THE PROCESS OF FARMER ADJUSTMENT*

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Some will say that for your troubles you can only thank yourself;
Some will swear you'll die a beggar, but you only laugh at that
While your garments hang together and you wear a decent hat;
You may laugh at their predictions while your soles are wearing through—
But a man's an awful coward when his pants are going too

Henry Lawson

This brief paper seeks to distil the experiences of working over the last 5 years with farmers whose application for funds haa been rejected by the Rural Assistance Board (R.A.B.). Looking at the problem from the level of a regional officer of the N.S.W. Department of Agriculture has involved face to face contact with these people on their farms. Most policymakers and counselling experts seem to talk from a level more removed from the real problem.

In November, 1971, a conference of all State Government departments with rural involvement resulted in the establishment of Regional Inter-Departmental Rural Adjustment Committees in eight country centres, and an Inter-Departmental Standing Committee on Rural Adjustment (Standing Committee) in Sydney [2]. Regional committees sought to define local adjustment problems, and to formulate co-ordinated plans for departmental action. Their activities were publicized, and individual farmers with problems began to approach members of committees directly, or through their local political representative. Many of these farmers had been refused assistance by the R.A.B., the concessional lender of last resort for New South Wales primary producers.

In February, 1974, Standing Committee asked the R.A.B., when writing to those applicants whom it could not assist, to include a paragraph referring these people to their Regional Adjustment Committee for unspecified assistance. Committees were largely unprepared for this task. The first outcome of this move in the South West Region was the arrival at the Department of Agriculture's office of two non-English speaking fruitgrowers (and their then colourful local political representative), seeking to apply for the funds which they thought we had available. Although this problem has now been largely overcome, failure to clearly advise referred farmers that Regional Adjustment Committees had neither funds to lend, nor power to reverse the decision of the R.A.B. continued to cause confusion for some time.

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Since July, 1972, twenty-two farmers have contacted this office as a direct result of the R.A.B. having refused their application for debts adjustment, and, later, having referred them to the Regional Adjustment Committee. Many farmers in a desperate financial position approached their parliamentary representatives. In the knowledge that the Department of Agriculture had become more involved in attempting to assist insolvent farmers, and with scant advice on reasons for refusal being given by the R.A.B., these representatives also became a major source of further referrals. By mid-1977, a total of thirty-six such adjustment cases had been handled by Agriculture Department staff within the South West Region. This area is generally regarded as relatively affluent, with a broad base of irrigation and well-held pastoral properties; it has not been a major source of applications to the R.A.B. for debts adjustment assistance.

Tindale [4] has documented similar referrals for the seven other Agricultural regions of the State. From their inception in early 1972, to October, 1976, the Regional Adjustment Committees had counselled a total of ninety-two farmers who had sought assistance as a direct result of being refused finance by the R.A.B. Although the majority of these farmers had applied for debts adjustment, some had sought other forms of R.A.B. finance (notably farm build up). If it is assumed that all were refused debts adjustment, it seems that somewhere between 10 per cent and 18 per cent of such farmers refused assistance in New South Wales, have contacted Regional Adjustment Committees for advice.

For the 4 financial years 1972–73 to 1975–76 (the commencement of the period approximating the inception of Regional Adjustment Committees) the R.A.B. had rejected 880 applications for debts adjustment finance [3], indicating a 10 per cent rate of contact. However, it was only in early 1974 that the R.A.B. suggested to all refused applicants in writing that they contact their local Adjustment Committee. The majority of Committee counselling has occurred since then. If it is assumed that all 92 farmers counselled by Committees fall into the 1974–75 to 1975–76 period, when the R.A.B. refused 501 applications for debts adjustment finance [3], then an 18 per cent contact rate is indicated. These contact rates probably overstate the position somewhat, to the extent that they assume that all R.A.B. rejects counselled by Regional Adjustment Committees, had sought debts adjustment finance only.

A person who has been refused adjustment of his debts by a concessional lender of last resort realizes that the financial position of his farming business is rather desperate. Not surprisingly, many have seen referral to the Adjustment Committees as either another source of concessional funds, or some form of appeal system whereby they could indulge in arithmetic argument with the R.A.B.. It has been difficult to allay these false expectations. Thus, the counsellor working for the Committee usually starts from a poor position. Even following an explanation that the Committee had nothing direct to offer in the way of funds or an appeal against the R.A.B., all farmers enquiring have sought a visit from a Departmental officer to discuss their position. Most clutch at straws, and several have admitted that their main objective is to get some form of official letter from the Department which is favourable to their position, to use in an appeal against the decision of the R.A.B. or to take to financiers. The counsellor has to be aware of this. The counselling task is an unenviable one. Within the South West Region, it has been undertaken by economists working from the Leeton office, often in association with district technical extension officers. As professional agriculturists, none of these staff had any specialized training in counselling people under stress. It has not been possible to have any of the other members of the Regional Rural Adjustment Committee to join in any visits to farms of people referred to the Committee.

Our role has almost been one of counselling by default: we recognize an obligation to assist a farmer to better understand his position and to evaluate alternatives, and that there is no other group attempting to meet this need within the region. That the need exists, there is little doubt. It is to some extent created by the manner in which farmers who have applied to the R.A.B. for debts adjustment, and whose cases do not "go to survey", receive advice of their rejection. Applications rejected by the R.A.B. are either refused outright as a result of the facts disclosed in the application, or after further examination and a field survey of the farm. Applicants in this latter group, originally thought to have some prospect, are referred to local Rural Bank Valuation field staff for property inspection and budgetary report. These are applications which "go to survey". Those which do not, receive from the Board a short (rarely more than two paragraphs) standardized letter, which in most cases tells them that their application has been refused because they do not appear to have satisfactory prospects of successful long term occupation of the farm. For most such farmers, this is the only official communication they receive. No one has visited the property or consulted them, and no one seeks to explain their position. The South West Adjustment Committee, via Standing Committee, has been seeking unsuccessfully for some years to have rejected applicants who do not go to survey better advised of the reasons for their rejection, in the belief that this would lessen the load on counselling services.

All except three of the twenty-two farmers refused R.A.B. finance, who have been counselled in the South West Region, had been rejected without their application going to survey. Where a survey has been undertaken it is fruitless to intercede between the R.A.B. and Rural Bank field staff, and to repeat the work of the Valuer. A close working relationship with Rural Bank valuers has been of mutual benefit in assessing cases both subsequently refused and accepted by the Board. It indicated whether or not a rejected farmer approaching the Committee had been surveyed. In the few cases where they had been surveyed, the farmer was advised that we regarded this decision as final, and would not repeat the budgetary exercise. Short of advising of general entitlement for social security payments, other government services, and rehabilitation finance, there is very little that we have been able to do for these people.

However, by far the majority of our clients have not received any field visit or assessment, however cursory, prior to rejection by the R.A.B.. Most have not kept a copy of their application, and their first question is typically "Can you help sort out my financial mess?" or "Can we reorganize the farm to give enough income to service the debts?" or "Can the debts be reorganized to suit the farm?". They are frequently surprised or indignant at their refusal by the Board, arguing "How can they work it out without coming near the place?", and are often not sure as to whether or not they filled out the application form correctly.

The general procedure followed on the property has been:

(i) to establish the present level of indebtedness, terms for reduction, and arrears;

(ii) to quickly inspect the property, plant and structures to enable a very rough check on the farmer's estimate of the value of his assets (and as this is invariably way above present market value, formal training in valuation has been of considerable assistance to the counsellor);

(iii) to establish approximate equity, and security available for further lending;

(iv) to make an estimate of further capital requirements, usually to replace rundown plant and poor fencing;

(v) to estimate likely restructuring of present debts assuming concessional finance was available, and plan financing of extra capital required, arriving at a debt repayment schedule, typically over varying periods up to 20 years, incorporating four or five lenders; and

(vi) to devise a reasonable programme for the farmer and the farm (the former frequently harder than the latter), deriving from an income and expenditure statement the likely amount available for debt reduction.

While this is all done in a fairly approximate manner on the farm, it is usually quite a revelation to the farmer, and all have been highly appreciative. It is invariably the first time they have had their financial position "sorted out" and a competent opinion given as to whether or not it is worthwhile for them to persevere with the farm from an economic point of view. Close involvement of the farmer in matching the agreed peak annual debt servicing amount with the derivation of the likely net amount to be available for this purpose from the farming programme usually avoids prolonged dispute over the economic result.

Frequently there is a need to check on debt levels or repayment details with bankers, or on other details. Once this is done on the following day, a letter is forwarded to the farmer setting out in summary form the results of the analysis, and the discussion.

Time spent on each case has averaged 2 days, depending upon complexity. The property visit usually also involves travelling about 200 miles for the day. The following day is spent checking the rough analysis, checking with lenders (frequently, not all the debt is disclosed by the farmer) and preparing the letter. Typing may involve half a day for office staff. With individual debts of up to $300,000 to many lenders over varying terms, some cases have required more time. Not all cases are clear cut, and it is not easy to classify most as "hopeless" without attempting some form of analysis. Some only just miss out on having enough income to service debts, and one must see whether a reorganization of the farming programme can be suggested which will provide the deficiency. Others are asset rich and income poor, with plenty of security available for further loans, but with current income already fully committed. For others, the hardest task is to devise a realistic programme within their meagre demonstrated farming abilities.

Discussion on the farm usually revolves around what might happen if no concessional loans are available, and lenders apply more pressure for repayment. Provisions of the bankruptcy and hire purchase legislation are usually appropriate. Invariably, the question comes "What can I do?". All are advised of their rights for social security, a rehabilitation grant, retraining guidance for their children, and so on. However, apart from this we have found no easy answer to this fundamental adjustment question. The alternative of city or town based jobs is never attractive and, in a western zone with little industry, these jobs are rarely available. Unemployment among the unskilled in cities also gives no incentive for a move to another location. What can you advise a 50-year-old bankrupt farmer, who has little education, no skills other than farming, a family to support, and a dislike for cities, to do? It is facile to suggest that all can become tractor drivers or employees on the land, or work for a local agent. Most do not want to employ a man of that age. He is insolvent, and knows that the relatively small income he could derive from the alternatives would probably be reduced by amounts needed to service outstanding debts after property sale. People are reluctant to voluntarily accept what seems to be a drop in their standard of living. In most cases, you may counsel until you are blue in the face, but it will not alter the basic problem that the farmer is insolvent. It is not surprising that the vast majority decide to "stick it out", and stay on the farm until absolutely forced off, while trying to find supplementary income or to borrow from moneylenders to meet mortgage debt reductions. These Micawbers of the land invariably have all sorts of schemes—usually involving planting a big crop of wheat and hoping for the good season, or growing a speculative vegetable crop to increase cash flow.

After investigation, it has become obvious that for most of our clients immediate listing of the property for sale would be in their best interests. It can usually be demonstrated that delay will erode their presently low equity. Most do in fact list the farm—sometimes even at a reasonable price. Successful sale and adjustment, however, has resulted only in less than one-fifth of cases. Many list for sale to show their bankers that they are "doing something". Usually this is to buy time until off-farm employment can be found, or the next crop can be harvested.

It is vital to note that the majority of these people have a basic desire to keep the farm at all costs. They have chosen to be farmers through good and bad years, and although all will readily agree that the economic analysis clearly shows the writing on the wall, they will decide to persevere until forced off. Looking at the alternatives, and the possibility that they just might get away with it, one can well understand their attitude.

All invariably appreciate the economic analysis, as it shows them "what they're up against".

The majority of cases we have counselled are still on their farms. Less than one-fifth sold voluntarily, about one-fifth were actually forced off by mortgagee auction, and the remainder are still there. Most secured lenders are banks, which do not like to force property auction, for at least two reasons. It is bad public relations, and it shows the true value of their security in a depressed economic climate to be less than they would prefer. This especially applies in irrigation districts where one bank may have lent to most farmers with similar properties in one locality or along one lane. Previous owners selling by vendor finance with a mortgage do not like to enter into possession. Many have retired and left the district. Most have given vendor finance as a means of obtaining a higher than market price for the property, and are prepared to let the buyer ride out a bad year or two. Some of our clients have been able to do so by obtaining off-farm casual work (especially the wives) in such seasonal tasks as vegetable harvesting or bus driving.

Looking back at cases counselled which had been refused debts adjustment finance, several features arise which seem to be the hallmarks of the typical case.

(i) Most farmers are about 50 years old with little alternative career prospects.

(ii) Most have a realistic equity of less than 30 per cent.

(iii) Most have debts to at least three secured lenders, with the most common total debt range being $45,000 to $65,000, but often over $100,000.

(iv) Over two-thirds have purchased the property within the previous five years. Property purchase usually gives rise to the core or basic debt. Experience shows a high correlation between adjustment problems and a high property turnover within the previous 5 to 7 years. While depressed returns may indicate likely adjustment difficulties, problem localities can often be further defined by examination of rates of property transfer. Injudicious borrowing at time of property purchase seems to have been the main cause of farmer failure in the South West Region over the past 5 years.

(v) Only a minority are "hopeless farmers" who have been on the farm for a generation, steadily dissipating the family inheritance.

(vi) Most have tried, but are below the district standard as managers. Their technology is frequently poor—all have hard luck stories of a sequence of bad seasons or disasters, when more fortunate neighbours seem to have managed quite adequately. However, the sequence of events is often debatable. Either restricted finance from the outset prevented improvement of farm technology (typically forcing people to "make do" with antiquated plant), or lenders refused further finance once poor farming ability became obvious. That is, is he a poor farmer because he could not borrow the necessary funds, or is it because he is known as a poor farmer that finance is refused? The answer has an important bearing on whether it is worth granting further finance on concessional terms in order to preserve such a farmer's occupancy of the farm.

The attitude to the R.A.B. which is common amongst profitable farmers, that "they usually lend to the wrong people", is indicative that some loans have gone to farmers of below average ability. Despite the common farmer feeling that those assisted by the R.A.B. have their affairs too closely managed, the R.A.B. seems to make no provision for management advice or assistance after funds are advanced, apart from seeking an annual inspection by a Rural Bank valuer. Farmers previously assisted by the R.A.B., and subsequently faced with demands for repayment after several years of poor performance, frequently complain that, contrary to their expectation, they received no guidance from the R.A.B. or its agents. Many find difficulty in managing their affairs, and would prefer to have the R.A.B. tell them what to do. However, perhaps the minor level of bad debts written off by the R.A.B. indicates that farmers with very low ability are in the minority of their clients.

What can be done for farm families refused debts adjustment finance? What should be done? They are business men who took a commercial risk and on paper have lost. Their financiers also took a profit motivated risk, and lost. Most are not forced off their farms. They are still there because they can see that to leave for an equally uncertain alternative will probably reduce their immediate apparent standard of living. Many of their properties are not saleable. Several mortgagee auctions in the South West Region have attracted no bids—most such auctions led to the property being passed in. Banks usually continue to support these people on the understanding that they will sell when "things pick up".

It could be argued that R.A.B. debts adjustment loans prevent some properties coming on to the market which would otherwise have been sold, and thus make "natural" adjustment and farm build up more difficult or expensive for the efficient farmer. Perhaps, in some areas, the effect of concessional "last resort" finance is capitalized into higher land values. Should the State Government be involved in propping up mistakes of others, in rescuing funds of commercial lenders? Why should special counselling services be made available to the bankrupt farmer, and not to the bankrupt country businessman? The real problem is that for the majority of farmer cases encountered, the counselling service can offer little to the farmer beyond a clear understanding of his basic position and alternatives and rights for social services, rehabilitation or retraining. No amount of counselling will solve his basic problem of insolvency. Farmers as businessmen are "sent broke" by their creditors. It is essentially an economic argument, so what really can intervention by counselling agencies do unless they either refinance the farmer, or offer him some positive attraction to leave the farm? Most have a strong desire to stay on the farm at all costs, and most in fact do so.

Within the South West Region, counselling farmers refused debts adjustment finance by the R.A.B. has been a relatively unrewarding task. The opportunity cost in terms of departmental involvement is a reduction in the services to profitable, solvent farmers. Much of the need for this counselling would be overcome if applicants rejected by the R.A.B. could be better advised of reasons for their rejection, and receive summary details in the post of their entitlement to social security payments, retraining, rehabilitation loans, vocational guidance and other social services for their families as well as some brief explanation of parts of the Hire Purchase and Bankruptcy Acts.

Before asking what form of counselling service should be available to these farmers, one must first ask what it can reasonably achieve. Considerable groups of experts with farm adjustment expertise have been marshalled at the various workshops conducted by the Kellogg Rural Adjustment Unit. Analysis seems frequently to have taken place at levels well above the basic on farm problem. As a result, emphasis has been placed on training government department technologists in the social and psychological skills of counselling. While undoubtedly of benefit to the potential counsellor, it is difficult to see how this alters the fundamental adjustment problem of farmer insolvency.

The activities of the R.A.B. seem to be motivated by a mixture of welfare and efficiency objectives. While one could question the economic efficiency of debts adjustment finance with its effects on the adjustment process, other farmers and land values, it does seem to have had a welfare payoff in allowing some people to stay in their preferred farming vocation who could otherwise have been forced to leave. However, it seems that many farmers refused debts adjustment finance, although nearing insolvency, have also been able to remain on the farm. Although many have been counselled by Rural Adjustment Committees, most choose to ignore the common advice that sale of the farm would be in their best interests, and stay on. While it cannot be argued that because of this, these counselling activities have failed, one could ask just what it is that has been achieved, and what is the opportunity cost of counselling services.

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