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Miracle Down Under: How New Zealand Farmers Prosper without Subsidies or Protection

by Thomas Lambie

In the past two decades, New Zealand farmers have moved from an environment in which we were subsidized and the government dictated the type of agricultural goods produced to one in which we farm without subsidies. The clear focus for us now is on the consumer. That is the real reason we are in business: to serve the consumer, not the government.

One advantage for New Zealand is that we are a small country. We can be experimental and help other people understand our progress because of the smaller scale of the New Zealand economy.

"Fortress New Zealand"

Let me take you back in history to the 1950s, when there were worldwide food shortages after World War II. New Zealand was an agricultural nation, feeding the United Kingdom, and had the second-highest per-capita income in the world. We were incredibly rich. The government was dominated by farmers. Almost all the cabinet ministers were farmers. Farmers had it made.

What did we do? We were our own worst enemy. We went to the government and said, "Prices fluctuate, the climate affects us, we think you should step in and help regulate what we earn, to take away fluctuations in our income." And the government, being full of farmers, said, "Yep, that's good. We'll help you." So we set up marketing boards and other structures that put constraints on the farming community. They either limited or expanded production, and they controlled the price depending on what the government and often farmer-controlled boards thought was best for farming.

Protection and control of the farming sector were bad enough, but New Zealand is also a small country, and the government even then did not believe the future of New Zealand was in agriculture. We needed to start creating industry in New Zealand that would employ people elsewhere. So the government started imposing import tariffs and quotas on nearly everything, including cars and televisions. The aim was to increase the prices of imports and make manufacturing in New Zealand competitive. New Zealand became "Fortress New Zealand."

We locked out the foreign competition, we "protected" jobs, and we had virtually no unemployment in New Zealand right up to the 1970s. We were rich enough, because of the agricultural income that was coming in, to be able to sustain the jobs. But the trade barriers we imposed on ourselves during that time built in unnecessary costs within the New Zealand economy.

Shock, Crisis, and Reform

Then we experienced two major economic shocks. The first was in 1973 when Britain entered the European Union. Suddenly, the market that used to take much of what we produced was no longer open to so many of our exports. The second was the oil shocks. Basically, we had this lovely little fortress in New Zealand, a top-down pricing mentality that ignored market forces, and—what do you know—inflation started to get out of control. But we also had a controlled society, in which interest rates and seemingly everything was controlled in New Zealand.

Finally, after 10 years, New Zealand experienced both fiscal and financial crises in 1984. There was no more money for the government to spend, and the government had run up huge deficits and borrowed a lot of money from overseas to try to keep the wheels of the New Zealand economy turning. Thankfully, the Federated Farmers of New Zealand realized that continually going to the government for more handouts wasn't working. We were becoming increasingly uncompetitive in the world markets. We needed to change, so we said to the government, "Strip out our subsidies, but

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we want you to reform the rest of the New Zealand economy as well."

The government made the reforms, but painfully for farmers it was a left-leaning government that made the transition. The government reformed agriculture first because the farmers had traditionally never voted for them anyway. The rest of the economy took six years to be fully liberalized. We now live in one of the most open and unregulated economies in the world.[1] Other than a few tariffs on shoes and some clothing, we are completely open at the border for everything. Before 1984, if you were well-off, you could avoid the tariffs. If you wanted to buy a car or a television, you simply took a holiday overseas and brought it back with you to New Zealand. Now you can buy anything anywhere in New Zealand from anywhere in the world. And it's fantastic.

Satisfying the Consumer, Using Land Wisely

The major development for the New Zealand agricultural sector was that, after enduring the pain of that long transition, responsibility for farming returned to the farmer. So the government was no longer involved in our lives. The key issue that we had to grapple with very quickly was that there was only one component important to farm income, and that was satisfying the consumer. We used to satisfy government officials in what they wanted. We had 70 million sheep and another 50 million lambs, of which the meat industry rendered, in one year, six million lambs into blood and bone (a fertilizer product) because nobody wanted them. In the worst days of the post-deregulation period, in a drought in the Canterbury region of New Zealand, farmers were getting only $6 a lamb. Now we actually focus on the consumer. Processors now pass on clear market signals and give farmers higher returns. The farmer now provides exactly what the consumer wants in the most cost-effective manner. Now, by meeting market specifications, we get between $60 and $100 a lamb depending on the time of year the lamb is supplied.

The other positive result of the reform process was that farmers began to better fit their agricultural production to the type of land that they farmed. If you don't have a really good fit with the type of land you are on, your resources are used inefficiently, and then you can't get your costs low enough to be competitive. New Zealand has reduced the number of sheep from 70 million down to 40 million,[2] but we produce roughly the same amount of sheep meat.[3] We increased our dairy herd from roughly 3 million cows to now more than 5 million in response to the market demand for protein products.[4] We've seen a huge diversification of land use in the last 20 years. In the good old days, people just would not have believed what farmers were capable of when everybody just wanted us to produce another lamb.

Farmers have continued to diversify, to change, and to accept that we not only need access to markets and consumers, but we also need an incredibly competitive internal economy. We need to be able to adjust our cost structures quickly to deal with the volatility of climate, product price, and, in a small country like New Zealand, the exchange rate. But we are happy to accept these risks and uncertainty because by facing these risks we make far better decisions. And we're not blaming anyone else; we only have to rely on ourselves to get on with the job.

Rising Farm Productivity and Output

The New Zealand farm sector before 1984 had a productivity increase of 1 percent a year. Since the reform, it's been nearly 4 percent per year.[5] We're performing better than any other part of the New Zealand economy. The agriculture sector in New Zealand has actually grown as a percentage of our GDP, from slightly more than 14 percent of GDP in 1986–87 to 16.6 percent in 1999–2000.[6] This is almost unheard of in any other developed country. So we're actually playing our part and more for New Zealand.

Agricultural trade is incredibly important for New Zealand because it's what we do well. We rely upon exports from our biological industries to pay for imported goods from around the world that we have no advantage in producing ourselves.

However, we face lots of criticism. Our competitors criticize the size of our trade in dairy products compared with that of the U.S. or European dairy industries. On the other hand, New Zealand looks at the bigger picture. We look at the total trade between countries, as opposed to sector by sector.

Since the transition period, New Zealand's move toward a completely open economy has created nearly 450,000 jobs on net.[7] For a small country of 4 million people, that's a lot of jobs, and we're still creating more. Many myths abound about trade being bad for jobs, but we've found the exact opposite to be true. The reality is that trade is good for jobs.

A liberal trading environment not only encourages investment, but it also enables countries to produce to their comparative advantage and trade to their strengths. This leads to a more efficient use of resources and creates more wealth and jobs.

Overcoming the "Fear Factor"

The New Zealand experience brings two key messages to the world trading environment. The first is that producers must focus on the consumer. The reason we want liberalization in trade is so that we can talk directly to consumers in individual countries. We want to be able to tailor our products specifically to the market in each country. It's not just about world trade in the abstract; it's about reaching out to each country's individual consumers and supplying them with what they want.

I recently attended the World Farmers Congress of the International Federation of Agricultural Producers. A continual theme I heard was "Exports are good, imports are bad," and that "When you liberalize world trade, it's a race to the bottom." Well, in New Zealand we are in a race to the top. But every time we race to the top, a bureaucrat somewhere else in the world tries to squash us. The classic example is Europe, where we exported "spreadable" butter. Because it didn't meet the specifications of the regulators as butter, they prevented it from entering Europe, even though the demand from the consumer was strong. We were adding value, creating a better product, and meeting what the consumer wanted, but a bureaucrat said, "Ah, but it's not butter, because it is too soft." These are the types of issues we have to deal with in global negotiations.

The second message from the New Zealand experience is that we use our resources well. We've put our resources where they are most efficiently used. For sustainability, we want the world to use its resources well. Agriculture plays a huge part in that process. It makes no sense for farmers in Europe and the United States to produce sugar at three or four times the world price when you can more efficiently produce it in many tropical countries around the world.[8] The tropical countries can produce sugar at a fraction of the cost and with much more efficient use of world resources. Our vision is for a dual outcome—to liberalize trade and to make better use of the world's resources as each country produces to its comparative advantage.

In New Zealand, we went through the same fear factors that I hear from other farmers in the developed countries. People said, "We can't do it. We're not going to produce any more milk. We're all going to go broke. The government hates us." Once you get through all that—and I firmly believe that the developed countries' farmers can—farmers will start to focus on what they can do. They will focus on what's good in their region. American and European farmers have a wonderful advantage that we don't have in New Zealand: their customers are in their backyards. Their customers are not 12,000 miles away from a little country in the middle of the South Pacific. They do not have to transport everything great distances before they reach a consumer.

Producers must move beyond thinking that they can't produce for the wide range of consumer demands. They must look for the opportunities that exist both in their own backyards as well as beyond their borders. Fear of change often runs rampant, but once you are farming in accord with your comparative advantage, it becomes possible to adapt your production system to suit consumer needs and adjust production costs accordingly.

A good example of this is the New Zealand wine industry. New Zealanders are quite good at producing wine, but we still import more wine than we export. New Zealand consumers like to have choice, and we are willing to give our consumers that choice. We believe it is better for the farming community, better for the New Zealand economy, and ultimately better for the world.

Conclusion

I recognize that our vision is bold, but we'd like the Americans and others to be ambitious in the Doha Development Round of WTO trade negotiations. We're practical. We accept that there is probably going to be a need for a reasonably long transition period as people move toward an open market, but this is an opportunity that the world really needs to seize. We need to be forward thinking on trade liberalization. Based on the experience of the Uruguay Round and even this round, negotiating these agreements takes a long time. The opportunities don't come very often. I hope we can turn that opportunity into reality.

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1. New Zealand's economy now ranks as the third-freest in the world, behind only Hong Kong and Singapore, according to James Gwartney and Robert Lawson, *Economic Freedom of the World: 2004 Annual Report* (Vancouver, B.C.: Fraser Institute, 2004), p. 11.
2. New Zealand farmers owned 39.6 million sheep as of June 30, 2002, according to the New Zealand Ministry of Agriculture and Forestry, "Agriculture Production Survey," June 30, 2004, www.maf.govt.nz/statistics/primaryindustries/livestock/sheep/02-sheep-age-fs.xls.
There were 69.7 million sheep as of June 30, 1984, according to the Policy Information Group, New Zealand's Ministry of Agriculture and Forestry, www.maf.govt.nz/statistics/primaryindustries/livestock/sheep/sheep.htm.
3. New Zealand produced 113,000 tons, bone-in (2002–2003), compared to 130,000 tons, bone-in (1985–1986), according to the New Zealand Ministry of Agriculture and Forestry, Game Industry Board, The Economic Service, available through Meat and Wool Innovation Ltd., www.woolpro.co.nz/economicservice/quickstats.html.
4. New Zealand farmers owned 5.1 million dairy cattle as of June 30, 2003, compared to 3.2 million dairy cattle as of June 30, 1984, according to the Policy Information Group, Ministry of Agriculture and Forestry, www.maf.govt.nz/statistics/primaryin dustries/livestock/dairy/dairy.htm.
5. See Roger Kerr, "A Vision For Agriculture," Address, New Zealand Business Roundtable, Wairarapa Agricultural Seminar, July 19, 2001; and Federated Farmers of New Zealand, "Life After Subsidies: The New Zealand Farming Experience 15 Years Later," August 2002, pp. 1–2. Productivity estimates are from Lawrence and Diewert's Treasury Working Paper 99/5, "Measuring New Zealand's Productivity," March 1995, www.treasury.govt.nz/workingpapers/1999/99-5.asp.
6. This statistic, measuring both agricultural production and downstream processing, is from the Federated Farmers of New Zealand, "Life After Subsidies: The New Zealand Farming Experience 15 Years Later," August 2002, p. 1, and Rob Davison, "Agricultural Productivity," *Vetscript*, May 2003. When downstream activities are not included in a measure of the agriculture sector, agriculture comprised approximately 4 percent of New Zealand GDP in 1985, and just over 7 percent in 2001. In "OECD National Accounts Volume 2," the OECD calculates New Zealand's agriculture sector as 6.4% of total GDP in 1986 and 8.3% of total GDP in 2000 based on current prices, and 7.3% of GDP in 1986 compared to 8.3% of GDP in 2000 based on constant prices. See also New Zealand Treasury, "New Zealand Economic & Financial Overview 2002," and Robert A. Buckle, David Haugh, and Peter Thomson, "Treasury Working Paper 01/33: Calm after the Storm?: Supply-side contributions to New Zealand's GDP volatility decline," 2001, Figure 5.
7. Phil Briggs, "Looking at the numbers: a view of New Zealand's economic history," The New Zealand Institute of Economic Research, www.nzier.org.nz/SITE_Default/SITE_Publications/research_monographs.asp#2. And, Statistics New Zealand, "Household Labour Force Survey," March 2003, June 2003, September

2003, and December 2003.

8. Oxfam International, “Dumping on the World: How EU Sugar Policies Hurt Poor Countries,” Oxfam Briefing Paper 61, March 2004, p. 7.