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RURAL CREDIT DEVELOPMENTS IN AUSTRALIA

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Commonwealth Bank of Australia

Credit Sources

Credit facilities available to the farmer today are much the same as those at the turn of the century.

The three main institutional sources are:

- (1) The trading banks—of which eleven are important in this field; seven private banks and the Commonwealth Trading Bank, and three State banks (Rural Bank of N.S.W., State Bank of S.A., Rural and Industries Bank of W.A.).
- (2) The pastoral finance companies.
- (3) The Governments—both Commonwealth and State.

Private individuals are also important lenders by means of family arrangements, balances on the sale of property and finance arranged through local solicitors and agents. The Commonwealth Bank Mortgage Bank Department and Industrial Finance Department, assurance, trustee and hire purchase companies and traders also provide some credit to rural borrowers.

The estimated rural debt to some of these organisations over recent years is shown in the following table:

| | <i>End June</i> | <i>1939</i> | <i>1945</i> | <i>1951</i> | <i>1958</i> |
|--|-----------------|-------------|-------------|------------------|-------------|
| | | | | <i>£ million</i> | |
| Major Trading Banks | 134 | 108 | 125 | 231 | |
| Ex-Service Settlement* | — | — | 22 | 50 | |
| Other Government (incl. State Banks) | 88 | 72 | 44 | 62 | |
| Pastoral Finance Companies | 32 | 20 | 51 | 93 | |
| Mortgage Bank | — | 2 | 4 | 6 | |
| | <u>254</u> | <u>202</u> | <u>246</u> | <u>442</u> | |

* Both Commonwealth and State Funds.

Over this period the level of prices, farm income and the value of farm lands have all increased and the burden of the farm debt has markedly decreased. As a proportion of the net value of recorded rural production, rural debt, as shown in the table attached, was roughly 150 per cent. for 1936-37-1938-39, 24 per cent. in 1950-51 and for 1957-58 about 50 per cent.

Trading Banks

The figures clearly show that the trading banks still remain pre-eminent amongst the institutional lenders to the rural community.

Table 1
ESTIMATED RURAL DEBT TO SPECIFIED LENDERS
£A million as at end of June

| | 1939 | 1945 | 1948 | 1949 | 1950 | 1951 | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 |
|---|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Major Trading Banks | 134 | 108 | 111 | 109 | 118 | 125 | 144 | 148 | 192 | 221 | 213 | 200 | 231 |
| Ex-Service Settlement | — | — | 8 | 12 | 16 | 22 | 26 | 30 | 32 | 35 | 41 | 46 | 50 |
| Other Government including State Banks and S.S. Banks | 88 | 72 | 56 | 51 | 49 | 44 | 47 | 46 | 48 | 52 | 54 | 57 | 62 |
| Pastoral Finance Companies | 32 | 20 | 21 | 23 | 33 | 51 | 49 | 47 | 55 | 66 | 74 | 80 | 93 |
| Mortgage Bank | — | 2 | 3 | 3 | 4 | 4 | 4 | 4 | 5 | 5 | 5 | 5 | 6 |
| TOTAL | 254 | 202 | 199 | 198 | 220 | 246 | 270 | 275 | 332 | 379 | 387 | 388 | 442 |

Footnotes

1. The Major Trading Bank figures for years prior to 1949 are estimates. For subsequent years they are based on a classification of advances prepared by banks. The classification was revised in 1957.
2. The ex-service settlement figures include advances made under the War Service Land Settlement and Agricultural Re-establishment Acts and those made from State funds.
3. Other Government debt excludes that owing on much land in course of alienation. Lending by State Banks and State Savings Banks is included.
4. The pastoral finance company figures prior to 1956 are estimates but those from 1956 have been compiled from returns supplied by major pastoral finance companies.

Table 2
MAJOR TRADING BANKS
Rural Advances, Classified by Industry, outstanding at end of June
(£ million)

| | 1949 | 1950 | 1951 | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 |
|---------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Mainly Sheep Grazing | 41.2 | 40.1 | 41.4 | 51.5 | 54.3 | 73.3 | 93.8 | 96.0 | 90.7 | 112.7 |
| Mainly Wheat Growing | 14.1 | 16.0 | 14.4 | 14.9 | 14.8 | 20.2 | 22.7 | 20.2 | 16.2 | 18.2 |
| Mainly Dairying and Pig Raising | 27.4 | 31.5 | 35.4 | 37.9 | 38.8 | 50.1 | 51.5 | 46.9 | 45.7 | 48.7 |
| Other | 26.7 | 30.2 | 33.9 | 39.7 | 40.4 | 48.6 | 52.8 | 50.0 | 47.4 | 51.4 |
| TOTAL | 109.4 | 117.8 | 125.1 | 143.9 | 148.3 | 192.3 | 220.9 | 213.0 | 200.0 | 231.0 |

In 1936 rough estimates by the Royal Commission on banking suggest the proportion of rural advances to total advances was about 46 per cent. In June 1949 when classified advance figures were first collected, the proportion was 25.5 per cent. and, although it fell to 19 per cent. in 1952, at June last it was 24 per cent. I would think that the 1936 and post-war figures were not fully comparable and that, apart from the improved income position of farmers, some of the difference would be accounted for by the development of the Rural Credits Department and the changed method of financing wheat and other crops. Moreover, there is no reason to expect or desire stability in the proportion of loans to any one sector.

Pastoral Companies

Farm lending by the pastoral companies has increased greatly in relative importance. These firms make seasonal advances against the security of wool, stock, or other produce awaiting sale. In recent years they have helped finance the substantial increase in stock numbers, and some have also, through financing of superphosphate, seed and machinery, assisted the spread of practices like pasture improvement. They specialise in rural business and have accumulated a large amount of industry experience and local knowledge of individual farms and farmers.

Table 3
PASTORAL FINANCE COMPANIES
RURAL ADVANCES OUTSTANDING AT END OF MONTH
(£ million)

| | 1956 | 1957 | 1958 |
|----------------|------|------|-------|
| January | 77.9 | 87.3 | 90.1 |
| February | 82.9 | 85.0 | 89.4 |
| March | 82.5 | 85.2 | 88.5 |
| April | 80.3 | 83.9 | 92.1 |
| May | 77.1 | 83.4 | 92.0 |
| June | 74.3 | 80.1 | 92.9 |
| July | 72.4 | 82.2 | 93.7 |
| August | 77.6 | 89.7 | 98.8 |
| September | 81.8 | 92.3 | 101.6 |
| October | 84.3 | 91.8 | 101.3 |
| November | 86.4 | 91.1 | 100.4 |
| December | 87.4 | 89.2 | 97.8 |

Compiled from returns supplied by
major pastoral finance companies.

Since the wool boom of 1950-51, the liquid funds of graziers which have been left in the hands of the companies have increased, and the companies have thereby been able to lend more freely.

The nature and scale of the operations of the companies gives rise to some problems. Because they take security over stock and wool—the income-earning assets—they have a claim on the farm income which can usually be satisfied before a bank's claim for the reduction of its advance. Moreover, their customers' credit funds held with them have tended to run down in the last year or two while the advances which have been financed from them have continued to rise fairly sharply and the companies have had to borrow more from their own bankers; many have had to raise extra share capital as well. Their

access to funds is, indeed, subject to similar variations to those which bear on their clients and they illustrate the shortcomings of borrowing and lending within the same, or related, sectors of the economy.

Government

Nearly all rural credit supplied by governments in recent years has been for ex-servicemen, many of whom would not have qualified for trading bank overdrafts, but there is much still outstanding from relief and earlier settlement schemes.

Other

The Rural Credits Department of the Commonwealth Bank has provided seasonal finance for the marketing of certain commodities by public and co-operative agencies. Its substantial advance on the wheat crop each year has reduced the need for finance provided by the trading banks. However, Rural Credits advances have not been included in the figures for rural debt, which have been used in this paper.

In recent years the Mortgage Bank has been administered to give preference to borrowers wanting to improve property, rather than purchase it. The total volume of resources made available to it has been very small and its influence marginal.

Life officers and trustee companies at one time made substantial credit available to rural borrowers, but with the vast expansion in investment opportunities available they have reduced their rural lending. The rate of return which is available to these lenders on rural mortgages is now generally less attractive than formerly when compared with industrial or residential investment. The rate of interest has a lot to do with this, but the costs of supervision and the assessment of risk are also significant.

It is not surprising that farmers should have made increased use of hire purchase. All vendors of machinery freely use it to increase sales. Although more expensive, it can help a farmer who is unable or unwilling to borrow more from his bank. A share farmer also has access to this type of credit. Perhaps the main disadvantage, apart from the relative high cost, is the tendency for farmers to invest in machinery rather than in other resources which may be more productive.

Bank Credit

Banks generally regard lending to rural producers as good and safe business, particularly in good seasons, high commodity prices and appreciating land values. Their lending usually takes the form of an overdraft which suits farmers needing production or carry-on credit for periods up to one or two years. In industries where income fluctuates widely because of seasonal conditions and price changes, it can very effectively smooth out consequent fluctuations in expenditure. If it is to be used for this purpose, however, too high a loan would expose the lender to serious risk if an apparently temporary decline in income proved to be permanent. The overdraft form of credit is generally preferred by the farmers themselves, because of its simplicity, because of the protection it gives them against instability in income, and because

it is cheaper than a fixed loan of sufficient magnitude to cover their maximum seasonal and cyclical requirements.

Indeed, in Australian experience the long-term loan, regularly amortised, has never been popular. It has been used by State governments during hard times and for new settlers, but as the borrowers become stronger they have tended to repay as soon as they can arrange overdrafts. The overdraft does seem theoretically inappropriate for advances for the purchase of properties, but banks generally make such advances to well-established farmers or to members of their families and within these limits it proves satisfactory.

Some feel that concentration on the overdraft makes it more difficult for medium and longer term credit to be made available to farmers. The rate of return on overdraft loans is not high and if much more than usual investigation is involved it may even be unprofitable to a bank. It may be that loans for the acquisition of expensive equipment, or for improvements of moderate cost which take some years to mature, could be more reasonably financed by some form of fixed loan. I believe that it may well be to farmers' advantage if loans of this kind were available on a fixed term, even at a higher interest rate than that charged on overdraft. The rate would almost certainly be much lower than they pay with reasonable cheerfulness to hire purchase firms.

The approach of banks to rural lending is, of course, primarily a commercial one. A loan is not made unless the bank is satisfied about the farmer's capacity to service and repay the debt, and unless the security is adequate. Bankers do, however, attach great importance to the personal qualities of the borrower and they aim to build up banker-customer relations which are smoothly operating and personally pleasant.

Agricultural economists frequently exaggerate the emphasis given by bankers to the security aspect of their rural lending. Although, like other lenders, banks usually require security and make loans which are well below market value of the security, their primary interest is to see that the customer can service the loan and eventually repay it. To some extent the value of the security is a rough indication of the capacity of the borrower to do this. It is, however, rarely the sole consideration and the banker will frequently see an efficient and trustworthy customer through difficult periods even when the security position has greatly deteriorated.

Individual cases occur where a careful examination of the economic prospects of the venture would justify more credit having been made available. However, these propositions usually require detailed investigation and supervision, imposing work and expense on the lender and the tendency of bankers to regard them as "residual" and not bank propositions is not surprising.

In our society the State has sometimes assumed the responsibility of helping people with scant resources to become farmers and as a general rule, I would think that this is a task best left to special governmental agencies, properly equipped to investigate and supervise. The special costs can then be borne by the community as a whole. However, I do not suggest that it would be unreasonable for a bank to make some loans

of this type. Indeed, I believe that banks could, with advantage to themselves, take more calculated risks of this kind than at present they do.

Adequacy of Rural Credit

It is frequently argued that rural credit is inadequate, and in the sense that a greater expenditure of a developmental or productive character by farmers could be undertaken profitably, this statement is almost certainly true. However, the provision of credit enabling farmers to spend more is a way of giving them a claim on the available resources of the economy; once these resources are reasonably fully employed they can be increased for use in one industry only at the expense of other industries or of consumption. If, in conditions of full employment, more money is made available to farmers as a result of greater bank lending and there is not a corresponding contraction in expenditure on consumption or other forms of investment, inflationary conditions will tend to develop. Since the end of the war we have seen a strong desire to spend on consumption and on development more than the available resources of the economy can provide.

The real question of the adequacy of rural credit is, therefore, one of deciding whether rural industries get a reasonable share of the available resources or whether a greater increase in productivity could be obtained by diverting to the rural economy some of the credit at present provided to other sections. This is a much more difficult question to answer. The substantial fall over the last twenty years in the percentage of bank advances which are made to rural producers reflects the growth of manufacturing, distribution, construction and other non-rural industries, enabling banks to diversify their risks, employ their money more fully, and to increase their income from incidental banking services. Nevertheless, the rural borrower has remained in many respects a very privileged person in the Australian banking system and it would be hard to demonstrate that bankers' policies are weighted against him.

The major problem about rural credit for the Central Bank is that fluctuations in the income and expenditure of farmers are closely correlated with fluctuations of Australian overseas reserves and of the liquidity of the banking system. A rise in rural incomes is usually associated with growing reserves abroad and with a high level of liquidity in the banking system. At such a time there tends to be a general atmosphere of optimism and banks are frequently ready and anxious to expand their lending, especially in the country, where rural industries can be seen to be profitable. Farmers, too, respond to the high level of incomes by willingness to spend more on development as well as on consumption. The tendency to spend more on development at such times is intensified by the tax provisions which enable development costs to be partly offset against tax liabilities which would otherwise be incurred. On the other hand, a fall in rural incomes is frequently associated with falling international reserves and declining liquidity in the banking system. At such times banks become less willing to lend to their rural customers, especially for new or expanded developmental expenditure. Furthermore, farmers themselves not unreasonably become increasingly unwilling to incur such expenditure even if they are in a position to borrow for it.

This instability in rural expenditure not only leads to instability in other sectors of the economy, particularly those supplying farmers' needs, but may react adversely on farmers themselves. Experience suggests that optimism tends to be carried too far in good times and that easy rural credit increases the price of land and farmers' costs. A restrictive credit policy at such times and a restriction in expenditure would tend to insulate farmers from the adverse effects of inflation. By contrast, farmers tend to decrease their expenditure when the outlook is unpromising to the point where they overlook profitable investments. At such times farmers have a greater need for cost-reducing techniques, and expenditure of borrowed money, even though the risks appear great, may have a marked effect on a farmer's income.

There are several ways in which these periods of over-optimism and over-pessimism can be modified. Rural producers themselves, particularly in recent years, have tended to accumulate reserves during periods of higher income by building up deposits and by investing some of their excess income away from the farm. Banks frequently have looked to their customers to reduce their indebtedness substantially during good years. Central Bank policy is designed, by calls to special account and by the imposition of a more restrictive lending policy, to restrain the growth of rural expenditure and permit the building up of reserves during periods of prosperity, and by action to support their liquidity it encourages banks to maintain their rural lending in times of falling farm income.

Although banks provide credit for land purchase by existing landholders and their families, they do not provide on any extensive scale for land purchases by other potential farmers. In recent years governmental effort along these lines has been concentrated on providing for ex-servicemen. There is still scope, particularly in Western Australia and Queensland and to a lesser extent in other States, for the establishment of new farms. Consequently it seems to me that now the supply of ex-servicemen is running out, settlement schemes could reasonably be carried on for other persons interested in becoming farmers.

Between the banking system and the pastoral companies, efficient and credit-worthy farmers have little difficulty in financing the maintenance of production, even through bad seasons.

The rural credit organisation also seems well designed to maintain reasonable stability in farmers' consumption expenditure. Farmers have almost certainly been able to use overdraft facilities, with their relatively low cost, for the purchase of durable consumer goods to a much greater extent than city dwellers of comparable income. However, banks have tended recently to require rural customers to turn to hire purchase for finance for such purchases and also for purchases of agricultural equipment. Where the security and income of the borrower are severely taxed to support credit necessary for basic productive purposes, it is not unreasonable that they should be expected to obtain their more durable requirements with hire purchase where the higher charges offer adequate cover to the lender for the costs and risks involved. It would, however, be a pity if this tendency came to be extended, for purely profit motives, to borrowers whose overall position justified the extension of normal credit facilities for such purchases.

One of the difficulties in the way of finance for farm improvement, for development, and for increasing productivity where the rate of return on additional capital could be very high, is that the introduction of what seem simple and fairly inexpensive techniques, frequently changes the whole character of the farm and may involve heavy expenditure on fencing, water supply, buildings, additional stock and so on. Without these expenditures the full benefit of the new techniques may be difficult to realise. On the other hand, the justification for an extensive capital modification of the farm may appear problematical to all except the expert or the enthusiast. I believe there is, therefore, need for an institution or institutions specially designed to satisfy this need.

It would not, however, be a simple institution to administer and it is easy to exaggerate the scope that would be available for it. Many well-established farmers with opportunities for development can be perfectly well catered for by their own bankers. Many of the least efficient farmers with low equity in their properties and with little genuine farming capacity would be very bad risks for loans for this form of expenditure. Of the many who come between these two groups, those best able to take advantage of technical developments and who would prove good risks could be selected only by men capable of making thorough investigations and assessing the personal qualities of the borrowers. It may be that the new Development Bank proposed by the Government will be able to contribute to the filling of this gap. I hope, however, that too much will not be expected of it.

At the same time, there is still much that can be done within the structure of the existing banking system, and you may be interested in an interim account of the experience of the Commonwealth Trading Bank in certain experimental loans it has conducted over recent years.

In 1952 Sir Ian Clunies Ross told me of the results of the research conducted by C.S.I.R.O. at Chiswick and by the Department of Agriculture at Shannon Vale in the New England district of New South Wales. He said that these experiments had shown that production of wool per acre could be at least trebled by means of pasture improvement in these districts but that not more than one per cent. of the available and suitable land had been sown down with pasture up to that time and that one reason for this was the inability of some farmers to obtain finance. Following further discussions with C.S.I.R.O. and with Dr. Noble of the N.S.W. Department of Agriculture, the C.T.B. decided to make a few experimental loans to selected farmers. The idea was to test whether pasture improvement was economically sound in these areas, even when it needed to be financed by borrowing. We hoped also to encourage other farmers to pasture improve and that other banks might acquire greater confidence in making finance available to some of their own customers.

The special conditions on which the Bank made these loans were chiefly that—

- (i) improvement was to be carried out and managed in accordance with plans drawn up by the Department of Agriculture and any variation was to be agreed to by the Bank;
- (ii) the Bank would not look for repayment until expenditure on pasture improvement had justified itself by improved results.

Initially the Bank selected farmers in the New England district, then some in the North Coast and Queensland dairying districts; more recently it selected customers in the South Australian wheat belt and in Western Australia. In all, the Bank has financed ten dairy projects and eight pastoral projects.

Of the dairying projects, three have now repaid their special advance but one failed due to a flood and some £200 had to be written off. The advances approved for these ten dairying projects have been fairly small, averaging less than £500 each.

None of the pastoral projects have yet repaid any of the £25,000 special advances for them but it appears unlikely that any part of the debt will have to be written off.

The following tentative conclusions seem justified on the basis of the experience so far:—

(1) The pastoral projects to date have produced encouraging signs, despite some seasonal setbacks, inasmuch as:

- (a) Stock carried have increased.
- (b) Breeding has been introduced on what was previously dry sheep country.
- (c) A greater degree of fodder conservation has been possible, principally as a result of the establishment of lucerne pastures.
- (d) The pastures generally have enabled stock to maintain condition during dry periods.

However, while we have no reason to think these trends will not be maintained, it may be a little early to say they are definitely established.

(2) The most noticeable feature in the dairying projects is the increased output per cow, with a consequent financial gain to the farmer. The one adverse factor in the particular dairying areas chosen is that the sown pastures may not last more than a few years and it is important that the results be obtained more quickly than in the pastoral areas.

(3) The demonstrations have created much interest amongst neighbouring farmers. The Bank has learnt a good deal from them and gained through its contacts with the Departments of Agriculture and C.S.I.R.O.

(4) It seems that unfavourable conditions in the establishment period for new pastures could greatly lengthen the time involved and that even though the eventual outcome may be worthwhile, borrowing for this purpose may often prove to be long-term borrowing.

(5) It is often difficult to make a clear assessment of the results of pasture improvement because it is generally mixed up with other forms of development.

Although projects like these would not generally be profitable lending on account of the administrative work involved, they have served as effective demonstrations and have provided useful information. Altogether, I feel that this has been a worthwhile experiment. There are many problems in applying research results from experimental plots on a whole-farm basis and I am sure that banks could do a great amount

of good if they could, through schemes like this, show what the returns might be to commercial farmers.

Perhaps I can bring together my thoughts on the Australian rural credit system by saying that I believe its general structure, methods of operation, and the policies on which it is based are reasonably well adapted to the needs of Australian rural industry and to the Australian economy. There is, however, room for it to be strengthened by:

(i) improvements in the effectiveness of Central Bank policy, particularly in smoothing out fluctuations in levels of expenditure on farm development. The maintenance of greater stability in rural investment expenditure would be a contribution both to the increasing efficiency of rural industries and to the general stability of the economy;

(ii) narrowing the range of fluctuations of monetary ease and tightness which come from the "self-financing" characteristics of Australian rural industry, with its tendency to rely for finance on sources fed largely from rural savings themselves;

(iii) the improvement of facilities for the financing of rural development and in particular for the application of scientific technology, designed to bring about reduced costs and higher farm income.

DISCUSSION

Sir John Crawford: I think all will agree that Dr. Coombs' paper was temperately argued—very well argued indeed on a subject that easily lends itself to emotion, especially among farmers. As I read the paper and as I heard Dr. Coombs emphasise this and that point in it, I was left with the feeling that it not only adequately explained recent trends but that it narrowed down the real rural credit problem. In my judgment, and I believe he agrees with this, it just isn't true to talk as though there is a rural credit problem in the sense that there is no credit available. But in the statements of many of you there has been a feeling that there is an important sector of the problem which is still unsolved, which presents very great difficulty.

It did seem to me that the paper went very close to admitting that the most profitable lending for the banking system, at least under existing economic conditions, is not in the rural field, except to the extent that hire purchase is associated with banking.

Dr. Coombs commented on the development of pastoral companies, and one wonders what their real influence has been; their own financial resources depend to some extent at least on what further back-stopping they will get from the banking system. Recent events suggest that the banking system in the future is less and less likely to provide rural credit for anything but "carry-on" and for the purchase of property by existing or well-backed customers.

The problem he dealt with so interestingly, which is the unsolved problem, is what he called the supply of credit for the "residual" borrower—the problem of providing credit for advancing development and productivity. The experiments being conducted by the Bank in this field are extremely interesting, and fruitful in the light they throw on initial capital requirements. I think the banking system as a whole has some reason to be grateful for these experiments. I think we should all accept the point he made that the cost of investigating this kind of

proposition is a very real one. It brought to my mind a little more clearly that one of the justifications for banks' reluctance to provide extensive credit facilities in this field is the very cost and the very difficulty of incorporating the necessary routines in a normal banking operation. As Dr. Coombs suggests, there is probably a need for a fresh institutional approach. He included in the term what I would suggest is separable in the concept—the addition of new principles. It is worthy of note that the new Development Bank Bill does incorporate the test of income, as distinct from security value, and this in itself is a courageous departure. I have no doubt that even though it is a new test the Development Bank will still need a very keen assessment of the personal factor; nevertheless this is a recognition that the approach through security plus personal factor is not enough. The Development Bank will certainly need to handle this principle with great care, but it has to be attempted.

In my view, the principal post-war failure has been the lack (at least to my knowledge) of any attempt by the Commonwealth Bank and State Banks to review rural credit systems in the light of new needs. I do not suggest this to be the fault of the Bank but the initiative must come from somewhere. If the new legislation goes through, I strongly hope that the closest possible relations will be built up between Commonwealth institutions, Trading Banks, State Banks and other credit agencies to explore the needs for development and new credit techniques. These techniques must cover the credit needs of farm reconstruction right through farm improvement to new farm establishment.

There are other points that he made this afternoon that I must leave, but I would like to ask three questions:

- (a) Did the Rural Reconstruction Commission have any useful suggestions? I believe the Report has received an undeserved neglect.
- (b) What can we learn from W.S.L.S. and the re-establishment advances? Something of relevance to civilian settlement as, for example, we must face under the Snowy scheme?
- (c) Are there no ideas from the pre-war systems of marginal areas reconstruction? Why do we refuse these days to contemplate a combined system of x% first advance, with a further y% guaranteed or advanced by a special authority prepared to take the first loss? Is there no scope for the Commonwealth Housing Act of 1927 to be applied by the Development Bank to approved authorities?

I conclude with an expression of relief that the Central Bank is aware of, and interested in, the rural credit problem. I hope it will sustain and enlarge its leadership in an effort to bring all who can assist into a more coherent and active system.

Mr. Mills: The problem of developing pasture land is one, not so much of the limitation of land and managerial ability, but of finance. When farmers have sufficient collateral to acquire credit, they are thinking about going a bit easy.

Dr. Molnar: I have a few comments based on a survey carried out a year ago in sheep country in Central Victoria.

Dr. Coombs says that farmers have made increased use of hire purchase and this may have led to over-investment in machinery. Out of 45 farmers in my survey, 34 purchased machinery over the three-year period ending June 1957, but, of these, only three used hire purchase for machinery purchase.

Dr. Coombs also says that the cost of fixed loans would exceed that of overdraft, but that it would still be below the figure which is paid with reasonable cheerfulness to hire purchase firms. My survey showed that although farmers had only a vague idea of the overdraft interest rate, they were well aware and concerned about the rate of interest on hire purchase.

I would also like to comment on Dr. Coombs' reference to taxation incentives. Half of the farmers in my survey had not the slightest idea what the relative tax provisions were and only one-fifth really knew the tax concessions.

Lastly, Dr. Coombs stated that farmers become less willing to spend on development in times of falling prices, even if they are in a position to do so. This, too, is not borne out by my findings.

Mr. Francis: If advice by State extension services is to be used, farmers need finance, and credit could supply this need. We have been pressing for advances based on farm potential plus the ability and character of the farmer rather than on collateral security. We have great hopes of the Development Bank.

Dr. Coombs: In Sir John's comments there were, as we could expect, many lively and stimulating suggestions.

I recall past discussions with him on the problems of the relationships between the State banks and the Commonwealth Bank and a little has been done to bring the State banks more closely into touch with that part of the banking system for which the Commonwealth Bank is responsible. However, these banks are limited in resources and like the pastoral companies tend to draw their funds from the field in which their loans are made. I feel that there are many responsibilities, but they involve political as well as economic and administrative problems and will not be easy to realise.

From a large proportion of the comments made it is clear to me the agricultural economists are a bit like the bootmaker who claimed, "There is nothing like leather and we keep the best." Running through most questions is the view that there is something infinitely more desirable about rural production than other forms of production and that it should be singled out for a highly privileged treatment. To some extent this belief is based on the importance of rural exports and to that extent it has an economic basis. However, I feel that there was a considerable emotional basis in the approach of many of the speakers. They feel that we ought to look after the farmers, not because the farmers are a good risk, not because this is the best way to use our resources, but because of some special virtue in rural production. This might be true, but it is an article of faith, not a reasoned judgment which can guide a banker in his approach to the problem of how best to use what are not *his* funds, but the funds of *his depositors*.

Mr. Bollman referred to the great expansion of hire purchase. It is

true that if people were content to spend less on refrigerators, motor cars and other durable consumer goods, there would be more resources for other purposes, including rural industry. Since much of the community's savings are used for this purpose, it tends to limit the degree to which we can develop our rural industry. However, there are very great problems in seeking to interfere with the freedom of people and institutions.

In reply to Mr. Mills, if it is true that there are a very large number of farmers who are good risks and who could use additional credit profitably but cannot obtain credit, we are not able to find them. We do have individual cases brought to us but many of them prove to be below sound commercial standards so that a bank cannot be blamed for not making the loan. I think it is possible to exaggerate the degree to which the existing system is proving inadequate.

Mr. Makeham asked a question about the value of the work of the State departments in the experimental loans I reviewed. We are very dependent upon the services provided by the Departments of Agriculture in this work and I do not believe that bank managers have the knowledge to provide the necessary supervision. We are anxious, however, that our managers know something of recent technological developments in farm practice—not to teach the farmer his job but to understand the farmer when he tells them what he wants to do, and to make a reasonable assessment of whether it is worth support.

On the question of making loans against farm potential and the personal qualities of the farmer, I believe these factors are taken into account to some extent. It is, however, impossible for banks to take large risks on a large proportion of their loans.

Dr. Jarrett raised an interesting point that the long continuance of import restrictions would tend to channel resources into non-economic industries. I am sure that Sir John Crawford would agree that there is such a danger, and that some uncertainty about the continuance, and intensity of such restrictions can help guard against this.

There was, I think, some misunderstanding of my somewhat jocular reference to the farmers' willingness to pay higher rates of interest. If you judge by the results, they do, in fact, voluntarily pay very high rates in respect of hire purchase liabilities. The point of my remark was that banks, which must be commercial in their approach, can undertake business which is costly to run, costly to supervise and which involves substantial risk of loss, only if they are able to charge enough to cover costs, to provide a reasonable insurance against risk and to leave some margin for profit. It might well be in the interest of farmers seeking credit other than normal carry-on to be prepared to pay more to the banks, perhaps not as much as they would pay to the hire purchase companies but more than the $5\frac{1}{4}$ or $5\frac{1}{2}$ per cent. that they now pay on their overdraft. At the rates currently charged it is not possible for banks to make many developmental loans. They could not cover their costs.

Mr. Hoffman expressed hopes that in the international field it would prove possible to moderate the price fluctuations of our primary commodities. I would agree that when that objective is attained, the job of the Central Bank, as well as that of the farmer, will be much easier.