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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Reconstruction Scheme. 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).

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of registered dairymen</th>
<th>Dairy farmers leaving under reconstruction scheme</th>
<th>Total dairy farmers leaving industry</th>
<th>Residual (rural adjustment)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1963</td>
<td>13 390</td>
<td>.</td>
<td>275</td>
<td>275</td>
</tr>
<tr>
<td>1964</td>
<td>12 872</td>
<td>13</td>
<td>528</td>
<td>515</td>
</tr>
<tr>
<td>1965</td>
<td>12 676</td>
<td>28</td>
<td>396</td>
<td>368</td>
</tr>
<tr>
<td>1966</td>
<td>12 542</td>
<td>36</td>
<td>134</td>
<td>98</td>
</tr>
<tr>
<td>1967</td>
<td>11 789</td>
<td>22</td>
<td>753</td>
<td>731</td>
</tr>
<tr>
<td>1968</td>
<td>10 965</td>
<td>18</td>
<td>735</td>
<td>717</td>
</tr>
<tr>
<td>1969</td>
<td>9 826</td>
<td>27</td>
<td>1 139</td>
<td>1 112</td>
</tr>
<tr>
<td>1970</td>
<td>9 061</td>
<td>26</td>
<td>765</td>
<td>739</td>
</tr>
<tr>
<td>1971</td>
<td>7 982</td>
<td>11</td>
<td>1 079</td>
<td>1 068</td>
</tr>
<tr>
<td>1972</td>
<td>7 072</td>
<td>30</td>
<td>910</td>
<td>880</td>
</tr>
<tr>
<td>1973</td>
<td>6 382</td>
<td>13</td>
<td>490</td>
<td>477</td>
</tr>
</tbody>
</table>

*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

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