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PASTORAL FINANCE HOUSES AND RURAL CREDIT

1949-50 to 1958-59

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At the present time over 90 percent of the wool produced in Australia is sold by auction at the various wool selling centres in Australia. The wool broking firms, or pastoral finance houses as they are variously known, receive wool into storage, arrange for its display for sampling by potential buyers and conduct the auctions at which the wool is sold. This is the briefest description of their activities; they provide credit and insurance facilities for growers, as well as services associated with grading, cataloguing, interlotting (the grouping of odd bales belonging to various growers into large even lines) and blending (the physical mixing of small lines to produce large even lots). In addition, many of the pastoral houses have general merchandising sections not always restricted to the provision of farm supplies.

Over the decade there have been some increases in concentration amongst wool-selling firms. In 1949-50, according to the National Council of Wool Selling Brokers of Australia, there were 30 firms selling wool at the various wool selling centres in Australia, and this number was reduced to 24 firms in 1958-9. In 1949-50 of the 30 firms, three firms — Dalgety and Co. (14 percent), Goldsborough Mort and Co. (11 percent) and Elder Smith and Co. (11 percent) — handled 36 percent of the wool sold in Australia. Three other firms, New Zealand Loan and Mercantile Agency Co. (9 percent), Winchcombe Carson (8 percent) and Australian Mercantile Land and Finance Co. (7 percent) handled 24 percent of wool sold. That is, these 6 firms handled 60 percent of the wool sold at auction. In 1958-59, the three firms Elder Smith and Co. (16 percent), Dalgety and Co. (14 percent.) and Goldsborough Mort and Co. (12 percent) handled 42 percent of wool sold. The three other firms, New Zealand Loan and Mercantile Agency Co. (7 percent), Winchcombe Carson (7 percent) and Australian Mercantile Land and Finance Co. (6 percent) together handled 20 percent of wool sold. These six firms handled 62 percent of wool sold at auction in Australia while approximately 5 percent of clip wool is sold outside the auction system. The above indicates a fairly high degree of concentration in wool selling activities. Since 1958-9 the degree of concentration has further increased with mergers between Dalgety's and New Zealand Loan, and between Elder Smith's and Goldsborough Mort, so that two firms handle approximately half the wool auctioned in Australia. The possible significance of this concentration will be considered in the light of the provision of credit by the pastoral houses.

Secular Changes in Advances 1949-50 to 1958-59

The growth in the importance of the pastoral houses as rural lenders is shown in Table 1. Outside the major trading banks, the pastoral

TABLE 1

Estimated Rural Debt to Specified Lenders, June 30th, £m.

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Major Trading Banks	118	125	144	148	192	221	213	200	231	230	237	225
Pastoral Finance Cos.	33	51	49	47	55	66	74	80	93	91	102	106
Development Bank (ex Mortgage Bank)	4	4	4	4	5	5	5	5	6	6	7	11
Ex-service Settlement	16	22	26	30	32	35	41	46	50	53	55	57
Other Government ^a	49	44	47	46	48	52	54	57	62	65	67	70
Assurance Societies	7	8	8	8	7	9	10	12	16	17	21	24
Total	227	254	278	283	339	388	397	400	458	462	489	493

a. Includes State Banks and State Savings Banks.

Sources: H. C. Coombs, "Rural Credit Developments in Australia", *Australian Journal of Agricultural Economics*, Vol. 3 No. 1 (July 1959) p. 58.
Reserve Bank of Australia, *Statistical Bulletin*, (February 1961), p. 101. Reserve Bank of Australia, Rural Liaison Service, *private communication*.

companies have been the most important single source of lending for the farm sector in recent years. Between 1950 and 1959 pastoral company advances increased by 176 percent. During the same period advances to the rural sector by the major trading banks increased by 95 percent. This comparison is somewhat misleading in that advances by the trading banks are to all types of agriculture whereas the pastoral houses are concerned principally with advances to wool growers. Advances are made, particularly in Queensland and northern New South Wales for cattle raising, but these are a relatively small percentage of total pastoral company advances, while very much smaller amounts are made available to wheat growers, dairy farmers and horticulturalists. The growth in advances by the major trading banks to farmers mainly engaged in sheep grazing is a more appropriate contrast to the growth in advances by the pastoral companies. Between 1950 and 1959 this type of trading bank advance had increased by 187 percent compared with a 176 percent increase in advances by the pastoral companies. The percentage change in rural advances by types of agriculture is shown in Table 2.

TABLE 2
Percent Change in Rural Advances of the Major Trading Banks, as at June 30th.

<i>Type of farming</i>	<i>Percent change, 1950-1959</i>
Mainly sheep grazing	187
Mainly wheat growing	14
Mainly dairying and pig raising	43
Other	70
All types of agriculture	95

Source: Reserve Bank of Australia, *Statistical Bulletin*.

The change in advances to wheat growers needs to be interpreted with some caution. The widespread existence of wheat-sheep farming in Australia may very well mean that trading bank advances made on the basis of the sheep enterprise have been used to finance the wheat enterprise. Similarly, some of the 14 percent increase in advances for wheat growing may have been used to finance the sheep enterprise. Even with these qualifications, however, it is clear that types of agriculture other than sheep grazing have not shared in the growth in advances to the same extent as has wool growing. While these differentials in rates of growth in advances by types of agriculture have been taking place, the proportion of rural advances to total advances has remained relatively constant.¹

In looking at the role of the pastoral houses in the provision of credit over the decade 1950-1959, I propose to consider in detail the 6 major firms as they existed in 1958-9. These firms were Elder Smith

1. Rural advances as a percent of total trading bank advances, June 30th, were as follows: 1950—24; 1951—21; 1952—19; 1953—22; 1954—24; 1955—24; 1956—24; 1957—23; 1958—24; 1959—25.

and Co. (ES), Dalgety and Co. (D), Goldsbrough Mort and Co. (GM), Winchcombe Carson (WC), New Zealand Loan and Mercantile Agency Co. (NZL), and Australian Mercantile Land and Finance Co. (AML). As already mentioned, these six firms in 1959 handled 62 percent of wool sold by various wool broking houses in Australia.² The information which follows has been obtained from the balance sheets and annual reports of these six companies. While these sources are, to put it very mildly, often doubtful, it is hoped that the picture which emerges will make some contribution to understanding the pastoral houses as financial institutions.

Over the course of years the pastoral houses have built up a substantial banking business. Broadly speaking, this banking business is concerned with the acceptance of deposits of various kinds and with the making of loans. Some measure of the importance of this banking business for any one pastoral firm can be gauged from the fact that, at June 30th 1959, ES had lodged with them some £2m. in "term, deferred, fixed and other deposits". In addition, "clients credits represent the substantial part of the £15m. shown under the heading of 'Sundry Creditors on Open Accounts, Clients Credit Balances, Short Term Deposits, Bills Payable and Amounts Owing to Bankers' ". By contrast, the Bank of Adelaide, the smallest of the trading banks, at September 30th, 1959, had some £38m. deposits, bills payable, etc.

The pastoral houses are principally concerned with short term lending to farmers and graziers. The preferred type of loan is an advance against wool already in store and awaiting sale. The pastoral house will make an advance of a certain percent of the estimated value of wool held on behalf of a particular wool grower. The company expects that the loan will be repaid in "the year of income", that is as soon as the wool has been sold. The pastoral firms will also make short term advances on the basis of a lien on wool on the sheep's back. Here also, the pastoral companies expect the loan to be liquidated — presumably by the sale of wool at their auctions — after the wool has been sold.

The pastoral houses are also engaged in financing livestock sales and property transfers, particularly where there is a substantial livestock component in the property transfer. In discussion with executives in the pastoral houses the expectation was that advances for wool as well as advances for livestock sales would be of a "short term" nature. However, despite these expectations all three of the types of advances mentioned have resulted in these "short term" loans being extended for very long periods where, in particular cases, properties have been operated for a man's lifetime with permanent indebtedness to a pastoral company.³ No information is available

2. Of the above six companies, ES, WC and GM only operate in Australia. The three other companies, D, AML and NZL have their head offices in the United Kingdom and have business interests in other countries. D, for example, operates in East Africa and New Zealand, AML operates in Argentina, while NZL operates in South Africa and New Zealand. It has been impossible to disentangle the purely Australian operations from the consolidated balance sheets of these three companies. It seems a reasonable assumption that the bulk of the business in wool broking of these three companies is done in Australia.

3. With respect to lending to the rural sector by the trading banks, Professor Arndt makes the point that overdrafts which are repayable on demand have in reality been extended for long periods. See H. Arndt, *The Australian Trading Banks*, p. 48-49. Cheshire, 1957.

from published sources of the distribution of pastoral company advances on wool, on livestock or on property transfers. With respect to the latter, estimates given by some of the wool brokers suggest a figure of the order of 5-15 percent. In the discussion on advances by the six pastoral firms I will be principally concerned with the impact of fluctuations in certain variables associated with wool. This discussion will be necessarily incomplete until a more detailed breakdown of the bases on which advances are made is available.

The readiness to make advances seems to constitute a major form of non-price competition between the various broking houses. Since the rates for wool-broking services are, with minor variations, set by the National Council of Wool Selling Brokers there is little price competition between them. That is, the main incentive to increase advances seems to have been to attract grazier clients to market their wool and livestock through a particular broking house and the possibility of clients being attracted to other broking firms by a more liberal advances policy may have been one of the contributing factors to the increase in advances over the decade considered. A pastoral house is often able to exercise control over a grazier's income by insistence that his wool, livestock etc. be handled through this particular pastoral company. As a consequence the pastoral houses may have been less "security" conscious than would a trading bank faced with making a comparable loan.

Annual Changes in Advances

Outstanding advances, at June 30th, of the six firms considered are shown in Table 3.⁴

The data in Table 3 show the marked increase in advances which these pastoral houses have made since 1949-50. In addition to the trend increase in advances the pastoral companies are confronted with instability arising both from a pronounced seasonality within a year as well as the year to year variation. Both these sources of variation will impose problems for the individual pastoral company in deciding advances policy.

4. The classification of advances as shown by the balance sheets is listed below:

ES. Advances and trade debtors, less provision for bad and doubtful debts and contingencies.

WC. Advances against wool and produce, stock mortgages, sundry debtors, after providing for doubtful debts and contingencies.

D. Advances to clients. (Trade debtors are shown separately and are not included in Table 3. Over the 10 years 1949-50 to 1958-59, trade debtors averaged £5.4m. while advances to clients averaged £12.3m.)

GM. Trade debts and bills receivable, including advances on stock and station properties, wool and other produce etc. less provision for bad and doubtful debts.

AML. Advances to clients less provision for doubtful accounts sundry debtors, prepayments etc., less provision for doubtful accounts.

NZL. Secured loans, sundry debtors and payments in advance less provisions.

To the extent that trade debtors include credit made available to non-farm clients, there will be an overestimate of the provision of credit to the farm sector. Such overstatement is not likely to be large, with the possible exception of ES which has a substantial merchandising business with the non-farm sector. However, even for ES, the *Annual Reports* of the company state that advances to their clients represent the bulk of the item shown as "Advances, Trade Debtors, etc."

TABLE 3

Advances by Six Pastoral Companies, June 30th, £m.

Year	Firm					
	ES	WC	D	GM*	AML	NZL
1949-50	4.7	2.3	8.3	4.6	2.6	7.4
1950-51	8.2	3.6	15.4	8.3	4.4	9.1
1951-52	7.9	3.5	14.0	7.6	4.1	8.5
1952-53	6.5	3.4	12.8	7.6	4.1	8.6
1953-54	8.1	4.1	15.1	7.4	5.0	10.3
1954-55	9.0	5.1	18.0	9.8	6.6	11.0
1955-56	10.3	4.8	19.4	12.4	7.0	13.0
1956-57	12.9	5.2	21.0	13.3	6.5	12.8
1957-58	11.5	5.6	25.9	12.6	8.0	14.3
1958-59	13.9	5.6	25.4	13.3	8.4	14.5

*March 31st.

Source: Balance sheets of the companies given.

The seasonal patterns of pastoral company advances, receipts of clip wool into stores and wool sales are shown in Table 4.

TABLE 4

Seasonal movement, by months, of advances, receipts of clip wool into stores and wool sales. Base = 1000.

	Advances ^a	Receipts ^b	Sales ^c
January	1019	305	1115
February	989	292	1264
March	978	481	1292
April	995	547	646
May	974	538	1096
June	954	431	966
July	944	618	1
August	1010	1528	279
September	1040	2431	1309
October	1039	2434	1589
November	1036	1703	1463
December	1022	692	980

a. Source: Calculated from monthly data, Jan. 1956 — Dec. 1959, in Reserve Bank of Australia, *Statistical Bulletin*.

b. Source: Based on monthly data, July 1955 — June 1960, in *Wool Review*, National Council of Wool Selling Brokers.

c. Source: Calculated from monthly data, July 1950 to June 1959 in *Wool Review*, National Council of Wool Selling Brokers. Sales in July have, in the past, tended to be odd lots only.

From Table 4 we see that advances reach a seasonal low in July. In August, advances begin to increase and are running at peak levels in September — October — November. In December — January, advances are still relatively high but beginning to fall off from the rate in the previous three months. From February to July advances are falling off until the seasonal low is reached in July. The exceptional month during this period is April. The increase in the index in April

is due to the expenditures incurred by farmers for the purchase of superphosphate for autumn top-dressing and sowing of pastures and crops. The seasonal pattern indicated above is affected by the type of advance made by the pastoral firms. As we have already mentioned these advances are influenced by advances made on wool in store awaiting sale. Of total annual receipts of clip wool into brokers' stores, approximately 68 percent is received in the months August—September—October—November.⁵ Receipts show a marked concentration in August—September—October—November while sales are more evenly distributed.

From Table 4 we see that August advances show an upward seasonal movement as wool is received in store although August sales are still low. For the next three months advances are increasing as the tempo of both receipts and sales increase. Receipts have fallen substantially in December and sales of wool have fallen, primarily due to the holiday period, but the level of outstanding advances is still high. Receipts are low for the next three months, but sales are still high while advances are beginning to fall as repayment by graziers from proceeds of earlier sales takes place. The picture which emerges is that the pastoral houses make advances on wool as it is received in store and are repaid, at least in part, as wool is sold over the next few months. There may also be a seasonality in livestock sales and property transfers which would also affect the seasonal pattern of advances but data, on a monthly basis, of sales and transfers have not permitted the construction of a seasonal index for these two factors.

The percentage change in advances from the preceding year for the six pastoral companies is shown in Table 5 together with similar changes for all pastoral companies and for the major trading banks for sheep raising.

TABLE 5

Percentage change in Advances, June 30th, from Preceding Year.

Year	Firm							
	All pastoral companies	Trading Banks	ES	WC	D	GM*	AML	NZL
1949-50								
1950-51	55	3	74	57	86	80	69	23
1951-52	-4	24	-4	-3	-9	-8	-7	-7
1952-53	-4	5	18	-3	-9	0	0	1
1953-54	17	35	25	21	18	-3	22	20
1954-55	20	28	11	24	19	32	32	7
1955-56	13	2	15	-6	8	27	6	18
1956-57	8	-6	25	8	8	7	-7	-2
1957-58	16	24	-11	8	23	-5	23	12
1958-59	-2	2	21	0	-2	6	5	1

*March 31st.

5. This figure is based on the monthly receipts into stores as given in *Wool Review*, National Council of Wool Selling Brokers from July 1955 to June 1960. This percentage has shown little variation over these years. The percentage of total annual receipts in these four months is: August 12, September 20, October 20, November 16.

During 1950-51 the pastoral firms substantially increased advances over the level prevailing in the preceding year. The extent of the increase varied amongst the six companies but for all six, as well as for pastoral companies as a group, the percentage increase was considerably greater than for advances made by the trading banks for sheep raising. In part this difference may be due to the readier availability of credit from the pastoral firms in the light of very buoyant wool prices (See Table 6). In part, the difference may be due to the short term component of advances by pastoral companies — we have already mentioned that pastoral houses expect advances to be repaid in the year of income. If trading bank advances take the form of the provision of overdraft facilities which are of a longer term nature than advances on wool in store, then farmers may have preferred to use the short term credit provided by the pastoral houses and to use their currently high level of incomes to reduce their past indebtedness to the trading banks. Also, during 1950-51 the Federal Government introduced a 20 percent prepayment of income tax by graziers. This action may have resulted in an additional demand for advances from the pastoral houses, particularly by smaller graziers.⁶

TABLE 6
Wool Prices, Bales Sold and Wool Realisations.

Year	Average price/lb greasy wool. (pence)	No. of bales sold (Greasy and scoured). Mill.	Wool Realisations. £m.	Percent change from preceding year.
1949-50	63	3.6	287	
1950-51	144	3.5	636	122
1951-52	72	3.4	308	-52
1952-53	82	3.9	405	32
1953-54	82	3.8	391	-3
1954-55	71	4.0	353	-10
1955-56	61	4.3	334	-5
1956-57	80	4.9	483	45
1957-58	62	4.4	338	-30
1958-59	49	4.8	296	-12

Source: *Wool Review*, National Council of Wool Selling Brokers.

In 1951-52 wool prices fell substantially, the number of bales sold was approximately the same, but wool realisations fell by 52 percent from the preceding year. Advances by the six pastoral houses, as well as for pastoral houses as a group, fell from the level of the preceding year. The extent of the fall was however only a fraction of the fall in the value of the wool cheque. While the pastoral firms were contracting advances in 1951-52 the trading banks were expanding advances to wool growers. In 1952-53, wool realisations increased by 32 percent

6. See K. O. Campbell and R. W. Archer, "A Survey of Expenditure Patterns of Graziers, 1949-54." Section G, A.N.Z.A.A.S., 1955.

over the preceding year. However, the pastoral companies were still contracting advances from the levels of the previous year and the trading banks expanded only slightly their advances for sheep raising. The contraction in advances by the pastoral houses in the face of an increase in wool prices from 72d. per lb. to 82d. per lb. and an increase in the number of bales sold from 3.4 mill. to 3.9 mill. may have resulted from a further attempt by the pastoral companies to reduce the levels of advances from those obtained in 1950-51.

In 1953-54, wool realisations fell slightly mainly because of a fall in the number of bales sold. The average price per lb. of greasy wool was constant between 1952-53 and 1953-54. Despite the fall in the wool cheque the levels of advances both by the six pastoral companies (with the exception of GM which recorded a slight fall) and the pastoral houses as a group showed substantial increases over those obtaining in the preceding year. Advances by the trading banks for sheep raising also showed substantial increases over the previous year. Again in 1954-55 the levels of advances by the pastoral companies increased in the face of a 10 percent decline in the wool cheque, while advances by the trading banks for sheep raising showed an increase over the previous year. So far as the pastoral companies were concerned advances were now running at levels in excess of those of 1950-51 while wool prices had fallen considerably from the peak of 1950-51. In 1955-56, the six pastoral companies, (with the exception of WC), as well as the pastoral firms as a group showed advances increasing again over the 1954-55 levels while the wool cheque had fallen by a further 5 percent from the 1954-55 level. The trading banks showed only an increase of 2 percent in their advances for sheep raising between 1954-55 and 1955-56.

In 1956-57, the wool cheque increased by 45 percent over the 1955-56 amount, due to both an increase in price and an increase in the number of bales sold. Advances for this year by the six pastoral houses (with the exception of AML and NZL) and for pastoral companies as a group showed an increase over the 1955-56 level of advances. However, the order of increase — 8 percent for the pastoral firms as a group — appears small in the light of the 45 percent increase in the wool cheque. Advances in 1956-57 by the trading banks for sheep raising actually fell from the level obtaining in 1955-56.

In 1957-58, wool realisations fell by 30 percent from the previous year due to falls in both the average wool price and in the number of bales sold, the latter fall showing the effects of climatic conditions. Despite this fall in wool realisations, advances by the pastoral companies showed an increase over advances made the previous year. The exceptions were ES and GM. I suspect a substantial part of this increase in borrowing by graziers would be due to the need to finance purchases of fodder for drought feeding or to finance movement of stock from drought areas or for restocking. Advances by the trading banks for sheep raising in 1957-58 also showed a considerable increase over the level of 1956-57. In 1958-59, advances by the six pastoral houses (with the exception of D) showed an increase over the 1957-58 level. However, for pastoral firms as a group, advances fell slightly. The average price per lb. fell substantially (from 62d. to 49d.) but the number of bales sold increased from 4.4m. to 4.8m. with the net result of a 12 percent fall in the wool cheque. Advances by the trading banks showed a slight increase over the previous year.

The pattern of advances by the pastoral companies over the ten year period raises some interesting questions about the advances policies of these companies. We have seen from the seasonal pattern of advances in Table 5 that there is a substantial short term component in total advances by the pastoral companies. However, the pattern of changes in the level of advances from one year to the next has not consistently followed the pattern of similar changes in the wool cheque. From 1953-54 to 1955-56, wool realisations were falling but advances by the pastoral companies were rising. The pattern of advances by the pastoral houses seems to have followed fluctuations in the general level of economic activity rather than fluctuations in wool realisations. While no single indicator serves unambiguously as a guide to the course of the economy during cyclical movements, it is interesting to compare the fluctuations in real activity (see Table 7) presented by Professor Karmel⁷ with the fluctuations in advances to wool growers. The year to year changes in advances by the pastoral houses appear to have followed the year to year changes in the level of economic activity. A possible hypothesis is that the pastoral houses have been more influenced by changes in general economic conditions than by changes in wool realisations.

TABLE 7

Year	Percent change in Real Gross National Product, from preceding year.	Percent change in advances, from preceding year.
1949-50	—	—
1950-51	7.4	55
1951-52	-2.6	-4
1952-53	-1.8	-4
1953-54	5.4	17
1954-55	9.3	20
1955-56	6.3	13
1956-57	2.2	8
1957-58	2.1	16
1958-59	9.2	-2

Source: P. H. Karmel, *op.cit.*

Annual Changes in Liquidity

One of the sources of advances by the pastoral houses is the deposits

7. P. H. Karmel, "The Australian Economy, March 1961". *Economic Record*, Vol. 37, No. 77, 1961.

8. Typically, creditors are not differentiated by type in the balance sheets used. The definition of creditors used for the six firms is as follows:

ES. Sundry creditors on open accounts, clients' credit balances, short term and other deposits, bills payable and amounts owing to bankers. According to the 1959 *Annual Report* "clients' credit balances represent the substantial part" of this item.

WC. Current accounts, sales open, sundry credits, provisions for taxation — not shown separately until 1962 when the amount of £0.145m. is shown. From the 1962 balance sheet, which shows a more detailed breakdown of creditors, clients' credit balances and short term deposits account for 83 percent of "current liabilities and provisions".

D. Trade creditors, clients' and other balances.

GM. Trade and sundry creditors, including proceeds of consignments, amounts owing on open accounts, amount owing to bankers and dividends unpaid.

AML. Sundry creditors and accrued expenses.

NZL. Sundry creditors and accrued liabilities.

Where separate information is shown on overdrafts these are not included in creditors in Table 8.

TABLE 8

Creditors of Six Pastoral Companies, June 30th, £m.

Year	Firm										Percent Change in clients' credit balances from preceding year. ⁹
	ES	WC	D	GM*	AML	NZL	TOTAL	Change from preceding year.			
1949-50	7.5	1.9	12.1	5.6	3.8	6.1	37.0	76			
1950-51	14.5	2.6	20.3	12.2	5.8	9.8	65.2	-17			
1951-52	15.9	2.5	15.0	9.7	3.9	7.4	54.4	3			
1952-53	12.8	3.1	16.5	9.1	5.4	8.9	55.8	-8			-7
1953-54	13.3	2.6	15.3	8.4	4.3	7.3	51.2	-6			-15
1954-55	10.7	2.9	14.4	9.3	4.0	6.8	48.1	-5			-5
1955-56	11.7	2.1	13.1	9.5	2.3	6.9	45.6	27			36
1956-57	14.8	2.9	17.4	10.2	4.1	8.3	57.7	-17			-26
1957-58	15.8	1.8	12.8	8.2	3.1	6.0	47.7	-1			-22
1958-59	17.2	2.2	12.6	6.1	2.9	6.1	47.1				

* March 31st.

9. The percentage change in clients' credit balances is based on data from A. S. Holmes, *Flow of Funds, Australia, 1953-54 to 1957-58*, Staff Paper, Reserve Bank of Australia, p. 67. For all pastoral companies, Holmes shows the large annual variations in clients' credit balances and the influence of annual fluctuations in wool realisations on these balances.

which their farmer clients leave with them. The creditors⁸ of the six pastoral companies are shown in Table 8.

The point in constructing Table 8 is to show the instability in "creditors" and the contribution which fluctuations in clients' credit balances makes to this instability. In addition to annual fluctuations in deposits with them, the pastoral companies must contend with seasonal movement in clients' credit balances, but data are not available to construct a monthly seasonal index of such movements.

The decline in wool realisations has meant a fall in clients' credit balances from the peak of 1950-51. This influence has been accentuated by a growing tendency for farmers not to leave their credit balances with the pastoral houses. The higher interest rates offering in other sectors of the capital market, particularly by hire purchase firms, has caused some wool growers to switch their balances from the pastoral firms to other financial institutions. This switching may have been one of the reasons for ES recently acquiring a 40 percent interest in Lensworth Finance Co. In addition, those customers of the pastoral companies who were previously using hire purchase finance — particularly for plant and equipment — can now be directed to a hire purchase firm in which the pastoral house has a direct interest. The movement by ES also results in a diversification of income sources for the pastoral firm itself. With the present uncertainty surrounding the future of wool as a fibre and the type of marketing organisation which may occur in the next few years, the wool broking houses are concerned with the viability of their firms as business enterprises.

In addition to the funds left with them by their farmer clients the pastoral houses may themselves obtain funds from other lending institutions with which to make advances. Information on the overdrafts of the six companies is scarce in the early years of the decade 1949-50 to 1958-59. What information there is available for the six companies is shown in Table 9.

TABLE 9
Overdrafts of Six Pastoral Companies, June 30th, £m.

Year	Firm					
	ES	WC	D	GM*	AML	NZL
1949-50	ns.	nm.	nm.	ns.	ns.	.8
1950-51	"	.05	.5	"	"	.9
1951-52	"	.1	.1	"	"	1.8
1952-53	"	nm.	.4	"	.04	1.1
1953-54	"	.5	.03	"	.05	.8
1954-55	"	1.0	1.5	"	.4	1.0
1955-56	"	1.6	.5	1.0(M)	2.4	2.0
1956-57	"	1.3	.05	1.5(M)	.03	.6
1957-58	"	2.4	5.3	1.5(M)	2.1	3.0
1958-59	"	.7	.6	1.7 + 1.4(M)	2.4	3.1

*March 31st.

ns. Not separately shown in balance sheet.

nm. Not mentioned in balance sheet.

M. Funds raised by mortgage on property.

There is probably a seasonal pattern in overdrafts which follows the seasonal pattern in advances so that at June 30th one would expect overdrafts to be at a seasonal low. From Table 9 it seems reasonable to assume that the pastoral houses did not rely significantly on their overdraft facilities to make advances prior to 1954-55.¹⁰ From 1954-55, there has been an increasing reliance on bank overdraft to provide advances to farmers as clients' credit balances tended downwards and as the level of advances tended to increase. The reliance on overdraft facilities may be reduced in periods when wool realisations and clients' credit balances increase even though advances are also increasing. This was the case in 1956-57 when the pastoral companies were able to reduce their overdrafts.

The pastoral houses have also raised additional funds by new issues of ordinary shares and various fixed interest securities. Part of the additional funds so raised has been used for purposes other than reducing overdrafts or increasing advances to clients. However, one of the purposes of the new issues has been to improve the liquidity of the pastoral firms. In the *Annual Report*, June 1954 of GM the following statement appears:

"The new capital issue in July of last year has improved the Company's liquidity ratio — the demand for advances, due to increased working costs and stock prices, has made it a matter of difficulty in recent years to maintain this ratio at a satisfactory figure." In Dalgety and Co's. letter to shareholders, dated February 1959, the Deputy-Chairman referred "to the increases in advances and the decrease in Clients' Balances which had taken place and to the serious effect these factors had had on the Groups finances, giving rise to bank overdrafts of over £.Stg. 4,000,000". In referring to a new issue of shares, the Chairman of Dalgety and Co. in his 1958-59 *Report* said, "These issues have all been completed and the proceeds thereof, as will be seen from our Balance Sheet, have enabled us materially to reduce our Bank Overdrafts and generally to improve our liquid position".

The decline in liquidity of the pastoral firms has resulted from the rapid increase in advances, the decline in deposits and the financing of the increased advances by running down holdings of cash and Government Bonds and the use of bank overdraft. The experience of the six companies with respect to their holdings of cash and Government Bonds is shown in Table 10.

The general decline in the holdings of cash and Government Bonds — although the experience of the various companies differs — is clear. In addition, the pastoral firms have to contend with substantial annual variations in these reserves. The pastoral companies are therefore confronted with a liquidity position which has deteriorated

10. A. S. Holmes in the flow-of-funds statement for all pastoral companies shows net borrowing by the pastoral houses from the trading banks of £0.3m. in 1953-4. This figure had increased to £5.7m. in 1954-55 and £14.1m. in 1957-58. In 1956-57, with the increase in wool realisations, the pastoral houses were net lenders to the trading banks to the sum of £6.3m. See A. S. Holmes, *op. cit.*, p. 69-70.

TABLE 10

*Holdings of Cash (Including Deposits on Short Term) and
Government Bonds of Six Pastoral Companies, June 30th, £m.*

Year	Firm													
	EST†			WC		D		GM*		AML		NZL		
	Cash	UK	A	Cash	A	Cash	UK	A	Cash	A	Cash	UK	Cash	UK-NZ
1949-50	1.0	1.2	2.3	.3	.01	6.1	2.0	2.3	1.0	3.9	3.6	.4	3.8	.3
1950-51	1.7	1.2	5.2	—	—	6.4	1.4	2.9	4.1	4.3	4.3	.4	5.9	.1
1951-52	1.3	1.2	5.0	—	—	1.6	1.3	.3	2.7	3.0	1.5	.5	4.0	.04
1952-53	1.6	1.2	4.4	.7	—	7.1	1.3	.3	3.2	1.8	3.5	.5	5.4	.04
1953-54	.9	1.2	4.5	—	—	4.0	1.6	.9	2.0	4.1	2.1	.5	2.1	.06
1954-55	.6	1.1	3.6	—	—	.5	1.4	.5	1.1	3.2	.4	.4	.6	—
1955-56	.3	1.1	3.6	—	—	1.4	1.5	.5	—	2.4	.3	.1	.9	.3
1956-57	.9	1.2	3.6	—	—	2.8	1.3	.1	1.4	1.4	.9	.01	2.3	.09
1957-58	.1	1.2	3.6	—	—	.5	1.6	.1	.3	1.4	.9	.01	.6	—
1958-59	2.6	1.4	3.1	—	.01	.8	2.6	.1	—	1.0	.4	.05	.6	—

A. Commonwealth of Australia.

UK. United Kingdom.

NZ. New Zealand.

—, Less than £10,000.

*March 31st.

†In the case of ES the securities listed under UK are actually a mixture of UK and Australian Government securities.

over the period considered and which fluctuates considerably from one year to the next. The liquidity ratios¹¹ of the six pastoral firms are shown in Table 11.

TABLE 11
Liquidity Ratios (Percent) of Six Pastoral Companies

Year	Firm					
	ES	WC	D	GM	AML	NZL
1949-50	60	16	86	88	126	59
1950-51	56	—	51	69	90	56
1951-52	47	—	21	59	62	44
1952-53	56	23	51	55	81	54
1953-54	50	—	42	73	74	27
1954-55	50	—	15	46	27	8
1955-56	43	—	25	25	11	13
1956-57	39	—	24	27	23	27
1957-58	31	—	12	21	18	7
1958-59	41	0.3	27	13	8	7

—. Holdings of cash and Government Bonds less than £10,000.

From Table 11 we note all six firms were most liquid in 1949-50. Annual average price per lb. of greasy wool had risen substantially in the period prior to 1949-50; from 10.4 pence per lb. in the period 1939-42 to 63.4 pence per lb. in 1949-50. During this period the pastoral firms were able to build up considerable reserves of cash and Government securities even before the advent of the wool boom in 1950-51. In fact, liquidity fell in 1950-51 since creditors had increased relatively more than holdings of cash and Government securities by the pastoral houses.

Conclusions

The pastoral houses have, over the period considered, become the largest single credit source for farmers, after the major trading banks. The rapid increase in advances by the pastoral firms has been accomplished, in the face of declining wool realisations, by running down holdings of cash and Government bonds, by new issues and by reliance on bank overdraft. The pastoral houses in their advances policy, have often differed from the major trading banks. In the decade considered there have been periods, for example 1951-2 and 1952-3, when the pastoral companies were contracting advances but the trading banks were increasing them. In 1955-56, the trading banks increased advances by 2 percent over the preceding year while the

11. Liquidity ratio as used here is defined as the ratio of cash on hand plus deposits on short call plus holdings of Government Bonds to Creditors (including bank overdraft but excluding loans on mortgage).

pastoral houses showed an increase of 13 percent. In 1956-57, the banks were reducing advances, but the pastoral firms were increasing them. The inter-relationships between the advances policies of the banks and the pastoral houses are by no means clear cut. Certainly, one could argue that the possession of substantial reserves by the pastoral companies would have allowed them greater freedom from the control of general monetary policy. However, given the decline in the liquidity position of the pastoral houses and their greater reliance on bank overdraft, the pastoral firms will now be much more susceptible to general credit restraint than they have been. The credit restrictions imposed in November 1960, should, on this argument, have had a much more pronounced impact than previous credit restraints. The effect of these restrictions on the pastoral houses is currently being investigated, but is beyond the scope of this article.

There seems little doubt that the pastoral firms cannot continue the rate of increase in advances they have shown over the decade considered. In the *Annual Report* of GM, June 1961, concern with the level of advances was expressed: "This Company has provided its share of the increased advances made by the Pastoral Finance Companies, but it has not been at all easy to do so and we have been compelled to reject many legitimate requests for financial assistance to clients". To a greater or lesser extent, the other pastoral houses have experienced the same decline in liquidity and the distinct possibility exists that the demand for advances will shift from the pastoral firms to other lending agencies. Such a switch in demand will impose additional strains on the trading banks and if these agencies cannot meet this demand then further pressures will be placed on the Commonwealth Development Bank.

I have already mentioned the uncertainty confronting the pastoral firms which arises from the downward trend in liquidity. In addition, the pastoral houses face substantial year-to-year variations in liquidity and also seasonal variations within a year. This instability may be generated by movements in wool prices and quantities, by changes in taxation incidence, by climatic effects such as drought, and towards the end of the period considered by general monetary and fiscal measures. The increasing concern with their liquidity position could mean an advances policy which will not allow such wide fluctuations in liquidity as before and such a change would have an immediate impact on the provision of rural credit. The increasing concentration amongst wool broking firms may further accentuate such a "conservative" advances policy since the consolidation of wool-broking houses could well mean a decline in the non-price competition embodied in the readiness to make advances.