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Rural decline and innovation: issues within issues; or what role for AFBM Journal?

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Abstract. This paper contains my personal reflections as scientific editor of the livestock systems and technology section of the Australian Farm Business and Farming Systems Management Journal, i.e. AFBM Journal. It is the aim of this paper to highlight critical issues in defining the framework of opportunities for authors in the broad area of livestock systems and technology. The message within the description of current economic, marketing and technological conditions for farming is that only a limited proportion (about 20%) of the farming community has taken the opportunities that are available to achieve levels of profitability and efficiency sufficient to break the city: bush gap. However, when most farmers are working below profitability benchmarks, their duty of care for the environment cannot be assured while government organizations do not consider redistribution of wealth. The final reflections of the paper endeavour to find out and justify a niche for AFBM Journal.

Keywords: rural decline, farm profitability, livestock systems, farm business management.

Introduction

When I was asked to be the editor of the livestock systems and technology section of this new journal, my immediate thoughts were: "yes, farm business management is important, and encouraging development of a forum for clear thinking and analysis in this area will be a good thing to do". On further reflection, I have grappled with a couple of questions that seem to me to present some guiding challenges for authors and readers. This introductory article sets out those questions, attempts to provide some answers via a consideration of rural innovation and wealth creation, and then refocuses on questions as a way of throwing out a challenge to potential authors of this journal.

My preliminary questions were:

- what is meant by "farm business management" – what problem does it set out to address and what solutions to the problem does it offer?,
- what can a journal and forum offer that will in some way also address the problem and offer solutions?.

My understanding of "farm business management" (in non-specialist's terms) is that it is a discipline involved with understanding how best to apply skills and technologies to the challenge of optimising returns from some set of limited resources – in this case through enterprises loosely grouped under the heading of "farms". This is my personal definition, though the literature is abundant with perspectives of farm management such as those from Dillon (1980); Malcolm (1990); Charry (1997); Kemp and Girdwood (2002) and Charry and Parton (2002).

More specifically, I understand that "management" of an enterprise or an enterprise mix has to do with the choices that are available within that portfolio and with the timing and level of the particular "interventions" that are available within each element of it.

Having expressed my limited understanding of what is meant by farm management, I would like to revisit some observations about rural wealth, R&D and innovation that were first made in the Australian Journal of Social Issues.

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After this digression I will come back to some very pertinent questions for readers of and potential contributors to this new journal.

The 'city-bush' divide

A continuing theme in public debate over the wealth and happiness of Australia and Australians is the divide between 'city' and 'bush'. This debate has a venerable history. It is not unique to Australia, but can be considered a long-standing and integral part of our national culture (vide 'Dad and Dave', much of the ballad poetry, Russell Ward's interpretation of our history, and most of Les Murray's output). Its latest manifestation is in the intensifying political and ideological dispute over the nature and significance of what is claimed to be a major social problem – that of regional dislocation - and over potential remedies for it. This dispute has focused on the loss of governance, social and private services (such as hospitals, road funding, banks), globalisation (particularly with respect to international trade rules) and the impact of 'economic rationalism' and national competition policy.

For a time in Australia it seemed as though this was an issue that really mattered – the One Nation Party emerged, some of its policies almost directly concerned with rural wealth creation and distribution, and the popular press ran stories tackling city: rural divisions from several perspectives. More recently, we have begun to think about "free trade" from the joint perspective of "winners" and "losers". Some of our trade balances are significantly positive, whereas some elements of the FTA with the USA are being couched in terms of losses to rural Australia, or at best gains only in the very long term.

Conflicting profitability of farming

One key element in the discussion over the city: bush divide has been that of income difference, and the "long-term decline of the prosperity of the family farm".

This ongoing debate in Australia – it ebbs and flows in intensity depending on what else is happening and the timing within the electoral cycle – raises important issues for any country whose population occupies a range of environments and generates wealth from a range of activities. Let us focus on the problem of the decline in prosperity of family farms, together with the political responses it has engendered and the practical solutions available to both individuals and communities.

These are important points, relevant to this debate and to the potential role of this new journal.

It is true that there has been a long-term decline in the income of farming businesses. This is evident both in census statistics and - more usefully for diagnostic purposes - in long-term trends in the real prices for rural commodities ("real prices" being simply the received prices adjusted for inflation). Most farm products show rates of decline in real price of about 3%-4% for as long as records have been kept, albeit with fluctuations around the trend. This is obviously disheartening. It means that the same amount of effort by the farmer will yield 3%-4% less buying power every year. After twenty years - - not even a single working life span for most farmers - effective income will have been halved.

This is a grave trend - quite literally, in too many cases. But before considering possible responses to it let us first enquire why farmers face the problem, and is it unique to them? Taking the second question first, the answer must be a resounding no. For as long as data have been available – i.e. for two hundred years or more in the case of some metals - - the trends in real prices for all goods (minerals, farm products, consumer goods, miscellaneous widgets) and services (banking, housing, standard

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health treatment and so forth) display the same pattern: a steady decline at rates of between 1% and 4% annually. Perhaps the simplest (and most important) fact of economic life is this: the real value of practically all goods and services will decline.

Why is this? The primary reason is that human beings, for a variety of reasons, seek to make things more efficiently. Whether this is motivated by greed, laziness, the desire to be doing something else (perhaps fishing or going to the beach) or sunspots, it is enough to say that humans by and large achieve their goal of greater efficiency, and creatively apply this to more and more 'things'. The result is that new products and services continue to be invented; but no sooner are they offered for consumption than their real price begins to decline.

In this context, farm products are like any others. Occasionally, to be sure, there are shortages of particular items and frequently there are changes in the broad pattern of demand. A pertinent local example of the latter is the marked change in demand for finer wool in recent years; this has been put down to reduced demand for broader wools from the Soviet and Chinese armies. Similarly, since the 1960's there has been a steadily reducing demand for fat in meat products, driven by beliefs about the implications for human health of elevated levels of animal fat in the diet.

However, the core issue behind declining farm income is the almost unavoidable fact that real prices for farm products decline. To repeat: there is nothing unique about this - it is and has for a very long timer been the fundamental problem for all businesses and communities. (To call it an 'almost unavoidable fact' is to recognise that farmers, just like other businesses, can with effort increase real price for a product by differentiation, usually via enhanced quality. An example relevant today in Australia is the increased planting of red wine grapes for bottled wine that has resulted from higher unit prices. In the medium term however, the real price for even the differentiated product will decline. This may even happen in the short-term, as very recent falls in the price of premium quality grapes attest.)

Does this automatically add up to doom and gloom? What responses by the individual and the community are possible?

One way to address the first question is to see whether all farm businesses are unprofitable in the face of declining prices. Statistics are available at the broad level from the Australian Bureau of Agricultural and Resource Economics and, in more detail, through various surveys of farm enterprises and businesses. All show one very clear trend: for any enterprise in any region, there is a wide range in profitability, with approximately 20% of farms generating profit levels and returns on capital that are quite satisfactory (often surpassing those of many non-farm businesses and enterprises).

A standard response to this news is: 'Well, of course the larger farms are making money, it's the small farmer who is not.' Well, that's not actually true. Certainly, farm enterprises that spread fixed costs (including labour) over larger output generally perform better, but that does not automatically mean that only larger scale farms are profitable. Smaller operations that achieve precise cost control - basically by ensuring that labour is used efficiently in each available activity - can be just as profitable as the larger operations, and many are.

There are two factors common to the more profitable operations, regardless of enterprise, region, scale, level of equity or any other consideration. Firstly, successful farm businesses produce the right quality product at the lowest unit cost possible, continually seeking better

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ways of achieving this; secondly, successful farm businesses are highly likely to be involved in continuous learning of some form (field days, TAFE courses, benchmarking groups, and so on). Both practices have been features of the successful (viable) 20% of farms for as long as records have been available.

Issues within issues

Here are some important facts about the decline in rural income and the urban-rural divide:

- Not all farm businesses (in any region, enterprise, or at any time) fail to cope with declining real prices. Some manage to meet the challenge of continuous improvement and to run profitable, sustainable businesses.
- The successful businesses do three things well: (1) they produce what the market actually wants (2) they produce it for the lowest possible unit cost and (3) they continually seek better ways of achieving these goals. Most importantly, none of the things that the successful businesses achieve are restricted to a certain group of people or a small section of the farming community (either livestock or cropping). Rather they depend on doing relatively straightforward and simple things such as using the right sort of animals, spreading fertiliser, making sure of the correct timing and amount of fertiliser, and so on. All of these have been trialled and tested by farmers for decades, if not longer.
- The opportunity exists for farm businesses, the foundation of rural economic well-being, to be more than satisfactory generators of wealth, with concomitant regional spending and investment.

To put it another way: declining rural business profitability is far from being inevitable. Moreover, there is considerable public support for providing access to the skills and information required. The state - through agencies like departments of agriculture, the CSIRO and universities - and the industries concerned (through rural R&D corporations) have for decades provided free or very cheap (extension) learning opportunities and invested heavily in research and development to identify improved varieties, higher quality livestock, superior management procedures and many other means of betterment.

Further, as some of the facts concerning the variation in profitability have become more widely known, successive governments at both state and federal level have actively encouraged involvement in business improvement programs for farmers (through schemes like FarmBis), through support - that is, subsidy - for training and advice and, in the financial context, favourable loan treatment.

So to return to the key points of the debate about the city: bush gap: if declining farm business income (and profitability) is the underlying problem, what is to be done about it that is not already being done?

Emphasising the seriousness of the problem, most surveys do show that the average farm enterprise or business is only marginally profitable. Far too many farms simply cannot afford items like family succession, land and environmental maintenance or reclamation, and holidays; they are simply not financially viable.

However, without entering the debate on whether rural interests receive more or less assistance than others, it does seem that positive steps toward solutions as well as assistance in achieving these are indeed readily available. The information needed to achieve improved profitability and the services to deliver that information are also available.

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There is a frequent complaint that actually getting such assistance involves too much red tape and bureaucracy. The complaint may be justified, but it refers to wider issues concerning accountability in the distribution of taxpayers' money. Furthermore, the terms of such assistance have evolved over time, and have come more and more to address competency and environmental issues. This has made identifying the need for and/or the value of potential help a much more complex process than merely providing subsidies for inputs (such as fertilisers). In other words, getting access to assistance is not as simple as all involved would like it to be.

Allowing for this, there seems to me to be a deeper problem that is almost one of expectations. Essentially, this is the rural version of The World Owes Us A Living Syndrome. Much of the adjustment that resulted from the opening of Australia's economy in the early 1980s, following a period of relative market and price security, has ultimately been about coming to terms with competition and the need for continuous improvement.

Most commentators today grew up in a time when all Australians (broadly speaking) shared in the steadily improving 'good times' - driven by post-war economic redevelopment, low oil prices, the baby boom, and all the other features of an imagined Golden Age. During this period, differences across social groups were perhaps less noticeable than they have now become and rural towns and economies were, generally speaking, thriving (except in times of very real hardship such as droughts and product-specific price crashes). It is apparent that to some extent Australia was during this period a particularly 'lucky country' - despite Donald Horne's irony - in that we had suffered less infrastructural damage than many other nations, and were relatively far ahead of the pack in terms of skills and access to resources.

Unfortunately for all Australians, these circumstances have by and large changed. Particularly for rural Australia, where as a rule there are fewer wealth-generating activities (particularly within a specific region), we are now dependent on our wits if we wish to maintain real incomes. This is not to deny the vagaries of the terms of much international trade; but it is to stress the (for some) unpalatable truth that we are a small nation competing against much larger ones to whom our interests are necessarily subordinate.

There seem to be only two potential general responses to the above mentioned issue.

The first response is to argue for a more 'moral' or 'equitable' set of prices (typically based on some reasonable cost of production): 'fair trade' instead of 'free trade'. In practical terms, this means the reintroduction of tariffs or price support in some form.

The many risks associated with attempting to impose and maintain tariffs of any form (especially for small countries) have been canvassed elsewhere, but two in particular are of concern here: firstly, maintaining tariffs is both costly and difficult, and secondly, setting prices at or above some defined cost of production significantly reduces the incentive to improve either quality or cost of production. There is growing evidence that this course generates poor outcomes for consumers, but - more significantly - even worse outcomes for producers.

Regarding the first concern: given human propensities, someone will eventually undercut the tariff. Recent debates about single-desk selling agencies for rural commodities provide an example of the tensions resulting from tariff imposition of one form or other. For example, wheat is currently marketed through a single-desk agency. This arguably provides some marketing strength in a hostile and highly

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competitive world market and so benefits local producers. Australian users of Australian grains (such as pig farmers) who also compete on world markets would prefer to pay the (lower) world price for their feed grain. Many similar examples can be noted throughout our economy, cars and textiles being two of the more prominent.

Turning to the second concern: in these circumstances the skills and desire to innovate and improve are lost. When tariffs are subsequently lifted, producers' ability to compete tends to be lower than it might otherwise have been. This is difficult to quantify, but anecdotal evidence increasingly confirms the commonsense belief that if you are given something for nothing you value it less, particularly if there is plenty more where that came from. Specifically in the case of farm businesses, having neither to meet the real cost of particular inputs nor to acquire particular competencies means that the requisite assets and management skills are not properly appreciated. As more and more production becomes knowledge-based, this becomes an increasingly greater risk. While we couch the notion of the 'desire to compete' in quasi-moral terms, there is an argument to suggest that it is an important and valid component of innovation and consequent profitability.

The alternative second response to the overall issue argued above is to accept that constant improvement is absolutely essential to both commonweal and Commonwealth - especially its rural identity. Resourcefulness, willingness to try new methods and overall inventiveness have in fact been part of Australian rural mythology for much of the time since white settlement and Australia has been until recently extraordinarily productive in agricultural science. It is not so obvious, however, that we have been good at the rapid adoption of new methods. Or, perhaps more precisely, only approximately 20% of us -or of our farm businesses - have been.

Despite the fact that rural industries generate a smaller direct share of national income and wealth than they once did, multiplier effects through both rural and urban communities remain significant, and rural activities affect a large proportion of Australia's land surface. This last seems to me to be a truly critical issue, and a challenge for readers of and contributors to this journal.

Within the latter context, the single greatest obstacle standing in the path of most farm businesses carrying out environmental improvements is simply lack of profitability - and as a result a lack of funds to make such improvements.

Concluding remarks

(a) If wealth generation (which must be environmentally sustainable) is an important component of maintaining and building social capital, however identified, we should be asking why there is such a broad range of farm business profitability and viability, and why this appears to persist despite both assistance and wide access to the methods adopted by the more successful.

The issues of declining cross-subsidisation (whether real or merely asserted), the impact of national competition policy and the sweep of economic rationalisation call for serious debate about how best to use state and commonwealth funds to redistribute income, ameliorate social inequalities, ensure cost-effective delivery of services, among many other policy imperatives.

(b) An extended discussion of some facts about the city: bush divides provides background to some real questions for this journal, its readers and potential contributors. If these questions cannot be tackled usefully

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in this new forum, then in my view at least there is no obvious reason for yet another journal or forum about "management", innovation, improvement and so on.

The questions are:

- What differentiates the "successful" 20% or so from the rest?
- Is what they have transferable and if so, why has it not been taken up already?
- Given that in each of the core technologies relevant to the livestock enterprise (genetics, nutrition, animal health) sound, cost-effective and reliable technologies and tools are available and in use: what, if any, are the barriers to their wider adoption and what can this journal do to improve adoption from a business and farming systems perspective?
- Are there elements of "successful" livestock enterprises that are not as yet well understood, and if so what are they? How can we research them and how can we meet the challenge of designing production systems matched to our very own Australian conditions?

In short, what can this journal add to the continuing story in the way of identifying problems, developing potential solutions, testing them, and if successful, applying them? If this newest offering cannot provide something new and relevant to these simple questions, it will disappear before long.

I hope this provides a stimulating challenge to readers and potential contributors alike, and look forward to helping expose innovative, creative and rigorous thinking and new ideas to a wide audience.

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