

THE RELATIONSHIP BETWEEN PRIVATE AND GOVERNMENT AGRICULTURAL SERVICES

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The question which I have been asked to address is: "Will Government cutbacks be adequately offset by increased private activity?" within the context of the overall subject area of the symposium: "The Effects of Agricultural and Veterinary Research, Extension and Regulation on Economic Growth".

This issue is, in fact, quite complex and requires some important initial assumptions in order to provide a framework within which to develop the discussion. Let's assume that in all three service areas - research, extension and regulation - the current level of service provided is equal to or less than optimal in all cases, and that the existing levels of service are being provided efficiently and effectively with no further opportunities for improvement (both brave assumptions). Under these circumstances, cuts in government expenditure will have an impact on service provision and hence on economic growth to the extent that private resources do not substitute for government resources, assuming that the net return to private resources diverted in this direction is greater than in alternate uses. Each service area may differ with respect to the potential for substitution by private resources. Theoretically, the level of resources (public and private) applied to each service area should be such as to provide equi-marginal returns to economic growth.

We are not concerned whether the service is actually performed by the government or private sectors as such, but rather who is paying for it. Thus, the employment or otherwise of private vets in the BTB Eradication Program is not really the issue, the funding resources are all coming from the public sector.

Substitution of private resources for government in the provision of services can be encouraged in two main ways: by charging for government services; or by government withdrawing from providing certain services, leaving the market to determine the extent of substitution by private resources.

With regard to rural research, there are a number of arguments as to why government resources should be involved. First, the fact that the researcher in many cases is unable to capture the full benefits, thus leading to a socially sub-optimal level of research. Second, for many forms of research there are benefits external to the particular industry concerned. Third, government assistance for research is seen as a way of assisting low cost rural industries adjust to competitive pressures. We are all aware of the new Rural Industries Research Act 1985 and the increase in the level of matching funds by the Commonwealth Government to a maximum of 0.5 per cent of gross value of production. Farmers in most industries are supporting increases in the research levies emphasising the importance they place on research. In some cases, they are raising levies outside the matching fund arrangements. It is clear also that farmers are seeking a greater influence in the direction of research, which implies to some extent that they have not been entirely satisfied with the performance of government research. Substantial research funding comes from state governments directly and it is this source which is being reduced. Research supported by Rural Industry Research Funds and carried out by government agencies is, in effect, a form of contract research. Contract research, fully funded by the private sector, is also increasing.

Research by the private sector has naturally related to those areas (agricultural and veterinary chemicals, etc) where the benefits can be substantially captured. The possible introduction of plant variety rights and the extension of property rights into the biotechnology and computer technology (software)

fields may lead to an increase in private sector research overall. However, one cannot see the private sector significantly substituting for the public sector in applied/management orientated research which has the most significant direct impact at the farm level. Whilst this may be important in the longer term, in the short to medium term some reduction in research activity may not have a significant impact on economic growth. This is based on the conclusion that management is the main limiting factor to economic growth, other things being equal, rather than the lack of research information.

The balances of agricultural services are encompassed within extension and regulation covering such activities as information provision and transfer, technical and management advice, diagnostic and analytical services, and regulatory services. Some of these services are related to specific welfare or social objectives of governments. For instance, services provided to farmers affected by drought or bushfires to minimise personal hardship, or services provided through the Rural Adjustment Scheme to facilitate adjustment.

Some specific advisory/regulatory services associated with resource protection - for example, salinity mitigation, soil conservation, animal health programs (eg BTB eradication) - also have a wider social dimension.

It seems likely that government will continue to provide resources into these activities and there would be little or no incentive for resource substitution by the private sector.

Regulatory services take two main forms: resource protection, which largely can be considered of public benefit; and marketing regulation. There are opportunities for withdrawal from some resource protection areas where advances in management and control techniques have occurred. However, with the increasing community interest in environmental and animal welfare issues, it is likely that the total government resources being applied to these areas will remain constant or even increase. Apart from the questionable need for some of the marketing regulation, it could be argued that it should be paid for by the industry. It is interesting to note the increasing interest by industry in reducing

regulation, when government extracts a charge, eg export inspection.

With regard to information provision and transfer, technical and management advice, and diagnostic and analytical services, there are more substantial benefits accruing to individuals. Whilst the provision of general information has features of a public good, the provision of technical and management advice to individuals has a high private benefit, as has diagnostic and analytical services. Government laboratories are increasingly charging and providing the rates are "commercial" then the appropriate balance between private and government sector will develop.

The existence of government research and extension services has provided a significant information resource into which farmers, agribusiness, consultants, etc can tap. If this information resource was significantly reduced, then the capacity for the private sector to substitute for government services would be impaired. Nevertheless, some substitution by the private sector is already occurring through computer services such as videotex and private information bureaux.

The likely extent of private sector substitution for technical and management advisory services is probably the most interesting question. The veterinary profession has substantially sorted out the forms of service to be provided by the public and private sectors, within a registered and regulated professional framework. This is not the case for agricultural advice, hence we have a much more flexible and uncertain scene. As a general statement, the range of services provided by private consultants differ from those provided by government services. They are clearly not perfect substitutes. In fact, the existence of a complementary relationship has been generally accepted, certainly by consultants, if not entirely by government officers. Services provided by farm management consultants cover a wider management approach on an intensive and continuing basis. The only real exception in Australia is the service provided by the Farm Business Advisers of the Tasmanian Department of Agriculture, for which a fee is charged. However, we should also recognise the apparently increasing numbers of specialised

consultants which may be a reflection of a more direct substitution, eg private crop protection consultants, lucerne seed production consultants. To some extent, these may also be substituting for some private company services. Interestingly, Southcomb(1) identified a synergistic relationship between private and government services, pointing out that farmers joining farm management clubs actually increased their contact with the Department of Agriculture.

Charging for service was introduced in the Tasmanian Department of Agriculture in 1987 without any preliminary preparation or marketing of any significance. It was badly received by farmers, and caused serious morale problems in the department. It became clear that farmers, by and large, were not prepared to pay for the general type of service which had traditionally been provided by the department. Many staff have not yet adjusted to the new environment, and may never adjust. Some specific packages or types of service have been developed, and some farmers are prepared to pay a fee. Overall, charging for services has not been successful and to date has contributed very little by way of revenue. Farmer contact has been reduced significantly. There has been some substitution by the private sector, with more technical staff being employed by commercial firms, and some increase in the use of private consultants. In general, I consider this strategy of charging by government services is feasible provided it is introduced in a planned way, related to specific service packages seen to be relevant by the farming community, and is marketed effectively.

The study by Patterson(2) indicates that farmers may consider employing a consultant if specific technical advice is not readily obtainable, or for broader advice based on whole farm appraisal. He did not find that cost was a deterrent factor for employing consultants but, more importantly, farmers' resistance to seeking advice from so-called experts. This can apply equally to use of government services. He also found that farmers who have used consultants tend to have larger farms and to take a more business like approach, including

making greater effort to minimise taxation and death duties, etc.

Thompson(3) surveyed Tasmanian farmers some two years after the introduction of the fee charging extension services. His study showed that farmers are prepared to pay some of the costs associated with receiving information provided it relates to their specific situations. It is essential to make it clear whether the charge is for the information itself or to recover costs associated with the transmission and interpretation of the information in relation to the specific situation. In contrast to the results obtained by Patterson, Thompson found that there was no significant relationship between property area managed and attitudes to fee for service. He considered that it was possible for a government extension service to provide a balance of services, both free and for which a charge is levied. However, it could be argued that a government extension service which develops specific chargeable service packages is, in fact, utilising scarce resources in direct competition with the private sector. Unless the revenue received at least fully covers the total costs, then providing these chargeable services may result in a less than desirable level of resources being applied to services of wider public benefit. Under certain circumstances, however, it may be useful for the Government sources to undertake the initial development of a service *p* package and then transfer the service or appropriate elements of it to the private sector, eg Irrigated Crop Management Service in the Riverland in South Australia.

The other approach by government is to withdraw completely from providing individual services of an intensive and specific nature, and concentrate on more general services incorporating planned extension programs and maximum use of media and group techniques. A sufficient level of farm visits can be maintained to provide essential farm level contact. After all, one of the important tasks of government extension officers is to provide a flow of information back to government and agribusiness contributing to the pool of information on which important policy or commercial decisions are based.

In practice, it is likely that a mix of these approaches will develop. For certain

specific technical services, such as plant and soil analysis, a full charging policy will be applied. Some advisory service packages will be provided by government on a charge basis. Depending to some extent on future government policy, some of these packages will be transferred to the private sector. Government will withdraw from providing other individual services, particularly those of an intensive and continuing nature, and concentrate on a wider educational and information transfer role, and on providing resources for services of a wider social benefit.

References

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2. Patterson, Robert A. (1978), 'The Role of Agricultural Consultants in Rural Industry', Agricultural Extension Section, School of Agriculture and Forestry, University of Melbourne.
3. Thompson, Robin P. (1985), 'Some Effects of Fees for Service on Agricultural Extension', Unpublished Master's Thesis, University of Melbourne.