

KELLOG RURAL LEADERSHIP

1989

CHANGES IN THE SOCIO-ECONOMIC CONDITIONS

OF DOWNLAND NORTH OTAGO

PERIOD 1979 - 1989

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The reason that I have chosen this period is that this area has faced the greatest challenge to its survival during this decade than at any other time in its history.

Why, may you ask, start in 1979 -

It was in the year previous to that year that SMP's were announced, heralding the way for production lead subsidies which had a severe impact on land prices. To me, the reason which lead to the most basic problem of this area: High Capital Debt.

These forced land values and associated debt levels became compounded by the most severe droughts the region has experienced.

As the debt levels increased several Government packages were announced, but the situation in 1989, after all the support measures have been acted on, is one of complete and utter frustration at the burden of debt shouldered by many farmers and farm services in the community.

As both farming and business failures became increasingly apparent, the huge social cost of the situation began to rear its presence. Relocation; Dislocation; Marriage breakups; Marriage stress; Community helplessness; Loss of jobs; are all to be found in abundance. Although all were supportive of each other, the base cause did not go away - Capital Debt.

To accept the hypothesis that capital debt is the major problem facing Downland North Otago we must accept that land values were:

1. Totally inflated by a false sense of security caused by production led subsidies.
2. That the values of that land had little relationship to the productive value of that parcel, especially when the subsidy value was taken out of the commodity price which that land produced.

I believe that, because of this expected dependency on the subsidies, investors were lulled into a false sense of security in their investments.

How fragile that security turned out to be.

As this investment surge gained momentum the factor of production returns became less important - land was being purchased for capital gain, this fuelling the inflationary trend.

People became over-exposed to debt in order to buy a commodity which was inflating at an astronomical rate.

In hindsight, anyone who traded in land in the period from 1980-1982 has found the capital structure of their business to be over valued.

This is the sector of farmers in North Otago which have been most severely affected by the rural downturn and droughts. I say most affected because others have also been gravely affected due to the "snowballing" of failures and crash of equity values.

Let us step back now, to examine why the surge of increase in values occurred, believing it was fuelled by production led subsidies.

New Zealand, for a long period of time, had been running balance of payment deficits which were becoming increasingly unacceptable. It was a simple equation, politically, to boost production in something we were good at already, and so overcome this payment deficit.

Several subsidy schemes were implemented. I think we should look at them briefly and, more importantly, examine the timing of application and the effect they had on land values.

The major subsidies which had an effect on land values:

- A. SMP's.
- B. LEDL's.
- C. Continuation of Livestock Incentive Scheme.
- D. Fertiliser subsidy.
- E. Concessional finance deals.
- F. Tax incentives - Development - Capital Expenditure.

A. SMP's or Supplementary Minimum Price -

Was a commitment by Government to underwrite new minimum prices to supplement those set under stabilization schemes operated by producer boards.

SMP's on sheep and beef gave rise to two assistance effects -

- an export price effect which was equal to the difference between the SMP price and the schedule price; and
- a domestic price effect where domestic prices were raised by the amount of SMP's per unit produced - for wool and dairying, payment of SMP's were for domestic as well as export schedule.

SMP's were introduced in 1978 and terminated in the 83/84 production year.

B. IDEL or Land Development Encouragement Loans -

A Government incentive for the improvements of reverted or under-utilised land.

The terms of the loan were as follows:

Loan term 15 years with repayment of capital commencing after the end of the fifth year.

Amounts at up to \$250 per hectares - covering costs associated with land production up to and including grassing stage.

One half the sum advanced to be written off at end of tenth year of loan, provided that the development programme was completed to the satisfaction of the Rural Bank.

Nominal interest rates to be deferred and written off at five yearly rests - Payment of interest was not required provided that the development criteria had been met.

These loans began in 1978 and ceased in 1982.

This scheme, more than any other, fuelled inflation of marginal land. I am also of the opinion that it was one of the prime contributors to the flood of sheep meat and eventual collapse of the price of lamb in 1985.

A lot of the country developed under LDEL schemes has not been able to be maintained out of seasonal trading and, subsequently, reverted to its natural state. Because of the large concessions made in this scheme prices of under-developed land escalated to values akin to developed properties.

C. Livestock Incentive Scheme

This scheme was introduced in 1974 but continued through to 1982.

The aim of the scheme was to achieve a permanent increase in the number of livestock carried and thus ensure a greater volume of production - particularly in cases of farmers with a carrying capacity in excess of present utilisation or with land suitable for development.

Options of the scheme were:

1. Interest free suspensory loan of \$12 p/stock unit over and above a certain minimum increase. Once the target increase had been achieved and sustained for 2 years the loan was converted to a tax free grant.
2. A deduction from assessable income of \$24 P.S.U. for each additional qualifying S.U. calculated the same as for the suspensory loan.

In my opinion these three subsidies or encouragement grants (call them what you may) were the prime reasons for the fuelling of inflation of land values. There were other subsidies which had an effect to a lesser degree. They were:

**D. Fertiliser Subsidies
 Concessional Finance Deals
 Tax Incentives – mainly for development and capital expenditure.**

Over the period we have looked at, namely from 1979 – 84, the input of subsidies had a huge effect on the attitude of investment in farming.

'PRODUCTION' was the catch cry – Capital resource management was not considered as it should have been.

I would now like you to note the parameters of Graph 1.

The figures used for farm sales were obtained from the Valuation Department.

Gross farm incomes were obtained from the Meat and Wool Boards Economic Service and from the MAF Farm Monitoring Service. For the NZ incomes and North Otago incomes respectively based on a \$2,500 SU property.

Points to note on North Otago incomes, are the inconsistency as compared with the National Average.

The only years this area's income exceeded the National Average was in 1981 – 82 and 1984 – 85. On both these occasions the preceding autumns and springs i.e. 1981 – 1984, were exceptional climatically.

These favourable climatic conditions produced above average lambing percentages and the opportunity to fatten lambs to good weights.

The most graphic contrasts of income came in the years of drought.

1982 – 83 was the start of the drought.

1983–89

In only 3 years out of 7 did North Otago farmers make a profit. This profit combined to \$17,446.

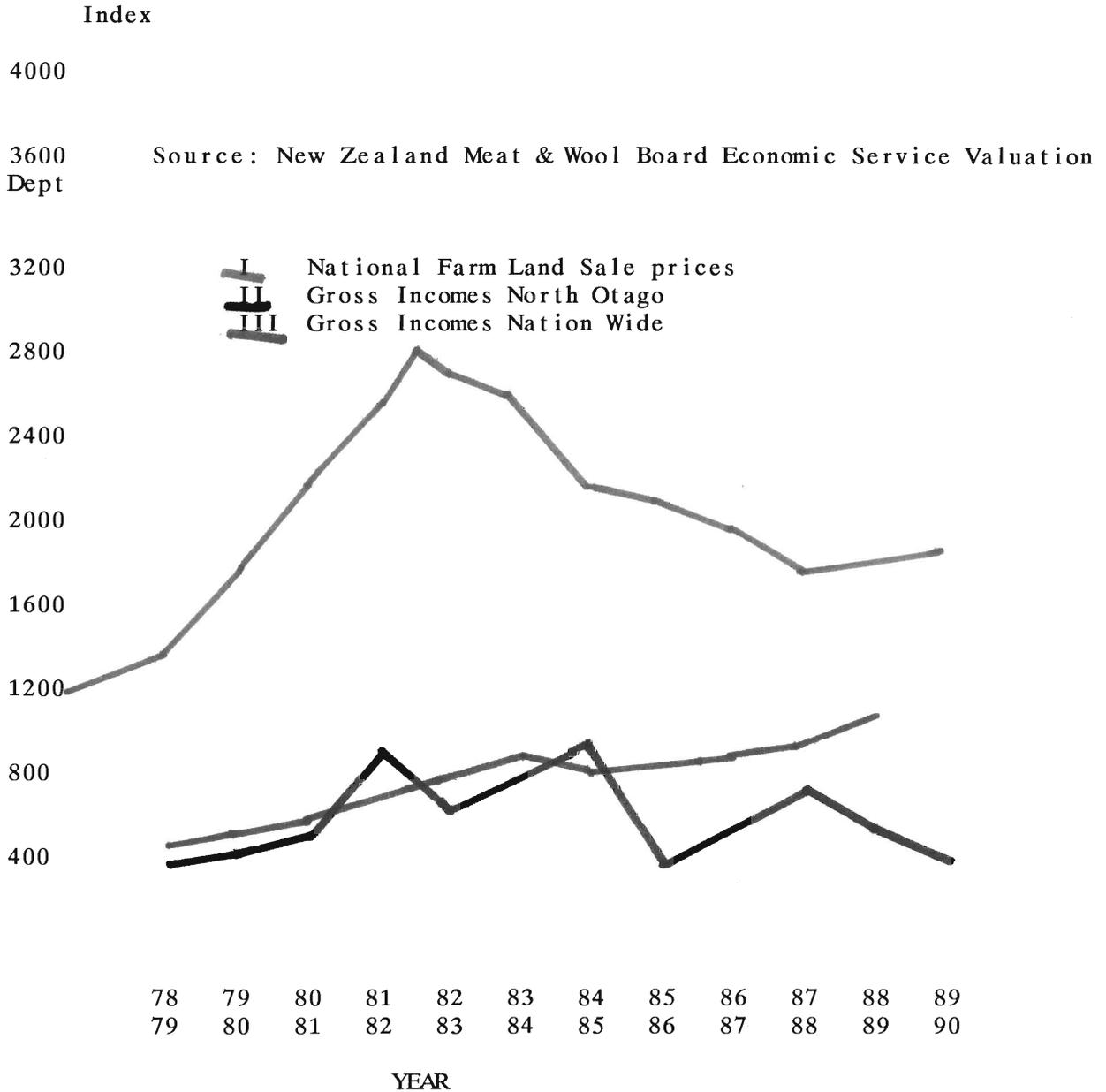
While the accumulated loss over that same 7 years was:

\$82,407 This amounted to a net accumulated debt of
 \$64,961 which equates to just on \$26 per SU for the average downland farm.

When we consider these facts along with the asteric on the falling of property values you can see how many farmers are in a very precarious position.

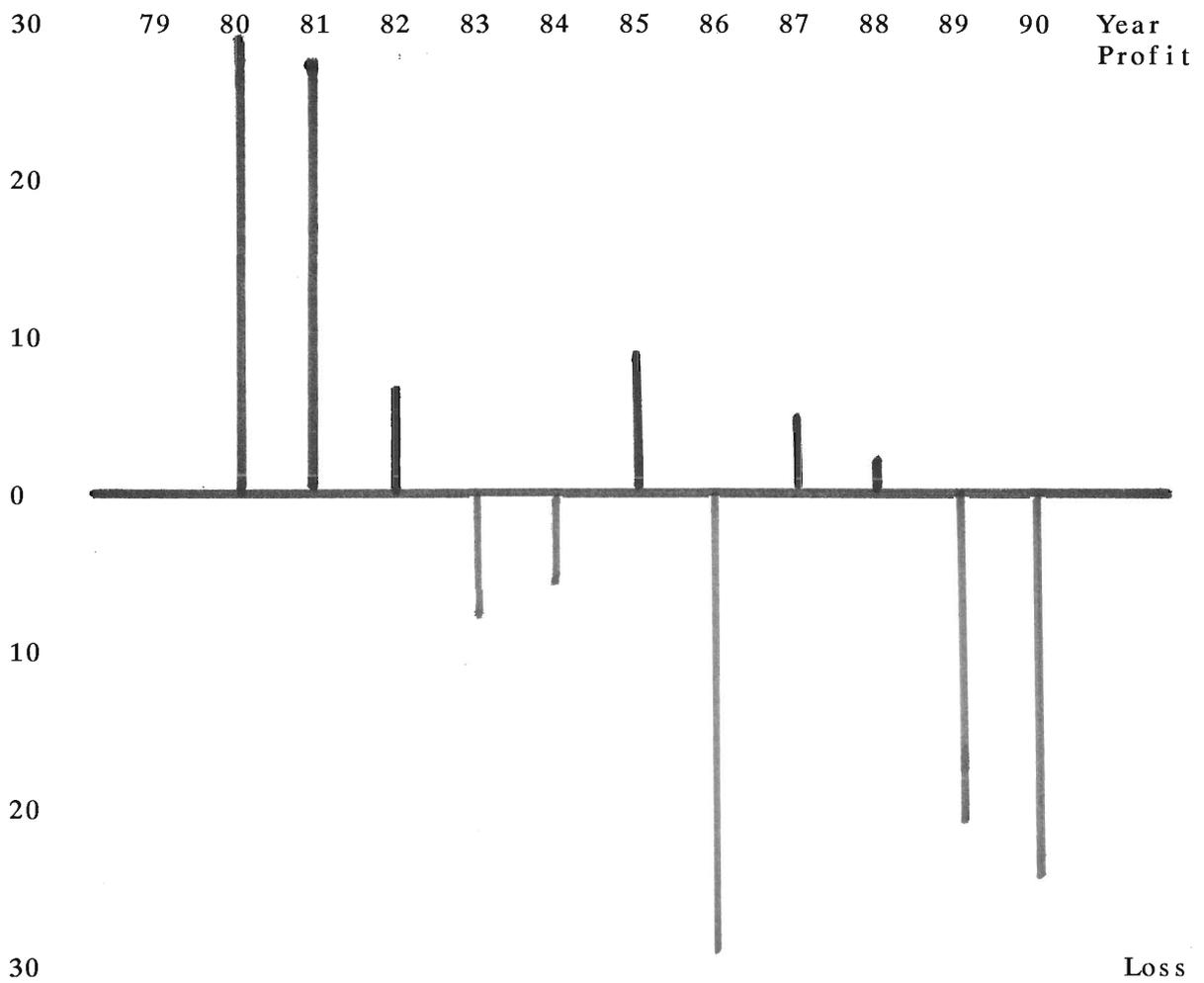
NATIONAL, NORTH OTAGO GROSS INCOMES AND FARM PRICES

(Money terms x 1000 land prices
x 100 Incomes)



\$1,000 x

Projected



The rise in property values from 1979 - 1982 were quite astronomical. Most leading farm economists now consider the value of property to be twice its gross income.

Over this period land values averaged 3.5 times and the peak period they were 4.7 times the actual income produced that year.

If you consider the position of anyone who traded in land in that 1980 - 82 period who borrowed heavily, the scenario for these farmers is very bleak indeed.

In a recent report commissioned by the Rural Bank, Ray Chappel, former manager, has stated:

"Thirty six percent of farms carrying above 1,500 stock units have debt servicing of interest and rent that exceeds thirty six percent of gross farm income."

Twenty five percent is considered the maximum for debt servicing.

This level of debt servicing is only possible if the property is not being maintained, one or both owners have off farm work, family income is being supplemented through Social Welfare, assets are being sold, or there is a combination of the above. The above group are at risk of having to exit their farms unless there is a substantial improvement in gross farm income at the gate or a substantial reduction of interest and rent payments. Independent farm consultants confirm these observations.

Later on in the report he says, from a total of 375 surveyed, 18% of farmers had no equity left in their properties and a further 1/3 had below 20%.

The position I have outlined to you is a combination of Mr R Chappel's report and the MAF Farm Monitoring report over an average of farms. The position of many farmers in that 36% is of debt loading of astronomical proportions.

Up until now it has been emphasized, the present high level of debt over a large proportion of farmers in this area. This debt has been brought about by several reasons (not in order of importance).

1. Investment in farms with an overvalued capital base.
2. Expectations of continued subsidised level of product price support.
3. Production subsidies encouraging over exposure to debt.

4. Totally over inflated land prices which continued for 3 years.
5. Capital investment for capital gains.
6. Hard core debts accrued by droughts from 1982 - 1989.

All of these reasons have had a very debilitating effect on farming in North Otago.

Perhaps reason No 6. is the most graphic. It is my opinion that droughts are only a symptom of the problem. The over riding cause is CAPITAL DEBT. Droughts have aggravated the debt situation but I personally know many farmers who had very little debt before the 1982 drought, who have weathered the storm of dry years relatively unscathed financially.

I cannot emphasize this point enough, that it is not the droughts in themselves that caused the problem, but the continued accumulation of capital debt on top of previous debt which has caused the perilous situation of many families.

In 1984 a major change in direction in New Zealand was initiated by the newly elected Labour Government. I do not want to dwell at any great length on this fact, suffice to say that a large proportion of farmers, deep down, realised that a lot of decisions and change in direction had to be made at some stage.

The most infuriating fact of the whole debacle is that the Rural Restructuring went ahead with blind faith that other sectors of the economy would be treated likewise, as promised. Due to the failure of Government not to carry through its stated manifesto, very many farmers have had to suffer unduly.

Some of the main reforms left too late are:

- Reform of the labour market.
- Restructuring of the meat industry.
- Control of inflation.
- Control of fiscal spending.
- Retention of tariffs.
- Encouraging the formation of companies formed on the basis of very creative accounting practices.

- Total disrespect of any exporter.

And many more.

As events have come to pass, so too, has the realisation of Government that New Zealand is not about to become the 'Geneva; of the Southern Hemisphere, instead that we are firmly reliant on the export receipts of our primary based industries.

The huge run down of capital reserve of our farming industry will take some time to recover, but at least the realisation and respect of Rural New Zealand has come about, a pity there had to be so much unnecessary pain.

Another very damaging factor involved was, and still is, the huge upward movement in interest rates.

In Graph 3. can be seen that in 1979 the current overdraft interest rate was 10%.

In 1985 17%.

In 1986 it JUMPED to 23.5%.

these movements were to put added pressure on those farmers who were most vulnerable. May I add, that a lot of interest charged was not actually paid, rather, accumulated as hard core debt on a seasonal basis.

This accrual of interest in the form of hard core debt was a major oversight by most creditors.

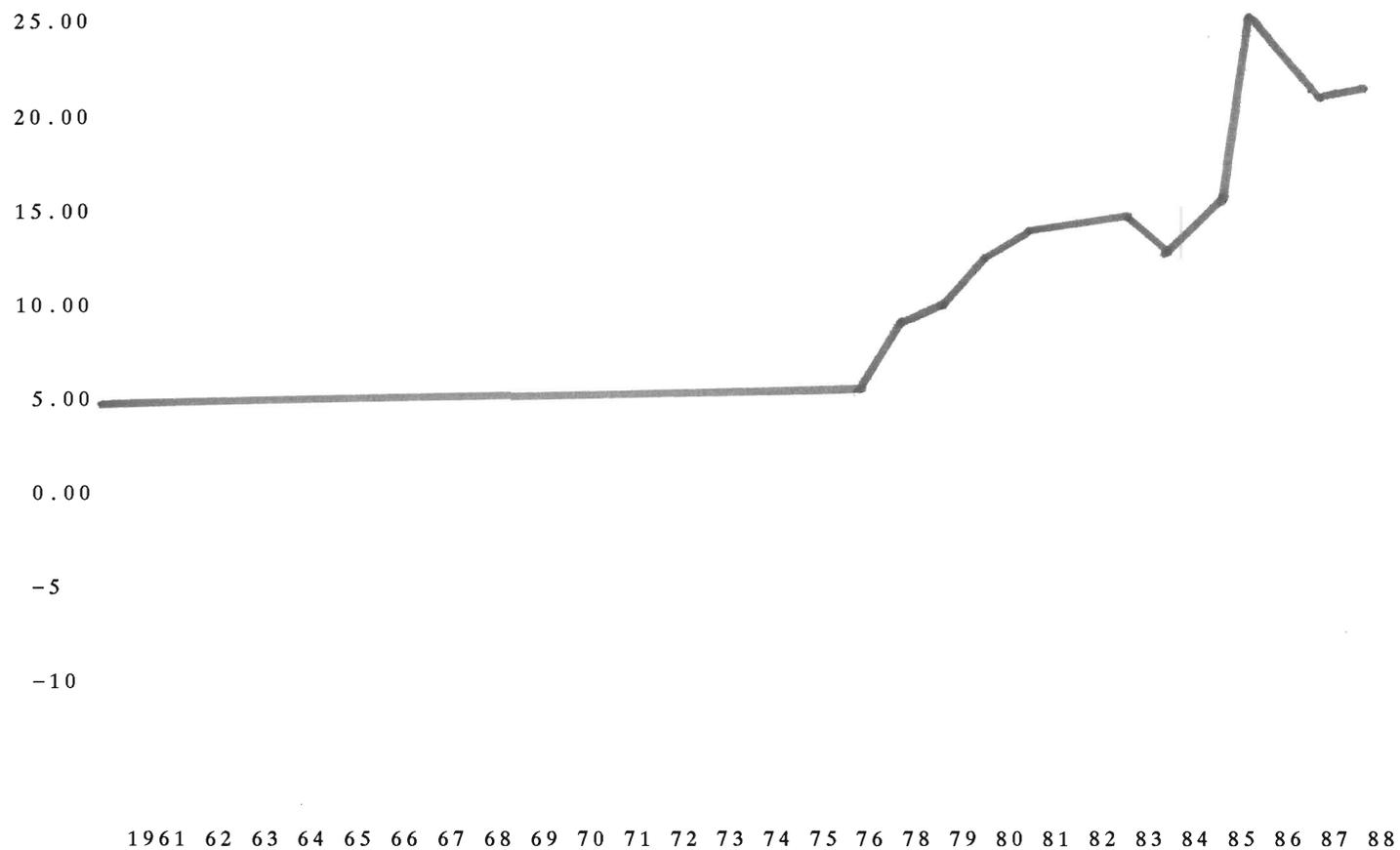
In several cases, their desire to obtain maximum commercial rates of returns has, in hindsight, put the capital invested by them in severe jeopardy and often unable to be retrieved. The situation faced by many creditors is a huge capital loss through sale of the farm.

I would now like to outline some of the remedies creditors have used over the period to assist farmers in securing their future. There has been several assistance packages, may I say that the farmers that were over-exposed in 1979 - 1982 are still, even with all the rescue schemes, mostly the people who are in that 36% at risk of losing their farms.

1982 - 1983 Natural Disaster Relief Loans:

These loans were to cover losses accrued by drought. Some loans had a suspense of interest to be determined on a case by case basis.

OVERDRAFT INTEREST RATES PERCENTAGE



Source - NZ Meat & Woolboard Economic Service
Department of Statistics
Reserve Bank

1985 - 1986 Drought Suspensory Loans:

For an area to qualify, certain qualifications had to be met -

Area defined had to be declared a disaster area.

Disaster area is a subjective measurement made by MAF along certain guide lines, for drought these are:

ONE in twenty year occurrence.

Defining number of days deficient, summer or winter, of lack of rain.

This period to be 3 months or longer.

In most cases of the loans being uplifted, Rural Bank demanded security over stock. This obligation was difficult to fulfil by some of the most, current account, indebted farmers. This proved to be the last straw for some farmers due to the spread of securities.

Interest on the first two years of the loan up to \$5,000 to be put in suspense account for write off. After five years, providing the farm is not sold in the meantime.

The above provision has added to in November 1988 suspensory loans to 1st July 1990.

In essence, a loan taken up in 1986 will have no interest paid on until 1 July 1990.

Approximately 80 farmers in North Otago took up this loan.

In 1986 the plight of many farmers, nation wide was beginning to become critical mainly due to:

- (a) Poor product prices.
- (b) Increase in interest rates.
- (c) Fall of Capital values.

Government realized, unless there was something done, many farmers, nationally, would be forced to exit the industry. In 1986 Government announced two schemes to put equity back into farm properties, there were:

- 1 Rural Bank Discount Scheme.
- 2 Conditional Seasonal Finance Scheme.

The Rural Bank Discount Scheme was for farmers with rural Bank Portfolio, who were in financial difficulty and were unable to meet all their debt servicing obligations. One of the major conditions of the loan were that all other creditors had to reach a binding agreement with the farmer to restructure the debt to a point where the property was a viable business again. Through discounting equity in the farm improved and so triggered favourable conditions to raise seasonal finance.

Discounting of loans is a process in which the amount owing on Rural Bank loan is reduced by an amount that depends on the number of years which the loan still has to run and the rate of interest payable on that loan. As part of this discount process the concessional rate of interest is increased to the Rural Bank's current commercial rate of 17.5 percent.

This means, a farmer who elects to take advantage of this offer will have increased equity, will pay commercial interest rates but will maintain the same level of annual payments. To resolve problems such as inability to meet debt repayments and/or to raise seasonal finance. Other creditors had to take their part in the process of returning the farm to viability. This part of the package, often was the most difficult to come to any agreement on.

All parties were bound to any agreement for three years.

Many farmers benefited from this scheme, but because of the severe drought in 1987 any advantage gained by the discount scheme were lost to most North Otago farmers, meaning that, although equity improved for the 1986 season with the drop of income in 1987 plus the falling of land values much of the advantages of the Rural Bank discount scheme were negated.

In fact I would go as far as to say that any farmer who was not eligible to take advantage of the scheme, due to indebtedness was inevitably going to have to exit the industry and that MOST, who did take up the offer are in a very precarious position at the present indeed.

Most of the people who took up Drought Suspensory Loans in 1985 also were involved in the discount scheme, giving credence to my belief that farmers in trouble in 1984-85 are still in financial trouble in 1989.

The second part of the package announced in 1986 was Conditional Seasonal Finance Scheme. This section of the package was aimed at the farmers who were having trouble with seasonal finance but the Rural Bank was not a major creditor.

Main points of the scheme were:

50 percent of the risk of lending seasonal finance will be borne by the Rural Bank and 50 percent by other creditors of which at least 20 percent must be borne by seasonal financiers.

The guarantee will be to repay seasonal finance advanced for the 1986-87 season.

The farmer and his creditors will have had to conduct a meeting with view to restructure the capital debt.

The amount paid out by the rural Bank will become a loan to farmers at commercial interest rates, repayable on a term appropriate to the borrowers circumstances.

This section of the scheme was administered quite successfully mainly due to the fact that those farmers eligible did not have any great inherent capital debt problems.

I have mentioned earlier, many of the financial advantages of the discount scheme were quickly lost through the severe drought of 1987. With the corresponding loss of income and the value of their properties.

As this drought position deepened more advances were made to government for help to restructure debt. Before government was to make any commitment, they first commissioned a report by Ray Chappel, recently retired Manager of the Rural Bank.

This rather lengthy report of some 57 pages, surveyed 375 North Otago farms, only to find out the unenviable position a large proportion of businesses were in. All farmers surveyed were Rural Bank clients. Total farms in area is 540, so 69 percent were surveyed.

I have noted figures from the survey, throughout this paper but will highlight some other points now.

Average equity over all farms surveyed 35 percent.

Scale is no measure of indebtedness, in fact, the most heavily indebted farmers have 3,500 to 4,000 SU (\$105 per SU) due to amalgamation in late 1970's to early 1980's.

31 percent of sheep farms have equity of 20 percent or less. Of 22 cash cropping farms, average equity is four percent. Advocated form of compulsory receivership to help solve the districts problems.

The report was commissioned in October of 1988 and presented in January 1989.

In the intervening period over 1987-88 I consider was the most severe time for farming families to cope, both financially and emotionally. Most Bankers, although sympathetic to clients predicament were beginning to take a harder line on debt repayments. Several farmers were again restructured but many were left in limbo which perhaps was most stressful.

It was over this time that the first forced sales started taking place.

A change in attitude from creditors towards loss of capital began to emerge. Previous to this it was a widely held belief by many farmers that Bankers would not move to realize an asset, while in doing so loosing huge amounts of capital. That belief was to be proven wrong. Several farm sales were made with very large capital losses incurred by creditors.

It was over this time also, that a lot of controversy was taking place between different creditors involved in the same farm as to the specific securities covering each ones advances. In many cases, it was not the institution holding first mortgage over the property that called it's capital up. These lower ranked security holdings inevitably lost much more than the institution which had a better instrument.

Much soul searching was taking place by individual farmers and several different approaches were taken by different lending institutions too, as they began to nudge insolvent farmers into sale, rather than having to go through with the unsavory task of a force sale.

Because of the huge amounts of stress involved with families at that time, I have chosen to outline most of the different approaches taken in the social aspect of this paper.

Drought

North Otago has traditionally been a reasonably dry area and most who farm there accept that at some time in the year there will be a period without rain - mostly over the summer months. Lack of rain in the spring or autumn severely affects production levels either in that year (spring dry) or the ensuing year (autumn dry).

It is when there is an accumulation of both a spring dry period and an autumn dry period that the situation gets very severe indeed.

Referring to graph of an Accumulative Rainfall comparisons taken at Duntroon, which is in the heart of downland North Otago, we can see that in 1982, 1985 and 1988 the total rainfalls are well below the normal taken from 1951 to 1988.

Of far more importance, I think, is when in each year it was dry for a long time and there has been very little rain in the months of May to September/October and in the 1985 and 1988 years very little from February to May.

Without sufficient rain in the spring the production base for the year is not set up adequately, lactating stock are put under pressure and storage crops, that is, hay/silage are not able to be shut up.

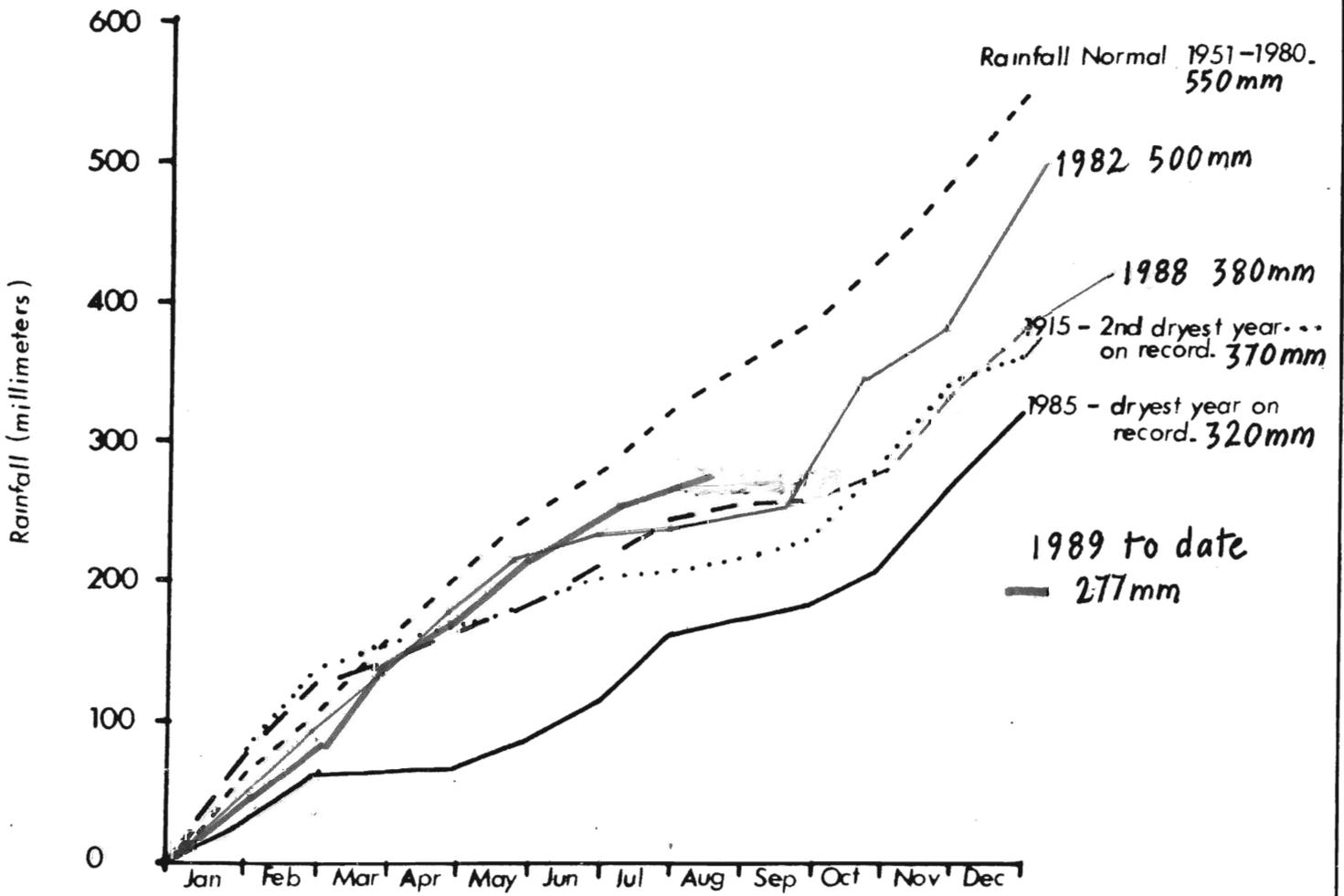
If a dry spring is followed by a poor autumn, the situation becomes chronic - destocking, by sale or off-farm grazing has to take place, when stock become emancipated.

One comment I would like to make at this point is the gratitude North Otago farmers have of their counterparts in neighbouring provinces - mostly Southland - without their help in off-farm grazing and supply of supplementary feeds, a lot more capital stock would have had to be slaughtered.

Probably the most significant point to be taken out of graph 4 is the regularity of the dry years since 1982.

This continuing trend of dryness perhaps gives credence to the prediction of the scientists of the increasing influence of the "greenhouse effect". A continuation of this trend will have graphic ramifications on changes in land use in downland North Otago.

Accumulated Rainfall Comparison Duntroon - 1914 to 1987



Physical

Before moving onto the social implications I would like to outline some of the advances in research done in order to alleviate the problem of prolonged dry periods, on the physical structure of the land.

The most obvious way to solve a drought is to irrigate.

Irrigation has long been an intricate part of farming life in North Otago. In the mid to late 1980's the lower Waitaki Irrigation Scheme was developed.

This scheme covers several thousand hectares of the Waitaki plain with predominantly border dyked irrigation systems.

It has proven to be very beneficial capital expansion to North Otago and New Zealand as a whole. Many farmers contracted to undertake this scheme, unfortunately have found themselves chasing their tails, to coin a phrase, in the debt production syndrome faced by businesses when capital is borrowed to increase production.

A very similar scene compares in the upper Waitaki Plan which starts below Kurow and runs to Georgetown. The main difference in this scheme is that there are very few totally irrigated farms. Because of this the effect of capital debt incurred by irrigation forced an increase in stock numbers. Under severe drought conditions, stock from the dryland section of these farms were forced onto irrigated pastures causing unsustainable overstocking. Many of these farmers were forced to off-farm graze stock in the droughts incurring similar debt problems that solely dryland farmers faced.

There are several small community irrigation schemes operating well in North Otago. These have been in use for several years and are beneficial unless their water source is affected by prolonged drought.

A number of dryland farmers have carried out underground drilling in order to quench their parched soils. Most have been reasonably successful but the capital cost and corresponding change in land use presents its problems.

An underground water survey was undertaken principally in the Waireka Valley of down land North Otago to establish what quality and quantity of water was available for irrigation.

This survey was commissioned because of the fear that indiscriminate drilling by farmers for water would exhaust supplies available and to determine the potential capacity of the source.

The cost of the survey was between 70-80 thousand dollars, shared between the Otago Catchment Board, Waitaki County Council and Waitaki Electric Power Board. Although there was a fair percentage of criticism of the investigation I think for future reference this natural source will have benefits.

Of irrigation, I would like to say that although a lot of financial strain has been put on individual farmers, the investment must have a sound future.

The other spearhead of advancement in physical drought strategies has come from the Waitaki Catchment Commission and Otago Catchment Board. The early 1970's saw an advancement into subsidised tree breaks for shelter. Subsidies being available only for shelter which broke the flow of northwesterly winds. Fencing had to be of a high standard and trees of certain species were to be planted. This subsidy carried on into the mid 1980's when some changes were made. Catchment authorities recognised the damage southerly winds caused on land erosion and so expanded the scheme to include these winds.

Although many farm plans were entered into for shelter belts, most were shelved because of the unavailability of cash to be put in by farmers.

The catastrophic effect of the big wind in 18 August 1985 on the farmland of the Haka Valley crystalized a number of farmers into a group which was later to be called The Kurow/Hakataramea Resource Conservation Committee.

The lessons nature demonstrated that day in August were so comprehensively compelling that the traditional practices of land use in the area were unavoidably called to question.

Clearly and undeniably they were unsustainable and change was inevitable.

Within 14 days of that historic wind blow the resource committee was up and running. The most immediate issue was a massive stock shift. Next priority was the re-establishment of pasture and in conjunction with the Waitaki Catchment Commission the Pasture Re-establishment Scheme was developed carrying a 50 percent government subsidy on all re-establishment costs was negotiated.

Only approved drought tolerant species were to be used and either direct drilling following round-up application or conservation tillage methods were acceptable for pasture establishment.

Some of the species that have found favour in this very dry area are:

Wanna Cocksfoot
 Lucerne
 S 170 tall fescue
 Prairie grass
 Sheeps Burnett
 Empire Lotus
 Pawera Red Clover
 Drought Master, Ryegrass

There has also been plantings of forage shrubs, salt bushes etc.

~~The committee is still in vogue and very active and has established itself as one of the leading edges of dryland conservation management in the area.~~

Several farmers outside the Haka-Kurow area are experimenting with more drought tolerant species.

Experimentation is not always easy, nor rewarding. I do think that we have perhaps overlooked some of the species that have been around for a long time, namely in cocksfoot and lucerne. Time and experimentation will determine the most profitable choice.

One of the most debilitating factors of any grassland establishment and longevity is over grazing. Because of a farmers debt ratio higher than acceptable stocking rates were entered into. When dry spells occurred these above traditional stock numbers caused over grazing and pasture depletion. This in turn brings us back to the old round about of capital debt - overstocking - regrassing.

My observation is that farmers that could pay their way with conservative stocking rates always had less pasture damage due to over grazing than heavily indebted farmers and so less re-establishment costs post drought.

Social Factors

North Otago rural communities have over their history been fairly close knit, conservative, stable and inherent based.

By far the most land transactions that have taken place are family transactions or amalgamations to family farms. Because of family based farming systems the rural communities are very united. Service organisations are very well supported and I think if this support or participation of organisations was not part of the way of life for most people rural stress and its associated problems would have manifested itself more over the period I speak of.

After going through a semi-forced sale - new start grant situation and being involved deeply in clubs, community support groups and Federated Farmers, I would like to say that stress is one of the hardest things to measure and that although it is very prevalent it manifests itself in many different ways. Because the basic fabric of society in downland North Otago is formed on the family farm.

I would like to point out some of the changes within families which have occurred in the last ten years. To do this I will highlight the time spans of change within the decade.

1979 To 1982

From 1979 to 1982 most families were living quite confidently within their situation. Normality was the order of the day - children at day or boarding school of choice. Sons who wanted a future on the land came home and daughters furthered their education relatively easy. Confidence was high due mostly to large equities and reasonable incomes - reinvestment was carrying on at a normal rate, community participation was good although not at the highest level. It is my opinion that during this time people became more complacent towards effective leadership within farming organisations and have been disadvantaged at later dates because of it. Very few social problems were evident over these years.

1982

In 1982 the drought caused a drawing together of communities. People who had traded in land recently began to feel the consequences of their debt exposure - some wives began to consider off-farm employment.

Families effected financially by the drought began to economise, mostly through omission of luxury items from personal spending. For a portion of farmers who had increased their land holdings from 1979 - 82 this was the first time they had been involved in a current account hardcore debt situation which was a very stressful realisation.

I consider that it was around this time that most rural women became far more involved in the physical and financial running of family farms. Up until then many women were not aware of the financial situation of their business and through the lay-off of labour units in order to economise, the supportive role of wives played a much greater part in the farming scene. This role was to increase greatly over the time and in some cases to become the only real reasoned partner in the marriage.

1983

1983 was a year of consolidation after the previous drought. Renewed confidence was abundant mostly due to the above average rainfall causing an exceptional growing season.

It was my observation that stress levels increased far more when stock are under times of severe feed shortages. Farmers, because of what they are, hate to see stock suffering from malnutrition. Financial stress seems to follow but all farmers are physically affected by drought not all face serious financial consequences during these times.

1984

1984 saw a major change of attitude by the National Government in that development subsidy schemes were to be phased out along with SMP's.

In November 1984 an event which was to control many farm families futures occurred. That was the incoming of a new Labour Government.

Some serious changes of direction were implemented and, although doubts about those changes and how they were to affect the future of many families, generally people carried on in a reasonable stable situation and confidence seemed to be increasing but that shadow of debt exposure was ever present over many families which inhibited a lot of previously normal activities, that is, holidays, sport and leisure.

1985

In 1985 came the most severe drought North Otago has ever faced. The shattering of confidence had to be experienced to be appreciated. While the rest of New Zealand agriculture was enjoying very favourable product prices, the prolonged and severe dry spell robbed North Otago farmers of that advantage. Just when confidence was beginning to return, flocks being rebuilt, pasture rejuvenated, were people plunged into the stressful situation of seeing all the extra work and saving of the last two years blown away by the eternal norwesters.

As the season progressed appeals were made to Government for assistance the then Minister of Agriculture, Colin Moyle, visited and promised some sort of

package. Farm assessments were available, free of charge through MAF. It was around this time that many people realised they were in a position which was going to be very difficult to recover from. Although almost all knew their position very few were able to come forward and discuss it openly with creditors and advisors some refused to even consult with their wives. At this stage stress levels increased enormously.

My observation is that stress manifests in many ways but a general observation is that any behaviour which is abnormal for that person usually denotes a reasonably high level of stress. Another is that once one has recognised his position and able to go for advice, however bad it may be, emotional pressure seems to dissipate. Those who did not take this course of action became increasingly irrational. Due to the need to economise all surplus labour units were shed. This involved sending sons, single men and married couples to alternative employment. A number of sons went shearing or found employment in Australia. In fact in one week no less than 18 rural youth workers flew out to work in Australia. This exodus of young farm workers put increased loads on those left to carry on seasonal farm activities including wives, many of whom, later found off-farm employment which left the farmer alone to carry on all farm duties.

The fact that he worked alone and had to do more physical work plus he shouldered the worry of drought and debt. Some may have gone down hill emotionally.

Community activities were beginning to feel the pressure of less members especially in clubs with younger members and due to people withdrawing into themselves, active participation was not as evident as usual. Apart from this, I think that without community activities and sports clubs the general emotional state of people would have been at a much lower level.

1986

1986 saw what I call a national uprising from rural New Zealand. Through 1985 most farm owners in New Zealand were experiencing a reasonably good year financially and climatically. The voices of discontent from North Otago had fallen on deaf ears in many ways because of it.

This attitude certainly changed in 1986 when commodity prices fell through the floor. In no time has there been such a display of active participation in protest marches, rallies and speeches all over the country. The largest one being in Wellington. It was thought through displays of vented anger the general public and politicians would have sympathy on the pain that rural restructuring was causing. I think, in hindsight, that many of the general public, although not aware of the severity of the situation had little sympathy. Many politicians were "turned off" by the farmers attitude and had the resolve to carry out restructuring strengthened.

By mid 1986 the government realised that unless some measures were taken, a great number of farmers nationally would have to leave the industry and also that many were having difficulty obtaining seasonal finance for the 1986/87 season.

In September the Rural Bank Discount Scheme and conditional seasonal finance schemes were announced. These were nationwide schemes and their implementation alleviated a lot of anxiety for many farming families. One facet of these schemes which many found very stressful was going through a full creditors meeting. These had to be attended by all major creditors as well as the farmer and his wife. It was at these meetings that many farmers and their wives found out, not only their own positions, but also the attitude towards them by their creditors. For many who were able to participate in the scheme a sense of security returned for those who were unable, through their commitments or creditors attitudes, the future looked bleak. I think that during 1986 the great revival of membership occurred within Federated Farmers. A lot of non participating members became very vocal and perhaps "showed up" some of the policies and leaders of past administrations. This renewed interest by many members has not seemed to carry on nor brought many great changes to fruition.

1987

The regular member participation of 1986 carried on into 1987.

A small number of people drew together to form community support groups. These groups were formed to identify people in trouble in the community and channel them to the appropriate qualified agency. Although quite active in many communities they were never supported or used in the way intended on a one to one basis. I think over this period people began to become very withdrawn again after all the protest activity of 1986. Many were disillusioned at the results that their efforts produced in changing the attitudes of political leaders at that time. Because of this many individual people began to take up leadership roles through being approached on a personal basis for advice.

My observation is that there are always leaders in times of stress, often with low profiles but always with a lot of integrity, commonsense and "who-ness". These unsung leaders to me have been the backbone of lateral thinking within communities and should be respected for their input.

I also believe that it has been these types of leaders who have helped solve and prevent problems on a personal basis more than any other recognised group or organisation.

Their main role has been to ease people into the realisation of their actual circumstances, from there, help them through the process of change so they are in a position to control their own destiny.

It was in 1987 that the first real forced sale took place. This heralded a major change of attitude by creditors in that they were prepared to loose capital through a forced sale. Up until this time a lot of farmers in financial trouble held the belief that creditors would not act in such a way. This sale was a very sobering contradiction of that belief.

1988

1988 saw the biggest change in the fabric of society than in any other year. The biggest change was of attitude. People began to consider themselves as individual businessmen rather than farmers on mass. This change, while helped solve individual problems, has not helped community organisations.

The drought which carried on from late 1987 had a crushing effect on morale. People who considered they had a chance of survival could see their equity fall to a negative value. Rural Bank's attitude towards arrears was hardening, probably more so than other bankers. The time for people to finally take stock of their position had arrived. An exit grant of \$20,000 was offered to several clients by Rural Bank in order to encourage sales. Not many people accepted. Creditors were unable to ascertain their position until there had been some sales to establish values. Although there were plenty of buyers the sale prices confirmed fears held by both bankers and farmers for a long time.

As the number of farm sales started to increase in late 1988, service organisations had to address a whole new set of social problems.

Once the realisation that a forced sale was eminent people had not only to go through the process of sale but also to address problems such as - where do we end up - is there a future out there for us - what sort of job will I be capable of. Putting the loss behind them and building their lives and respect up again. The actual process of going through with these decisions and making them work has a huge emotional cost. Unless people retain their ability to think broadly about their future, emotional problems will occur.

To help people through this time the Government formed the New Zealand Rural Trust. This consisted of a Director in Oamaru who was available to help in any way with associated problems.

In October 1988 three measures were announced to help incumbent farmers. They were:

- 1 Adverse Events Family Income Support. This was available to any farmer in financial difficulty due to drought and was not producing income to meet essential family living expenses. This scheme had widespread acceptance and was administered by the Department of Social Welfare, is equivalent to the Unemployment Benefit and is still continuing.

- 2 Farm Appraisals. The purpose of this measure was to allow farmers the choice of an independant farm appraisals to provide decision support information to an incumbent farmer. Particularly with regard to amalgamation and or new start grant opportunities. Government paid the total appraisal price in the package announced in October
- 3 New Start Grant. These were made available to those who had to exit the industry.

The amount of up to \$45,000 is payable to those eligible on receipt of all farm sale settlement documents. If the farmer received from his sale unencumbered capital more than \$45,000 he would not be eligible but any amount below that would be supplemented up to the grant value. Administration is the responsibility of the Rural Trust and payment is made through MAF. This grant ceases in November 1989 but if an application is lodged before that six months grace is given to finalise the farm sale.

To many incumbent farmers these measures have been an assistance to exit the industry but the remaining problems facing these people is what they are going to do with their lives and is the job they end up, if any, going to give them satisfaction. In hindsight most have found gainful employment and have started rebuilding their lives. It is very easy for a politician, banker or lawyer to sit in his office and advise someone to give up what he has inspired to all his life but from experience, if changes are approached with a positive and open mind it is amazing the number of opportunities that are presented. Far more respect is gained by fronting up to the problem, no matter how large than pretending it will go away.

1989

1989 saw a continuation of late 1988 with sales becoming more prevalent. New entrants into farming are just as frequent as amalgamations so community membership has changed quite considerably.

In March 1988 the Government announced a new set of measures aimed at those who intend to stay on the land. They are:

- 1 Farm build up (Technology transfer). This was for farm appraisals which were eligible for Carry On finance. Fifty percent of the appraisal was Government funded up to \$400.00.
- 2 Carry On Finance - aimed at Government Funding interest of credit advances of viable farmers for two years.

Both of these schemes were abandoned mainly because the Carry On Finance Scheme was deemed unworkable. Two new packages were announced in mid 1989.

- 1 Farm Viable Appraisals. These were as before but the amount was increased to \$600.00 for 50 percent of the cost of appraisal.
- 2 Rehabilitation Loan. Works much like a suspensory loan but not based on what the drought has cost but what it will cost to recover, that is, looking forward rather than back.

The loan parameters are:

- (a) \$25 psu to restock or hold back stock to recover.
- (b) \$125 p/hectare to resow approved species.
- (c) \$40 p/hectare fertilizer.
- (d) Maximum amount of loan \$45,000.
- (e) Bank, Rural Bank or stock firm finance loan. Viability to be assessed by them on 1988/89, 1989/90 and 1990/91 forecasts.

Farmers assessed viability is financier's sole responsibility.

- (f) Government pays stock interest rates and one percent for two years. Farmers pay the rest of the interest to rate of loan.

This scheme is not being uptaken by farmers as well as anticipated, mainly because most consider it to be an addition of more debt.

While all the schemes I have outlined over 1988/89 have been implemented a great deal of soul searching and anxiety has been going on within downland North Otago. Many people have sold, some have refinanced, but still there are several who have yet to face up to the reality of their position. One thing that is perhaps clouding that view is the lift in property values.

Unless people get a firm understanding that equity has no bearing on viability and make assessments on viability only, they will be continually plagued by cash flow and hard core debt problems.

In concluding this paper I would like to make some observations. May I firstly say that the symptoms facing North Otago are not totally exclusive to that area. Many East Coast regions have experienced similar fate over this decade. I think ample evidence is available that suggests that North Otago has been affected the greatest.

I firmly believe that people are the controller of their own future, not politicians, bank managers, freezing companies, stock firms or any other business or organisation. It is up to oneself to change the direction of ones life. It is far too easy when things are going bad to blame some other than to take a look at yourself.

Some very large concessions and write offs of capital have been made to many farmers. I think they should be thankful for those concessions and treat them with respect. There are as many selfish farmers around as there are creditors. The bottom line is that the farmer signed the mortgage.

I also consider that many have not yet faced up to the reality of their situation.

Perhaps some of the schemes being presently offered could merit more reasonable consideration.

Amalgamation will take place but for it to be successful the debt gearing has to come down. It is of no use at all if a property is made larger if the debt per stock unit stays the same or increases. A recipe for disaster.

It looks as though the greenhouse effect has influenced changes in weather patterns over the decade. If this is so, a change in land use will have to be considered. Stocking rates will have to be adjusted downward but the value of product will have to be increased.

The social fabric of communities have been severely damaged but I think, given time and profitability, they will slowly return to normal.

I cannot see the return to the numbers of people employed on farms as there was in the 60's and 70's. Communities will be made up of more people of differing cultural and social backgrounds as they move into rural areas.

Finally, this paper has been quite a challenge for me to write. I hope it contains some useful information on the background of events that have changed the direction of my life along with a lot of others.

"The most distant goal is attainable to him who hopes wisely".

Lope de vega.