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Capital and Credit in Agriculture:

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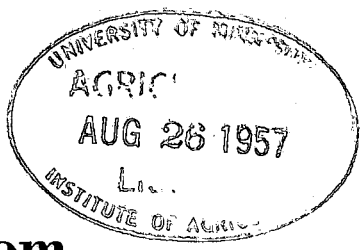

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CAPITAL AND CREDIT IN AGRICULTURE

INTRODUCTION

IN the long run the goods and services available for consumers depend, as to both quantity and value, upon the efforts, knowledge and skill of producers in conjunction with the resources at their disposal. Of these resources one of the most important is capital, which includes tools, machinery, permanent equipment and the funds invested in labour and raw materials during the productive process. All else being equal, the value of production tends to be closely associated with the amount of capital available.

For production to be maximized from given resources of land, labour and other raw materials, however, it is essential that available capital should be distributed in the right form and in the right proportions amongst the various productive enterprises. Obviously the best allocation has been reached within a given economy at any given time only when no increase in the value of the total product can be obtained by the transfer of increments of capital from one form to another within individual enterprises, or from some lines of production into others.

Such an ideal state of affairs is not likely to be reached exactly in practice. Changes in values consequent upon changing demand and improvements in techniques of production are likely constantly to outstrip capital movements, if only because of the relative durability and immobility of many capital assets. Also, because of the difficulties of precise valuation of capital assets it is often impossible in practice to determine exactly when a position of equi-marginal returns to capital would be arrived at. Nevertheless, it is only with the aim of approximating more closely to such an ideal, that movements of capital can economically be justified.

Under conditions of competitive enterprise there is some tendency for capital to flow naturally into the most productive lines. Where normal interaction of supply and demand causes the value of certain goods considerably to exceed their current costs of production, resources including capital are attracted into the making of these goods until the profitability of such enterprises is reduced to the common level by the expansion of supply and the satisfaction of demand. But

this automatic method of allocation of resources works only slowly and imperfectly, and is frequently hampered by obsolete traditions and set-ups. Of late years increasing attention has been paid in almost all countries to conscious and deliberate allocation of resources, including capital, in the belief that in many cases humanity can be served better in that way than through the blind operation of market forces.

In agriculture a particularly strong case can often be made out for authoritative intervention in the supply of capital, for it frequently appears that the provision of capital will make possible an increase in total product considerably exceeding increases in costs, and yet such capital would not normally become available either from within the agricultural sector or from without.

There are many occasions when agriculture is at a disadvantage compared with manufacturing industry both in accumulating and borrowing capital. These disadvantages are not necessarily related to a lack of capacity to make economic use of scarce resources, but are associated with the nature of food production and the traditional setting in which agriculture has evolved. Shortage of capital leads progressively to greater disadvantages as agricultural techniques develop, for the implementation of new techniques usually requires more and better equipment.

Generally speaking, as Professor Skovgaard points out on a later page, the rate of capital formation within agriculture is low in relation to total investment. This in turn is associated with the fact that farming is usually carried out in small independent family units, where capital can be accumulated only after living expenses have been met. Thus where there is strong pressure of population on the land net capital investment tends to be negligible, while the shortage of capital obstructs technical progress which might otherwise give rise to increased productivity which in turn would facilitate capital accumulation. Again, it can be the case that large-scale investments in undertakings such as irrigation could raise the productive potential of whole areas, but that there are not sufficient resources within the areas themselves to raise the necessary funds directly. Southern Italy offers many examples of such areas. The common system of freehold tenure also tends to strain capital resources even where it does not lead to fragmentation, for it is quite usual to find, as in Norway, that one of a number of children takes over the family farm and has to buy the shares of the other children, thus tending to deprive the enterprise of necessary capital for working and investment. On the other hand, the

provision of adequate capital by outside interests is not commercially attractive under the above-mentioned conditions because of a lack of acceptable security and also because of the time-lag which is inseparable from biological processes. Also, the predominance of small family enterprises has meant the virtual exclusion from agriculture of the joint-stock company, with its capital-raising advantages of limited liability.

These and other peculiarities of agricultural production give rise to the need in some cases for special governmental intervention in the form of loans, large-scale development projects, &c., and also for special financing institutions to cater specifically for agricultural capital needs. Here again, the type of institution which best suits industry might not be best for agriculture. The tendency to lend only where there is ample security in physical assets can lead to restricting capital supplies where they are most needed. Professors Tanberg and Aresvik suggest in a following article, surely with good reason, that the future earning capacity of the farm plus the individual farmer should be the prime consideration in the granting of loans. But this requires institutions which can make appraisals of personal qualities and are allowed to act accordingly.

Although it is not difficult to make out cases for special concessions to agriculture, however, it is necessary at the same time to consider their effect upon the whole economy concerned. It is always attractive to repopulate derelict areas or to revitalize stagnant ones; but it must always be remembered that capital is relatively scarce, and that the allocation of scarce resources for a particular purpose necessarily deprives other claimants. Before capital is deliberately diverted to agriculture, therefore, there should be good grounds for believing that its productivity in that use will compare reasonably well with that which it would otherwise generate—or that the social benefits which it will provide in agriculture outweigh any loss in national income which may be entailed. Such considerations involve estimations of capital productivity, which are very difficult to make in agriculture. These difficulties arise partly through problems of evaluation, and partly because, as Mr. Ashby indicates below, agriculture does not generally compete for its funds on the capital market. It is supplied mainly through the accumulation of family resources for which other uses are rarely contemplated, or else is supplied—as is often the case in Italy—by successful industrialists and others seeking *pieds à terre*, hobbies or repositories for savings where inflation is less

liable to dissipate them or taxation to whittle them away. Nevertheless, such estimates of productivity must be made if waste is to be avoided and if a particular section of the community is not to gain at a disproportionate cost to the remainder. In this present era of economic planning, methods of filling such gaps in existing knowledge must surely be given very high priority.

The papers in this and succeeding numbers of the *Journal* are written by specialists in various countries, and explain how capital shortages arise in agriculture, how it is attempted to meet these difficulties under varying conditions, and the institutional systems involved. No method of selection has been used in gathering the contributions other than the willingness and ability of correspondents of the International Conference of Agricultural Economists in various countries to contribute or to find competent contributors. Contributions have been received mainly from countries of advanced economic development, where institutional systems of collecting and distributing capital are correspondingly advanced. It is hoped and believed that accounts of problems already encountered, and of satisfactory and unsatisfactory methods evolved for tackling them, will not only be of mutual interest and help for the countries which have contributed, but will be of special value to the less fully developed countries with predominantly agrarian economies which are attempting by deliberate control and planning rapidly to increase the standards of living of their peoples.

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