

Rural loss and ruin can be avoided

July 31 2014, by Rose Trapnell

An Australian Reconstruction Development Board needs to be established to help avoid more needless forcing of Australian farmers from their land, a QUT economist has said.

QUT Business School senior lecturer Dr Mark McGovern said such a Board in the Reserve Bank of Australia offers the most effective option. The ARDB is needed for prudent resolution of the building Australian farm debt crisis, and more.

"The Reserve Bank of Australia (Australian Reconstruction and Development Board) Bill 2013 is currently before the Senate Economics Committee. Adoption would be a real game changer," Dr McGovern said.

"Agriculture, associated industries and financiers would again be able to build lasting successes."

Dr McGovern said Australian banks reported carrying \$60 billion in farm loans in October 2012, \$3 billion of which were classified as problem farm loans for a variety of reasons.

"While a five per cent 'problem loan' figure can be manageable, history shows that in conditions like those today the financier's response of distress selling is wrong and destructive," Dr McGovern said.

"The US subprime crisis began with just five per cent problem loans.

"Fire sales then drove property values down, generating ever more 'security' foreclosures.

"One quarter of home buyers there ended up 'underwater'. Markets in the US and elsewhere are now suffering 'phase two' destruction with spreading impoverishment. "

A comprehensive response to Australian farm debt is required, Dr McGovern said.

"Well-targeted sector stabilization is needed," he said.

"The previous federal government stabilized the mortgage securities market with a \$14 billion injection. The current government can do better with the ARDB used to stabilize then sensibly sort out problem loans. Finance conditions that are reasonable for new young farmers can also be brokered.

"Debts need to be sensibly resolved, not papered over by the fire sale of properties which leads to contagion and needless widespread destruction of farm production capacity, wealth and lives.

"Loans should not be unrepayable by design. Finance must sensibly allow for production and market realities.

"Nor should debts be just rolled over or picked up by 'sucker' governments.

"The Reserve Bank of Australia in conjunction with financiers can address Australia's systematic debt problems, maintain sector liquidity and rejuvenate productive capacities."

Dr McGovern said the Bill would enable a systemic response to systemic

problems.

"Critical capital investments need to be funded by more prudent use of resources in the banking system, including the Reserve Bank of Australia, which is chartered to act in the national interest," he said.

"It is in the national interest for Australia's farm-based industries to be profitable and productive."

Provided by Queensland University of Technology

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