

CHAPTER EIGHT

LAND DEVELOPMENT AND SETTLEMENT

Background

The Department of Lands and Survey currently undertakes a programme of development and subdivision of Crown Land for settlement by “young landless farmers”. The department’s expenditure on the programme totals some \$26 million per annum, with around 70 farms per annum being settled.

Comment

In the separate briefing paper “State Owned Trading Enterprises” (Economic Management, Part Two, Chapter 13), we mentioned that one of the factors which at present causes many state owned enterprises to contribute less than they otherwise could to national economic performance is the lack of clear and non-conflicting objectives. This is amply illustrated in the Lands and Survey development and settlement programme, which is used to achieve what we see as two quite separate principal objectives, namely:

- the development of farm land as a contribution towards maximising economic welfare; and
- the settlement of young farmers on their first farms.

The use of the one policy instrument to achieve more than one objective inevitably leads to implicit trade-offs being made by the department in its administration of the programme. For example, in many cases the size of farm that would maximise economic returns to the nation after development is one that would be too large for settlement on account of the inability of “young landless farmers” to accumulate sufficient savings in relation to the capital value of the property. In these cases the economic benefit that would otherwise accrue from development is somewhat reduced by the settlement objective of the programme. On the other hand the settlement objective is limited by the rate at which economic farm units can be developed.

We now comment separately on the two principal objectives of the programme.

a *Development Objective*

The rationale for government involvement in farm development seems to be that, even where such development is in the nation’s interest, the private sector will not respond. It is not clear where the department’s comparative

advantage in rural land development lies and, in the absence of any market impediments, we cannot see why the private sector will not undertake economic land development operations itself.

However, if the department is to continue its land development operations, it is in our view important that its development programme be commercially orientated so as to achieve the maximum economic benefit for the nation. This would imply the department having the flexibility to purchase private sector land for development and not being required to develop uneconomic Crown land. In addition, developed units should be disposed of on the open market as opposed to being balloted amongst a subset of potential purchasers as is the case at present. It also implies certain disciplines to ensure that the department's programme has no competitive advantages or disadvantages over its private sector counterparts. Failure to do this would result in the programme being unable to be fairly assessed against private sector land development results, with the consequent misallocation of resources and lowering of economic welfare.

b *Settlement Objective*

Insofar as the settlement objective is concerned, the creation of settlement units *per se* does not assist in settlement of "young landless farmers"—except to the extent that it increases the supply of smaller low value farm units, and hence marginally lowers the price of smaller farms generally. In the final analysis, the settlement objective is achieved only because the department offers concessionary finance to its settlers.

It is for this reason that we view the programme's settlement objective as being only one part of the Government's overall programme of concessionary finance for first farm purchase, albeit with differing eligibility criteria and conditions compared with the Rural Bank's farm settlement finance. It follows that the reservations we expressed in Chapter 7 concerning the desirability of providing concessionary finance to young farmers as a particular group also apply here. Furthermore, one of the implicit conditions of Lands and Survey lending is that assistance is provided only for developed Crown settlement units. In our view, if the Government wishes to intervene via concessionary finance with a view to increasing the settlement of "young landless farmers", then this should be done in a non-discriminatory way so that the choice of property to be settled is not influenced by the intervention. In other words, an individual farmer should be free to select a property which he considers would give him (and so the nation) the best return to his individual skills.

Conclusion

The Department of Lands and Survey's land development and settlement programme, because it contains conflicting objectives, contributes less to national economic performance than it could otherwise.

Following a government directive given earlier this year, the department is shortly to commence, in consultation with Treasury, a review of the programme to determine possible alternative means of achieving the programme's objectives. It is expected that the review will be completed and reported on to Ministers by the end of the year.