aren’t perfectionists who demand an optimum. (Simon 1983, p85)

In an article on the time pressures facing top Washington officials, Adams provides the following description of the policy process, one which neatly illustrates the satisficing concept:

The question before them is not: "what is the best policy for the nation?," but rather "what is the best policy I can come up with by Tuesday that Congress would take seriously?" (Adams 1979, p549)

4.3 Incrementalism

Lindblom’s rejection of the rational ideal is more final. He sees it as completely utopian and believes that attempts to pursue synopsis will result in poor decision making as important considerations are inevitably overlooked. Instead of aspiring to rationality, Lindblom describes a system of strategic, incremental policy-making through which the policy maker knowingly addresses only part of the problem at any one time, intending to return later to address both issues deliberately overlooked by previous decisions and unintended consequences of earlier policies. Following on his concern about the limited human capacity to undertake synoptic decision making Lindblom, like Simon, suggests that in order to arrive at a policy, analysts need to simplify the problem at hand. Lindblom’s 1959 article, mentioned above, was an attempt to formalise a model which more closely resembled real policy analysis and recognised that policy was actually developed through a process of strategic "muddling through" or "successive limited comparisons".

Lindblom suggests that policy makers make their task manageable by limiting the search for the agreed policy to those options which differ only incrementally from policies already in place and by "ignoring important possible consequences of possible policies, as well as the values attached to the neglected consequences". This neglect is not as alarming as it appears as policy "is not made once and for all: it is made and re-made endlessly" (Lindblom 1959, p86).

Having concluded that all policy analysis and policy making is bad "even under the best circumstances" (Lindblom 1979, p519), Lindblom seeks to suggest how analysts could operate within their limitations. He bases his model on the concept of disjointed incrementalism. Policy makers compare and evaluate options which are only incrementally different from existing policies. From those possible incremental changes, they consider only a restricted number and only a limited number of consequences of the options are also considered. The process is serial and remedial, with a policy problem never solved but subject to "a never-ending series of attacks on it" (Lindblom 1965, p147). Lindblom summarises the contrast between smart incrementalism and utopian rationality as follows:

The choice between synopsis and disjointed incrementalism — or between synopsis and any form of strategic analysis — is simply between ill-considered, often accidental
incompleteness on one hand, and deliberate, designed incompleteness on the other. (Lindblom 1979, p519).

4.4 A case study in incrementalism

In the area of farm poverty, incrementalism provides a very accurate description of the policy development process underpinning Australian government responses, as can be seen from the above description of the policies developed between 1989 and 1998. A few key decisions, such as the removal of drought from the Natural Disaster Relief Arrangements in 1989, marked an important change in the policy mix but, on balance, the basis of structural adjustment and drought policy has remained unquestioned as has the linkage to household support. The Farm Household Support Scheme, for example, was closely modelled on the household support provisions of the 1988 Rural Adjustment Scheme. Part of the rationale for this similarity was to ease the transition for farmers from one scheme to the other, but it was also the case that, as predicted by Lindblom and Woodhouse, consideration was only given to a “relatively narrow range of alternatives” in developing the program (Lindblom and Woodhouse 1993, p4). The succession of programs from Part C, through the Farm Household Support Program and Farm Family Restart were sufficiently similar to each other to support Braybrooke and Lindblom’s argument that policy making proceeds through a sequence of approximations. A policy is directed at a problem; it is tried, altered, tried in its altered form, altered again, and so forth. (Braybrooke and Lindblom 1963,p73)

To state that the policy process has been incremental is not to suggest that there was no coherent intellectual framework within which incremental changes were made. In 1989, the Government set out its policy direction for the rural sector in a major Rural Policy Statement which incorporated environmental sustainability and long term profitability and set out the roles it saw for itself and farmers in the future of the rural sector. This approach was reflected in the objectives of the 1992 Rural Adjustment Scheme and also evident in the development of such government schemes as the Landcare program.

The principles of self-reliance and risk management spelt out in the 1992 National Drought Policy continued to inform the policy process throughout the period under review. Gradual changes occurred within this framework as responses to farm poverty were moved from within the Rural Adjustment Scheme to stand-alone programs and then to a point where, in the case of the Drought Relief and Exceptional Circumstances Relief Payments, welfare support was decoupled completely from structural adjustment policy for those farmers located in exceptional circumstances areas.

Over the decade from 1989 a number of attempts were made to address the welfare needs of Australia's farm families. The high interest rates and low commodity prices of the late 1980s and early 1990s were exacerbated by the severe drought which affected eastern Australia until around mid-1996, resulting in genuine hardship for many farmers. The social security safety net proved inadequate at addressing the particular asset structure of family farms and alternative approaches had to be developed. Although some of the rhetoric changed, incrementalism remains the best description of the policy process during the period under review. The National Drought Policy introduced in 1992 remained largely unchanged from its introduction with its principles of self-reliance and risk management being unchallenged. The rhetoric of the policy played well to the farmers' self image of independence, although an aversion to “welfare” by many farmers has at times made policy development particularly difficult where genuine hardship has been experienced.

Over the period, the issue of separating family issues from those of the farm business shifted. From the recommendation of the Drought Policy Review Task Force in 1991 that RAS was the appropriate mechanism for delivering farm welfare support, through the separate Farm Household Support Scheme to the chairing of the Special Rural Task Force by the Parliamentary Secretary to the Minister for Social Security, there was a gradual transition in the treatment of farm income support. However, after the Task Force had reported, policy development remained in the agriculture portfolio and the program changes that were implemented were once again incremental in nature.
It is unlikely that the “AAA” package introduced by John Anderson will be the end of the policy development process, although Anderson's successor, Mark Vaile listed its implementation as his top priority shortly after taking on the agriculture portfolio (Vaile 1998). Rhetoric aside, the welfare components of the package did not offer major departures from the policies introduced by the Labor government. The focus remained on ensuring welfare responses were consistent with the objective of structural adjustment and policy makers continued to devise schemes to circumvent the assets tests which applied to the standard social security safety net and to persuade marginal farmers to leave the industry.
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