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FORUM

DAIRY RECONSTRUCTION: SOME COMMENTS

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This article briefly compares the importance of natural adjustment and rural reconstruction measures in the decline of the number of registered dairymen in N.S.W. between 1963 and 1973. Some comments are then made as to the cost of concessional interest rate provisions for those farmers leaving dairying through the reconstruction schemes. The use of farm counsellors as an alternative to concessional finance is then suggested.

MOVEMENT OUT OF DAIRYING

The number of registered dairy farmers has been declining in N.S.W. since 1933 from a peak of 23 500. Since 1963 the numbers have fallen from over 13 000 to 6 000, a reduction in excess of 50 per cent in ten years (Table 1).

The drop in the number of N.S.W. dairymen can be attributed to two factors. Firstly, farmers have left dairying through the facilities of the various reconstruction schemes, for example the Marginal Dairy Farm Reconstruction Scheme. Secondly, farmers have left dairying as a result of the natural adjustment process, for example, old age, health, family reasons, or financial difficulties which were not overcome through reconstruction measures.

During the years 1963–1973 only 224 farmers left dairying as a result of rural reconstruction measures (Table 1). This compares to a total of 6 705 farmers who left through the natural adjustment process. Thus only 3 per cent of farmers leaving dairying did so as a result of the rural reconstruction schemes.

COST OF CONCESSIONAL FINANCE

The total advances provided by the N.S.W. Rural Assistance Board to these 224 farmers have been considerable. Although figures are not available for the whole period, \$1,750,000 was advanced between 1970 and 1974 to the 64 farmers assisted through the Marginal Dairy Farm

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FORUM

Reconstruction Scheme.¹ This advance of approximately \$28,000 per dairy farmer is similar to the advances under the debt reconstruction and farm build-up schemes (\$28,000 and \$3,000 respectively).²

TABLE 1: *Decline in the Number of Registered Dairymen: New South Wales 1963-1973*

Year	Number of registered dairymen ¹	Dairy farmers leaving under reconstruction scheme ²	Total dairy farmers leaving industry	Residual (rural adjustment)
1963	13 390	..	275	275
1964	12 872	13	528	515
1965	12 676	28	396	368
1966	12 542	36	134	98
1967	11 789	22	753	731
1968	10 965	18	735	717
1969	9 826	27	1 139	1 112
1970	9 061	26	765	739
1971	7 982	11	1 079	1 068
1972	7 072	30	910	880
1973	6 582	13	490	477

Source—

¹ Division of Dairying, N.S.W. Department of Agriculture.

² N.S.W. Rural Assistance Board (Private Communication).

Applying the average advance of \$28,000 per dairy farmer, then the total advance to the 224 dairy farmers assisted since 1963 has been approximately \$6,270,000. The interest rate charged under the Marginal Dairy Farm Reconstruction Scheme is 5 per cent. If a conservative commercial interest rate of 8 per cent is assumed, then there is a 3 per cent differential between the concessional and commercial interest rates. The interest charges lost to the reconstruction authority by this 3 per cent differential on the \$6,270,000 advances are approximately \$190,000 a year, assuming the repayment provisions remain unaltered.

ALTERNATIVE TO CONCESSIONAL FINANCE

The author believes that the adjustment process (including both reconstruction and natural adjustment) can be better facilitated by combining on-farm financial assistance and off-farm assistance. These off-farm measures include retraining schemes, vocational guidance, rehabilitation assistance and decentralization. Whilst off-farm assistance

¹ Rural Assistance Board *Annual Reports* (Various issues).

² Bureau of Agricultural Economics, *The Rural Construction Scheme: A Review of Progress*, (B.A.E.: Canberra, March, 1973).

is receiving greater attention³ little research has been done on the relative efficiency of off-farm measures. These alternatives could be funded without increasing total government investment in rural reconstruction, by charging farmers commercial rather than concessional rates of interest. This approach also has the advantage of basing the long term commercial viability of farmers on commercial rather than concessional rates.

One alternative that could be investigated is the use of farm counsellors in conjunction with the reconstruction scheme. The role of counsellors would depend on the circumstances but would include farm management advice, and advice on employment opportunities. As indicated above, by charging dairy farmers commercial rather than concessional rates of interest, an additional \$190,000 a year would be made available to the dairy industry. If each counsellor employed required an outlay of \$22,000 per year,⁴ then nine counsellors could be used in conjunction with the dairy reconstruction scheme. Alternatively, the \$190,000 could be used for expenditure on other forms of off-farm assistance indicated above.

Additional research needs to be undertaken on the economic merits of the various off-farm alternatives available, as a matter of priority. Whilst the comments in this article have been limited to off-farm assistance in addition to reconstruction schemes, consideration in any future research needs to be given to whether the current level of farm build-up and debt reconstruction assistance should be reduced in favour of more off-farm assistance.

³ Industry Assistance Commission, *Report on Rural Reconstruction* (I.A.C.: Canberra 1976), Section 8.

⁴ This figure represents the cost of employing an extension officer, as calculated by the New South Wales Department of Agriculture (internal communication).