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EXPERIENCE OF DEBT ADJUSTMENT IN CZECHOSLOVAKIA

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IN Czechoslovakia the amendment of debts has been followed with great interest by the general public, but most especially by the farming population. The hopes cherished by many debtors with regard to this problem were often premature and exaggerated. But the fears voiced by the numerous savers concerning the security of their investments were also unwarranted. It is therefore no wonder that, in this atmosphere of extraordinary hopes on the one side and doubts and concern on the other, a long time was occupied by debates and discussions on amendment of debts. Amendment of debts in Czechoslovakia endeavoured to maintain the principles of decency, justice, and due respect both to debtor and creditor.

Since the year 1929 the incomes of farmers, of the State, and of the municipalities, as well as of the industries, have dropped by about 30-40 per cent. in general, without an equivalent decrease of public or private liabilities. This decrease in the profitableness of all types of production signifies that the income of private business has declined, i.e. also income from savings and capital. The problem was that this decline should be equal to the drop in other forms of income, that is to say, neither less nor greater than the decline of income from other sources. This could only be attained by a general legal regulation and not by private or individual agreements which would have led to unjust results. It was the object of the measures introduced by the Czechoslovakian State for the amendment of agricultural debts to prevent such injustice and to find an equitable solution both for debtor and creditor.

There are no exact statistics concerning the indebtedness of Czechoslovakian agriculture, but the representative investigations carried out by the Agricultural Institute of Accounting and Farm Management of the Czechoslovakian Republic (Director Dr. Vlad. Brdlik) give valuable information.

In 1931 this institute carried out over the whole country a largescale sample survey by means of questionnaires concerning production and returns of farms in Czechoslovakia. Besides many other

¹ A summary of the paper was read at the Conference by Dr. F. Windirsch, Agricultural Council, Prague.

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questions in the systematic investigation of the surveyed farms, the indebtedness of the business was determined. The survey covered a total of 3,040 farms.

As agricultural debts grew to be an urgent problem, the indebtedness of farms was again ascertained by the Institute by means of a special questionnaire in 1935. This investigation covered 2,894 farms all told.

In handling the whole data, the indebtedness per ha. of farm land in the various size-groups, in the various regions of production, and in the provinces of the State was determined. Furthermore, indebtedness was analysed according to different degrees of indebtedness, and total liabilities were calculated by multiplying debts per unit of land by the total acreage of the group in question.

The indebtedness per ha. of farm land on January 1, 1931 and 1935, in the size-groups in the western provinces (Bohemia and Moravia-Silesia) and in the eastern provinces (Slovakia and Carpatho-Russia) was as follows:

			,,,,		
		Western Provinces (Bohemia and Moravia-Silesia)		Eastern Provinces (Slovakia and Carpatho-Russia)	
	ĺ	Jan. 1 0	f the year	Jan. 1 of the year	
Size-group		1931	1935	1931	1935
0-2 ha		per ha. 3027 kč.	per ha. 4137 kč.	per ha. 2462 kč.	per ha. 3192 kč.
2–5 ha 5–20 ha	•	2461 ,, 1681 ,,	3316 ,,	1725 ,,	1889 ,,
20–100 ha.	:	1873 "	2225 ,, 2540 ,,	1080 ,, 1422 ,,	1235 ,, 1699 ,,
Over 100 ha.	•	2242 ,,	2632 ,,	1991 ,,	2411 ,,

 TABLE I. Indebtedness of Farms in Provinces of Czechoslovakia, 1931

 and 1935

In general, indebtedness is greater in the western provinces (Bohemia and Moravia-Silesia). The increase of debts from 1931 to 1935 was also higher in the western than in the eastern provinces. It would, however, be erroneous to draw the conclusion that the burden of debts was less heavy in the eastern provinces (Slovakia and Carpatho-Russia) than in the west. The eastern provinces have less intensive forms of farming, yields and prices are lower, and therefore farm incomes and the values of agricultural holdings are less. The burden of debts is rendered more severe in the eastern provinces through the form of the debts. In the east of the State, particularly in Carpatho-Russia, the proportion of long-term, cheap mortgage debts decreases.

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The medium-sized peasant farms with 5-20 ha. of farm land, covering about 50 per cent. of the total farm land of the State, always were and are the least indebted. The farms below 2 ha. show the greatest indebtedness, but it must be borne in mind that here we often meet with non-agricultural debts and that often non-agricultural types of income contribute towards the repayment and redemption of these debts, especially labour earnings outside the farm, particularly for casual labour.

The distribution of debts among Czechoslovakian farmers is demonstrated by the frequency of the various amounts of indebtedness per unit of land (intensity of indebtedness).

The distribution of farms according to absolute indebtedness in Kč. per ha. on January 1, 1931 and 1935, expressed in percentage of the total number of investigated farms in the western and eastern provinces, is as follows :

Debts per ba. of farmland		Western Provinces (Bohemia and Moravia-Silesia)		Eastern Provinces (Slovakia and Carpatho-Russia)	
		Jan. 1, 1931	Jan. 1, 1935	Jan. 1, 1931	Jan. 1, 1935
·····		per cent.	per cent.	per cent.	per cent.
No debts .		27.5	19.8	18.8	14.5
— 1,000 Kč.	.	24.8	22.6	40.0	39.8
— 2,000 ,,	.	16.0	15.3	17.0	18.7
— 3,000 ,,		9.2	11.2	8.7	10.1
-4,000 ,,	•	6.2	7.7	6.9	5.3
— 5,000 ,,	•	3.2	5.3	3.1	4.2
6,000 ,,	•	3.1	4.5	1.9	2.6
— 7,000 ,,	•	2.2	3.8	o·8	0.0
8,000 ,,	•	1.8	2.6	0.0	1.0
9,000 ,,	•	1.0	1.8	0.8	0.8
- 10,000 ,,	•	0.9	1.1	0.5	0.2
Over 10,000 Kč.	•	3.0	4.3	I·2	1.1

TABLE II. Distribution of Farms according to Indebtedness per ha. (Shown as percentage of all farms in survey)

Although agricultural conditions grew steadily worse from 1931 to 1934, nevertheless on January 1, 1935, 19.8 per cent. of the investigated farms in the western provinces (Bohemia and Moravia-Silesia) were free from debts, and in the eastern provinces (Slovakia and Carpatho-Russia) 14.5 per cent.

The total indebtedness of agriculture in Czechoslovakia amounted to 15.7 milliard Kč. on January 1, 1931, and 19.2 milliard Kč. on January 1, 1935.

In the first stage, the farmers were temporarily protected against selling-out and bankruptcy proceedings for all debts (with certain м

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exceptions) which had been incurred previous to May 19, 1933, by a veto on compulsory auctions of agricultural property. In 1934 a general moratorium was proclaimed for all areas stricken by the drought catastrophe. Both measures were limited to the end of the year 1935 and only had the character of postponement of repayment obligations of the farmers. They were simply precautionary measures, and in the meantime other measures were in preparation which were to give real aid to the indebted farmers.

The first such measure was a general reduction of the rate of interest by government decree with validity from January 1, 1936. The reduction of the rate of interest on loans was on the average 1 per cent. and implied, in view of the former average rate of interest of 6 per cent., a relief corresponding to a curtailment of the debt capital by almost 17 per cent.

The rates of interest vary according to the type of finance institution. Thus, e.g., the Raiffeisen co-operative banks are not allowed to charge more than $4\frac{1}{2}$ per cent. for long-term mortgages which are secured by legal guarantee, otherwise $4\frac{3}{4}$ per cent. Assuming the total debts to be 20 milliard Kč., the reduction of the rates of interest brings Czechoslovakian agriculture relief amounting to approximately 200 million Kč. annually.

A further decree deals with facilitated repayment of agricultural debts. The repayment of debts, temporarily checked by the moratorium, is to be resumed in certain moderate instalments, in the case of short-term debts, from October 1, 1936, over 8 years, in the distressed areas over 9 years, and in the case of long-term debts (mortgages) over a period of 37 to 40 years according to the terms of the contract.

This decree further provides that the execution of compulsory auctions of movable and immovable goods, as well as compulsory administration, which according to the previous stipulations of the agricultural moratorium could not take place, is to be suspended until after September 30, 1936.

The government decree of March 31, 1936, concerning the amendment of agricultural debts solved a further part of the debt problem and dealt with one of the most important questions, even although it is one applying to individual cases, in contrast to the general effect on all debtors of the reduction of the rate of interest and the regulation of repayment of debts.

This decree regulates the special clauses of the general amendment decree which applies to all trades in such a manner as to make it serviceable to farmers. Certain clauses are altered and replaced

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by other regulations. Thus, in particular, the minimum quota is in the majority of cases reduced from 45 to 35 per cent., and it is also stipulated that mortgage claims can be submitted to amendment whenever they exceed 80 per cent. of the value of the farm.

For the purposes of granting financial aid in the execution of the whole scheme of agricultural amendment of debts an Aid Fund for indebted farmers is to be established, out of which the deficiencies which accrue to the credit institutions in the course of the execution of the whole scheme can be refunded. The fund will probably be administered by the Minister of Agriculture and will also have to fulfil important duties in the completion of the land reform and in the execution of further programmes of land distribution and land settlement.

Thus, like many other European countries, Czechoslovakia took charge of the amendment of agricultural debts. These debts were, it is true, mainly incurred during the years of agricultural prosperity, at which period profit forecasts were on quite a different basis, but the burden only became apparent in recent years when the lack of profits in farming rendered it impossible for the farmers to fulfil their credit obligations. The amendment of agricultural debts was performed in Czechoslovakia by means of the following measures: general reduction of the rate of interest, easier repayment of agricultural debts, application of the general amendment decree to agricultural conditions, and provision for the establishment of an Aid Fund for indebted farmers for the purpose of granting financial support. In amending agricultural debts, care was taken in every case not to outstep the rules of fairness and justice and equally to respect the rights of debtor and creditor. Also, before the amendment of agricultural debts in Czechoslovakia, many measures were taken to create conditions leading to a rise of agricultural prices or to prevent further collapse of prices, in order thus to restore the profitableness of agricultural business.