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FORMATION AND USE OF CAPITAL IN NORWEGIAN AGRICULTURE

THERE was little need for capital and there were few financial difficulties so long as agriculture was restricted to subsistence farming. The transition to commercial farming, together with steadily increasing specialization necessitating the use of modern technical methods and greater operational resources, have greatly increased the need for capital. It follows that the possibilities of providing finance are of paramount importance for agriculture as an industry, and for the remuneration of the agricultural population.

The formation of capital in Norwegian agriculture has previously been brought about mainly by means of earning and saving. Financing by loan is a recent development, and as late as the beginning of the nineteenth century the personal credit between man and man was the only significant form of loan. It was not until the nineteenth century was well advanced that credit institutions in Norway became sufficiently widespread to effect any substantial alteration. In the present century also, the government has taken an active and increasing interest in credit policy, not only through its monetary and financial policy, but also by providing funds through public loan societies, and by influencing the loan policy of private credit institutions.

Because of its special conditions agriculture often finds it more difficult to obtain loans than do trade and industry. Also, even when agricultural loans are granted, the conditions are often more stringent than is usual for loans in other businesses. Combined action on the part of several small concerns can strengthen the position of the borrower, and it is this fact which forms the basis for credit co-operation. Even so, co-operative agricultural credit has become less widespread in Norway than in the other Scandinavian countries. The main reason for this is that as early as 1851 Norway had a National Hypothec Bank, which gave long-term credits to agriculture, and at the beginning of this century a national bank for long-term credits to smallholdings was established.

Marginal productivity of capital. Marginal analyses provide the best basis on which to decide whether a loan will be remunerative, how much should be borrowed and how the loan can best be utilized. The size of this marginal income will depend to a great extent upon the personal efficiency of the farmer. In reality, it is the future *earning capacity* of the farmer, therefore, which will decide how much capital he can exploit rationally. There are many indications that credit institutions ought to take this into account to a greater extent than hitherto. The granting of loans on such a basis would give better opportunities for less wealthy but capable farmers, as well as giving the credit institutions better security for the fulfilment of the loan conditions.

Regulations drawn up by the Agricultural Properties Bank of Norway in 1956 in connexion with a new fund for farm buildings, show that the *earning potentialities* of the farms will be taken into account when considering applications for loans and subsidies. Every application for loan must be accompanied, amongst other things, by a detailed operational and investment budget, as well as by full particulars as to how the investments will be covered.

General grouping of capital in agriculture. Capital in agriculture can be divided into two main groups: private capital and borrowed capital. Private capital is the capital which the owner himself has invested in the concern, while borrowed capital represents the amount which other persons or institutions have provided. According to the purpose for which the trading credit is required, the borrowed capital can be classified as investment credit and working credit. According to the type of security given, the loan may be classified as personal credit or real credit. According to the duration of the loan, it is regarded as long-term credit or short-term credit. Loans can also be classified according to the lender and to the production category of the borrower—for example, milk production, meat production or production of plants for direct sale.

Short summary of capital requirements in agriculture

(*a*) *Financing of transfers from father to son.* The price of agricultural properties has risen considerably since World War II, and the purchase of an estate today demands a substantial private capital, as the mortgage value has not risen in step with the price increase. [The mortgage value of a property is the valuation used by the lender as a basis for the granting of a loan.] The relatively low mortgage value has resulted in the long-term mortgage forming a steadily decreasing part of the purchase price. Therefore an ever increasing proportion of the purchase price has to be obtained by short-term borrowing or by the seller retaining shares in the property. Thus, many young farmers have substantial short-term mortgages which require large annual sums to cover interest and repayments. To alleviate the burden of the transfer of property between generations, a comparatively large permanent mortgage should be available so that the short-term loan can be limited as far as possible.

In Norway there are special laws and customs which are of great importance in transfers of property from one generation to another. The Åsetes Act aims at preventing accumulation of debts on property and excessive partition of land, in that the Act gives the heir the right to take over the estate intact and at a reduced estimate. In practice, this usually means a reduction in price of 25 or 30 per cent. of the full value of the estate. The Odel Act ensures that the estate passes to the heirs, and has led to the great majority of property transactions taking place by sale within families. This also results in lower prices being paid than if sale had taken place on the open market.

In many parts of the country it has been usual for the seller to receive annual payments in kind as a part of the purchase price. This special arrangement, which is usually called *kår*, has reduced the need for cash amongst young farmers who wish to buy themselves farms.

(*b*) *New investment in permanent equipment.* By permanent equipment is understood objects of investment having a relatively long life. It is closely connected with the estate and cannot easily be sold independently. Investment in the cultivation of land and the building of roads is in a special position, as it is in principle everlasting. Investment in ditches and farm buildings has a limited but a comparatively long period of usefulness. They are closely connected with the estate, even though the buildings can sometimes be sold for dismantling and removal.

(*c*) *Investment in chattels.* These can be sold independently of the estate: livestock, machinery and tools. The need for capital to invest in chattels has risen greatly during the last ten years owing largely to the considerable investment in tractors and other agricultural machines. For the operational year 1954–5, the net investment in agricultural machines was 87 million Norwegian kroner (£1 = 20

N.kr.) and in the operational year 1955–6 the amount was 76 million N.kr.

(*d*) *Working capital.* Working capital is necessary to obtain materials which are consumed in the course of production during an operational year or season. The need for it is largely dependent upon the distribution of income and expenses throughout the year. Where income is evenly distributed the need for working capital is reduced.

CAPITAL INVESTMENT IN AGRICULTURE

Market value of agriculture. The National Agricultural Budgeting Committee calculates each year the market value of all the agricultural assets in the country. By market value is understood the probable value which all the assets would realize if sold. Clearly, the capital actually invested in agriculture can deviate to a greater or less degree from the market value at a given moment.

The market value in the operational year 1955–6 was calculated at 6,860 million N.kr. As a comparison, the market value for the operational year 1939–40 was calculated at 3,081 million N.kr. The market value has therefore been more than doubled since the beginning of World War II. The market value does not include the value of the dwelling houses. In the operational year 1955–6 these were assessed at 1,526 million N.kr., as against 751 million N.kr. in the operational year 1939–40.

Accounting value of agricultural assets. Accounts from a selection of approximately 1,000 farms published by the Norwegian Institute of Agricultural Economics (Norges Landbruksøkonomiske Institutt) give a picture of the capital invested in individual farms.

Agricultural assets at the end of 1954, as an average of all farms included in the investigation, were 43,500 N.kr. From and including the accounting year 1954, the value of dwelling houses is shown under private assets, while previously they were entered under agricultural assets. Accounting inquiries show that there was an increase in the value of agricultural assets of about 80 per cent. from 1948–9 until the close of 1954. The real rise in value is even larger, as the value of the dwelling houses is not included in agricultural assets from and including the accounting year 1954.

Accounting inquiries by the Institute show that the values of fixed assets were 52·3 per cent. and of current assets 47·7 per cent. of all agricultural assets. On an average, 31 per cent. of the capital was invested in farm buildings, 26 per cent. in livestock, and approximately

15 per cent. in machines and tools. The relatively large investment in buildings is characteristic and is due mainly to Norway's geographical position, with long and, in part, cold winters. It is also due in part to comparatively easy access to building materials by reason of the large forest tracts.

AGRICULTURAL FINANCING

Buying and running the farm

Financing by private savings

This was the main method in former days. During the period of subsistence economy, the value of property was low and there was little need for capital. With the transition to a monetary economy, the value of property rose while technical development made available an ever-increasing number of machines and other aids to production. The need for capital has continued to rise, and it has become more and more difficult to meet all requirements from private sources. The amount of borrowed capital has risen substantially since the end of World War II, although private capital still accounts for a considerable share.

Financing by loan

Borrowed capital in agriculture. Borrowed capital amounted to 1,329·5 million N.kr. in 1939. During World War II, a large part of this was repaid, and at the end of 1946 the amount known to be on loan in agriculture was 589 million N.kr. The marked reduction in borrowed capital during the war was due principally to lack of investment possibilities, and to inadequate maintenance of buildings and machines. In 1955 borrowed capital had risen to 1,949 million N.kr. The amount has therefore been more than trebled during the last ten years.

Credit institutions and types of loan. There are several credit institutions. Table 1 lists them and shows the amount loaned by each and the percentage this sum represents of the total loan capital.

The combined loan capital of 1,949 million N.kr. in 1955 consisted of 1,470 million N.kr. in mortgages, 243 million N.kr. in bills of exchange, bonds and debentures, and 236 million N.kr. in cash credits and merchants' debts, &c. The mortgages therefore represented as much as 75 per cent. of the borrowed capital in 1955, and will be described first.

TABLE 1. *Borrowed capital in agriculture at 30 June 1955*

Lender	*Amount of loan in mill. N.kr.*	*As a % of all known loans*
Norway's Rural Credit Society for Agriculture and Forestry (Norges Kreditforening for landog skogbruk)	123·9	6·35
The Farmers' Society for Short-term Credit (Centralkassen for Böndenes Driftskreditt)	11·4	0·60
Norway's Rural Hypothec Society (Norges Landhypothekforening for 2. prioritets pantelån på jordbruk og skog)	1·4	0·07
Agricultural Loan Society (Lånekassen for jordbrukere)	4·1	0·21
The Agricultural Credit Society for Farm Operations (Driftskredittkassen for jordbruket)	32·3	1·66
The Hypothec Bank (Kongeriket Norges Hypothekbank)	271·0	13·90
The Agricultural Properties Bank of Norway (Noregs Småbruk og Bustadbank)	185·6	9·52
Public funds	41·0	2·10
Assurance companies	29·0	1·48
Savings and joint-stock banks	859·0	44·08
Other loans	390·3	20·03
Total	1,949·0	100·00

Institutions which grant hypothec loans. The most important lenders are the savings and joint-stock banks. At the end of 1955 loans to agriculture from savings banks amounted to a total value of 698 million N.kr. and from joint-stock banks to 141 million N.kr. The savings banks therefore provide the paramount share of the loans from this group of lenders.

About two-thirds of the agricultural loans from the savings banks is given as long-term mortgages; but in the case of the joint-stock banks, long-term loans comprise only about one-third of the amount loaned to agriculture. Long-term credit is given mainly as first priority loans, although some long-term credit is granted against second priorities. Mortgages are granted up to 60 per cent. of the sale value of the properties. Mortgages are usually issued with six months' notice of termination, but are often quite long term.

The Hypothec Bank is a national bank which was established in 1851. Its aim is to give long-term loans against mortgages on real estate. The loans are granted on business terms against first priority mortgage up to 60 per cent. of the valuation of the property.

The duration of the loan is 52½ years. The loan is repaid in equal half-yearly instalments. From and including 1955 the Bank issues loans only to agriculture. The extent of the total loan must now be approved yearly by Parliament. At the end of 1955 the Bank had outstanding loans to the value of 451·3 million N.kr. About 60 per cent. of this sum was loaned to agriculture.

The Bank previously obtained capital for loans by the sale of bearer bonds, but no increase has been made in loans since the restriction of credit.

The Agricultural Properties Bank of Norway is also a national bank which was established in 1915. Its aim is to give ordinary loans for use in agriculture and forestry, and loans for houses not connected with agriculture and forestry. From 1925 the Bank has also functioned as a public land-clearing and housing bank.

Until 1947 the Bank had a definite social purpose, with the main task of lending for land clearing and house building. Subsequently, the Bank has become an agricultural bank to a greater extent than before.

According to the rules now applying, the Bank can grant loans up to between 70 and 90 per cent. of the loan valuation, so long as the amount loaned does not exceed 40,000 N.kr. The Bank lends money against first and second priorities, but the majority of the loans are for first priority. In addition to the security given by the mortgage, a communal guarantee is required for one-third of the amount borrowed.

Loans for land-clearing and other new work are not subject to repayment for the first five years. For other loans, two years' grace is given. Thereafter, all loans must be repaid within forty-seven years in equal half-yearly instalments.

In addition to its usual lending activities, the Bank has been entrusted with the administration of a newly established fund which is intended for the marginal financing of farm buildings on family estates.

All capital for loans is supplied to the Bank by Government grants.

Norway's Rural Credit Society for Agriculture and Forestry is a co-operative institution which was established in 1915. Its aim is to give loans to farmers and their co-operatives on reasonable and secure conditions. It is organized by the borrowers and gives first priority mortgages up to 60 per cent. of the appraised value of agricultural or forest property, co-operative, &c., and up to 40 per cent. of the serviceable value of houses and other permanent buildings on the estate. The duration of the loans is fifty-four years, and the rate of interest cannot be raised during the period of repayment. The money required for loans is obtained by the Society through the sale of bearer bonds.

Norway's Rural Hypothec Society for second priority mortgages for agriculture and forestry is a daughter institution of the last-mentioned Society and was established in 1942. It is the most important institution giving second priority mortgages and can grant loans up to 67 per cent. of the appraised value of an estate. The rate of interest is fixed and cannot be raised during the term of a loan, which is thirty years.

Public trusts, foundations and endowments also provide funds for loans against mortgages in real estate.

Other types of loan and credit institution. Apart from the institutions which give loans against mortgage in real estate, farmers can obtain loans on other conditions in a number of institutions.

The Agricultural Credit Society for Farm Operations was established by Act of Parliament in 1936. This is purely a loan institution for short-term loans to cover working expenses.

The Government has granted money for a basic fund by arrangement with local operational credit societies, which are a type of co-operative to which anyone engaged in farming, and qualified to do so, can belong. Membership is obtained by the purchase of lots, the minimum price of which is 8 N.kr. Each member is allowed from 1 to 20 lots. Farmers with more than certain minimum areas may buy additional lots, with a maximum of thirty lots. A holder of machines is eligible for fifty lots. Up to 200 N.kr. can be borrowed on each lot. Loans can be granted for all types of equipment and for construction in connexion with farm work.

For construction work, loans are limited to 75 per cent. of the estimated cost, and the duration of the loans is ten years. Security is provided by letters of indemnity in the borrowers' real estate, with priority up to 80 per cent. of the appraised value of the estate.

The period of repayment of loans for the purchase of equipment varies from six months to 7½ years, according to the use to which the loan is put. The society owns the purchased equipment until the loan is repaid.

Loss on loans is covered first and foremost by a reserve fund, and where this is insufficient, up to 50 N.Kr. per lot can be levied.

The Farmers' Society for Short-term Credit is a daughter institution of Norway's Rural Credit Society for Agriculture and Forestry, and was established in 1925. The most important task of the institution is to provide operational credits for forestry work. The loans are given against security in the quantity of timber which is reported to the forestry unions, and the loan is repaid by deduction from the price paid for the timber by the marketing organization.

Agriculture in Norway has also the opportunity to borrow money by means of cash credits, short-term loans against the surety of two solvent persons, and bills of exchange in savings banks and joint stock banks. Short-term loans are the most usual.

The purchasing co-operatives also provide credit for agriculture. Against collective responsibility, members in a local purchasing co-operative can buy equipment and materials through the regional purchasing pools against future payment.

Financing by direct government subsidies and levies

Clearing land in order to extend the farm or start new farms has long been financed to a greater or less degree by direct government subsidies. This must be considered in connexion with the fact that the area of cultivated land in Norway allows for only about 2·4 decares per inhabitant, and that the arable area is not sufficient to produce the crops needed by the country. Also, the majority of farms are so small that it is of the greatest economic importance that the farmers should be able to obtain money for the enlargement of farms.

Government grants for clearing land now cover 40 per cent. of the estimated costs on farms of under 200 decares of cultivated soil, with a maximum of 280 kr. per decare. To qualify for this subsidy the owner must not have more than 100,000 N.kr. in property, or over 15,000 N.kr. in annual taxable income. In addition, increased government grants are given for clearing land on farms of under 75 decares. The government contribution here can cover up to 80 per cent. of the estimated cost, but not more than 560 N.kr. per decare. To be eligible for this increased grant, the owner must have not more than 75,000 N.kr. in property or 12,000 N.kr. in annual taxable income. Government assistance is not given for clearing land on farms of more than 200 decares of cultivated land.

Government subsidies are also given for partly financing the erection of plant for the collection of fertilizers, for silos, for farm roads and for irrigation of waterlogged land, &c.

In addition, the government grants an annual amount for writing down prices of artificial fertilizers, fodder concentrates, seed, &c. These funds are of great assistance, especially to poorly situated farms, for which the need for working capital is thereby reduced.

The fund for farm buildings was established in 1956. Capital is to be supplied by annual government grants, 20 mill. N.kr. having been granted for the first year.

The aim of the fund is to secure marginal financing for larger repairs or the erection of new buildings on farms which can become dependable family farms. The assumption is that the basic financing is covered in the usual way through the ordinary credit institutions. To obtain support from the fund, it is necessary, amongst other things, to produce complete working plans for the farm, details of investments and a scheme which shows how the investments are to be financed. The fund is a new departure, in that its activities are associated with an extensive technical advice service at the same time as the economic support is made dependent on the *earning potentialities of the farm* in the future.

Special financing arrangements in forestry. With the introduction of The Forest Protection Law in 1932, funds were established for planting and other forest cultivation. The funds are financed by subtracting 2 per cent. of the sale value of conifer timber.

In 1947 temporary permission was given to levy an investment tax on the sale of forest products, and in 1952 an Act was passed to implement this. According to the Act, the investment tax must be used for the benefit of forest production and work in the forest.

The amount of the investment tax is fixed each year by the king, after the forestry economic organizations have had the opportunity of stating their case.

The investment tax is deducted from the payment to the forest owner for his products, and is placed in the nearest bank in an investment account for forestry. The forest owner cannot reclaim this money until he can prove that such forest work as the investment tax is intended to finance has been carried out. Such approved work includes the preparation of working plans for the forest, forest improvement work and construction of forest roads and accommodation for forest workers.

The intention of both these Acts was to ensure that a proportion of the money should be used to ensure forestry production in the future.

FINANCING OF AGRICULTURAL CO-OPERATIVE ORGANIZATIONS

The majority of the co-operative enterprises in Norwegian agriculture are organized as co-operative societies. These societies have many different aims, but the majority of them can be classified either as purchasing co-operatives, as sales or processing co-operatives or as co-operatives which perform services. Recently there have also been various forms of production co-operatives. They are run by agricultural producers, so that tasks which previously had to be undertaken by individual farms can now be dealt with collectively. The activities of these societies are so closely related to basic farming that capital formation in agriculture cannot be discussed without including them.

Agricultural co-operation in Norway is mainly on a commodity basis, with local associations and plants amalgamated in regional organizations. The regional organizations for each group of commodities are united in a national organization, and these top organizations within each commodity group are brought together in the Federation of Agricultural Co-operative Associations (Landbrukets Sentralforbund).

The national co-operative organizations have undertaken market regulation as part of their work, and this work is given government support by means of legislation, in that the Norwegian Agricultural Marketing Act of 1930 gives the right to impose a sales tax on certain agricultural goods. The Agricultural Marketing Act now covers all the more important agricultural products other than timber. The money collected by means of this tax can be used only for prescribed objectives for the benefit of all producers, in accordance with the decisions of the Marketing Board. In this short account, sales and processing co-operation has been used as a basis. The purchasing co-operatives finance their activities principally by means of margins on the turnover of goods, and from the funds which have gradually accumulated in this way.

Financing the local co-operative societies

The need for capital to start a new co-operative society depends to a great extent on the size of the technical plant required, or whether the society can function without such plant. The highly technical type of co-operative enterprise gives rise to the greatest financial problems, and it is the formation of capital in such societies which needs to be discussed here. In Norway there are no fixed rules for the formation of capital in a co-operative, so that the discussion can be only general.

Financing by purchase of shares. The first step towards the formation of private capital in a co-operative society which is dependent on considerable permanent plant is to obtain share subscriptions from its members. The amounts of these subscriptions vary considerably, but as a rule they are small. When determining the size of subscription, more thought is often given to enabling all agricultural producers to join the society than to securing a sufficiently large private capital for the rational operation of the new plant. The intention is that co-operative societies shall be open to all with interests in common, and the aim is to achieve the largest possible membership. The value of the shares, therefore, is often determined by what is considered reasonable to ask of the great mass of small producers, who are seldom well to do.

The number of shares which a person must purchase in order to become a member of the society depends in principle on the advantage he can expect to gain from the society's activities. In the sales co-operative, an estimate is often made of the productive capacity of the farm as a basis for arriving at the number of shares which must be bought. In the dairy co-operative, it is quite usual to reckon one share per milking cow, but the value of each share can vary from 5 N.kr. in older dairies to about 300 N.kr. for dairies now being built. In the slaughter-house co-operative, the share subscription is often set at 30 or 35 N.kr. per 10 decares of cultivated land.

When the list of members is complete and the allocation of shares concluded it is usually found that the capital available to the society is quite inadequate to begin operations. More capital has to be found, and it is generally obtained by various forms of loan.

Financing by loan. If the share capital represents a relatively small part of the total capital required, it may be impossible to borrow the full amount needed from the ordinary credit institutions. In such cases, the question is often solved by borrowing from members. Where members have found difficulty in obtaining the necessary cash, it was often the custom previously to raise a loan from an ordinary credit institution against the collective security of the members. This had the disadvantage that each member became responsible for the entire loan. To reduce the risk for the individual member, it is now usual to split up the necessary amount into several smaller loans, which are guaranteed by groups of members.

Co-operative enterprises which already have considerable capital of their own can obtain loans in credit institutions on ordinary conditions, e.g. against mortgage on the technical plant. This applies especially to older co-operative enterprises which need capital for expansion or modernization.

Financing by means of accumulated reserves. In practically all sales co-operatives, money is set aside annually in various funds. These can be reserve funds to meet trading losses or operational deficits, or they can consist of money set aside for building funds, &c. In spite of the fact that such yearly reservations reduce the price paid to the producer, they are the share-society's property. A certain amount of provision for funds is stipulated by law, but many societies accumulate greater reserves than the law requires. Naturally, such reserves are used for financing future expansion, larger repairs or new purchases. Funds, therefore, provide an important means of financing for older societies.

Some co-operatives obtain working capital by withholding payment to producers for a limited period. In this way, they borrow money from members and use it for a short time before repaying it. These loans are known as revolving funds.

Financing of sales co-operatives for furs and forest products

The types of financing mentioned above do not apply to the co-operative societies which handle furs and forest products. In these societies the capital necessary to cover the working expenses is raised by a levy on the goods marketed.

The Fur Breeders' Association of Norway (Norsk Pelsdyravlslag) does not sell shares to members. To be a member requires only an annual subscription of 10 kr.; and half of this amount is in payment for the society's magazine which is issued monthly.

Almost the entire fur production is exported, and the marketing takes place at auction sales, where buyer and seller meet. The buyer pays 2 per cent. sales commission and the producer 3 per cent. to cover the expenses of marketing. In addition, the producer must pay 1 N.kr. per skin for export declaration. Three per cent. sales tax is also deducted from the payment to the producer and sent to the Marketing Board.

Apart from the membership subscription to the Fur Breeders' Association (mainly to cover the expenses of information services to the producer) this method of financing obtains contributions proportional to the use which members make of the Association.

The financing of the sales organizations for forest products is much the same as for furs, but forest products are not subject to the Marketing Act and are therefore not liable to sales tax. At the moment, the sales organizations impose a commission of 2·75 per cent. of which 1·5 per cent. is paid by the buyer and 1·25 per cent. by the producer. The top organization, Norway's Forest Owners' Association (Norges Skogeierforbund), receives 0·5 percentage units of the sales commission to cover their administration expenses, and for propaganda and information services. The remaining 2·25 per cent. is used by the regional sales organizations to cover their expenses, any surplus being set aside as funds.

Financing of top organizations in agricultural co-operation

The top organizations in agricultural co-operation receive the greater part of the funds which are formed by means of the sales tax on agricultural produce. This tax is therefore the most important foundation for the financing of the work done by the top organizations in regulating the market. This regulation is achieved by augmenting storage capacity, by the allocation of produce from districts with surpluses to those with deficits and by exporting any produce which is in excess of home-market requirements.

The money yielded by the sales tax is administered by the Marketing Board. Separate accounts are kept for the different commodities, and the money can be used only for market-promoting activities for the commodity to which it applies. For such purposes, which include the building of warehouses, and advertisement and information services, the top organizations must apply to the Marketing Board for an allocation of the money raised by the sales tax.

The regional and national top organizations are also financed by the receipt of share capital from the affiliated local co-operative societies. The share contributions here are often determined in relation to the annual turnovers of the local societies.

Especially within the dairy co-operatives, a type of sales tax is used which is collected by the regional milk pools by the fixing of prices to the local dairies. This tax is sent to the national organization for dairy co-operatives. The money is used by the top organization in addition to the amounts allocated to it by the Marketing Board. The money received by the organization from the fees paid voluntarily by the members can be used at the discretion of the organization, and without the sanction of the Marketing Board, which sanction is necessary in the case of money raised by means of taxes under the Marketing Act.

TRANSFER OF CAPITAL TO ECONOMICALLY WEAK AREAS

Social development in Norway has been such that economic progress has been more rapid in some areas than in others. Certain districts have been backward in the building of industry, and are relatively under-developed in comparison with other parts of the country. The Regional Planning Council was established in 1949 to determine the development possibilities of the various districts. This council is a central organization, and county councils are established in most counties, each with a local planning office. Statistical and economic analyses have been compiled for a number of counties, and the intention is that these shall form a basis for further development programmes in the counties.

There follows a short survey of the financing of the development programme for North Norway, after which the afforestation plans for Western Norway are described. In dealing with the development plan for Northern Norway, the main emphasis has been on financing development schemes within the agricultural industry.

Development programme for Northern Norway

General

To provide capital for the development programme for Northern Norway, the following resolutions were passed by Parliament on 18 March 1952:

(*a*) That a Development Fund should be established for Northern Norway.

(*b*) That there should be special tax regulations in connexion with the development programme.

(*c*) That there should be special government action.

The Fund has a private capital of 100 million N.kr. and may accept loans up to 100 million N.kr. from public funds. These loans are guaranteed by the government. The aim of the Fund is to contribute to the financing of industrial activities which can provide permanent employment. It can give loans after other financing possibilities have been exploited to a reasonable extent.

The term of a loan should not exceed twenty years, and should be made over to ordinary credit institutions as quickly as possible. Loans bear interest in the usual way, but in special cases certain reliefs can be given, such as temporary exemption from interest and repayment.

The Fund can also guarantee loans in other credit institutions.

A guarantee fund of up to 25 million N.kr. is set aside, but the Fund can guarantee up to twice this sum. At 1 July 1956 the Fund had promised financial support to a total of more than 100 million N.kr., distributed amongst 262 enterprises.

The special tax regulations resolved by Parliament in connexion with the development programme for Northern Norway have the object of facilitating private financing, and encouraging the transfer of existing businesses to the district or the starting of new businesses. The most important decrees are:

(*a*) Persons, companies or concerns which pay communal taxes in a district in Northern Norway can claim deductions from their income in this district for the provision of a fund for the purchase of equipment for use in the pursuit of industry in Northern Norway. The amount set aside each year must be at least 5,000 N.kr. The initial cost of the new equipment is to be written off to the extent of three-quarters of the amount taken from the fund.

(*b*) Other taxpayers can, with the consent of the king or those acting on his behalf, claim deductions for the provision of funds for the same purpose. The yearly amount set aside by such taxpayers must not be less than 25,000 N.kr., subject otherwise to the same conditions.

In the years 1951–5, the amount set aside by taxpayers in Northern Norway for investment purposes in accordance with these conditions was about 130 million N.kr. Taxpayers in Southern Norway set aside about 135 million N.kr. during the corresponding period.

Special government action includes extra grants over and above the annual budget, for special undertakings in Northern Norway. In all more than 94 million N.kr. has been voted since the beginning of the development programme in 1951–2. To this sum must be added 24·5 million N.kr. for extraordinary road work, which is of great importance for the development of industry in the district.

Provision of capital for agriculture in Northern Norway

The Development Fund for Northern Norway had promised at 1 July 1956 a total of about 1·4 million N.kr. for the development of nurseries, poultry farms and mink farms. A special greenhouse consultant, part of whose salary is paid by the Fund, is employed. It has also given loans and guarantees for loans for the building of meat-processing plants, amounting to about 2·3 million N.kr. It has also given loans and guarantees totalling 66,050 N.kr. for equipment and machines for agriculture.

The Fund has also guaranteed a loan of 1·5 million N.kr. to cover operational credit for the Northern Norwegian Milk Pool, and has guaranteed loans to various dairies and slaughterhouses. The Troms county Forest Owners' Society has received a guarantee for an operational loan of 150,000 N.kr. from the Fund.

The special tax regulations in connexion with the development programme in Northern Norway have had no great influence on the supply of capital for farming in the district. Up to 15 March 1956 only 25,000 N.kr. was contributed by taxpayers in Southern Norway for agricultural projects in Northern Norway. In the two counties Nordland and Troms, about 923,000 N.kr. was used out of the money allocated to the district. There are no figures available for Finmark county, but the amount deposited there has been modest.

Special government action in connexion with the development plan for Northern Norway includes extraordinary grants over and above the annual budget. Statistics show that in addition to the Department of Agriculture's budget, a total of about 37,354 million N.kr. has been voted during the period 1951–2 to 1956–7. Of this amount, almost 32 million N.kr. had been used up to 30 June 1955.

About 5·3 million N.kr. of this money was used for extending and rebuilding three agricultural schools, and a special allocation of 1 million N.kr. has been made for the building of a horticultural school in the district. In addition, more than 400,000 N.kr. have been used for shorter courses in farming and care of livestock. Extraordinary grants have also been made for the extension of consultant services within agriculture. All these sums represent money which benefits indirectly the agricultural industry. The technical insight of the population into farming is relatively poor, because it has always been the practice to combine farming with fishing. Better possibilities for technical education in farming are therefore an important precondition if the agricultural industry in the district is to be able to enjoy the advantages which other occupations offer.

Marketing and processing plants are important prerequisites for the marketing of agricultural produce today. The development of a marketing apparatus for farming produce has therefore been planned on a co-operative basis. As the farms in the district are small, and the owners often lack capital, it is difficult to raise the money necessary to execute such a plan. To help in solving the difficulties, extraordinary grants in addition to the national budget have been made for the establishment of such plants.

A total of 5·5 million N.kr. has been allocated to the slaughter-house co-operative in Northern Norway. Subsidies have been given to six slaughter-houses in the larger towns in the district. The most recent grant of 0·5 million N.kr. has not so far been disposed of.

Up to 1 July 1956 a total of 3·3 million N.kr. has been granted to the dairy co-operative in Northern Norway. Loans and subsidies have been given to eleven dairies in all. The original plan for the building and modernizing of dairies in Northern Norway is therefore largely completed.

In addition, considerable grants have been made for land clearance and building of new farms on larger areas in the district. A further grant of 1·2 million N.kr. has also been awarded for farm roads.

Roads and good communications are on the whole a decisive factor in the operation of a modern commercial farm.

The Afforestation plan for Western Norway

The afforestation plan for Western Norway was approved by Parliament in 1954, and embraces the four western counties and West Agder county. The plan covers an area of 65,000 sq. km., or about 20 per cent. of the area of the whole country. A large part of the area lacks forests; in other parts the forest consists mainly of pine and broad-leaved trees. According to the available statistics, there are 2·2 million decares of bare ground which are suitable for forest planting, and also 1·4 million decares of poorer quality broad-leaved forest which require clearing and replanting with spruce to bring the total forest area up to 3·6 million decares.

The plan assumes that about sixty years will be required to plant the entire area, and this corresponds approximately to the usual rotation period for these site classes under the climatic conditions prevailing in Western Norway. After the completion of the plan there will be an even growth of forest within the area as a whole.

The plan assumes that 60,000 decares shall be planted annually, and the costs in 1951 were estimated at 5 million N.kr. a year. This investment is so large that the owners of most of the area cannot supply the necessary capital. In addition, afforestation is a long-term investment the full benefits of which cannot be enjoyed by the present owners of the estates. Afforestation is not, therefore, especially tempting as an investment for private capital; but from a social point of view it is of the greatest value. When the whole area is planted and in full production, it is estimated that it will give an increase in output of

1·6 million cu.m., which will mean a considerable increase in the country's export income for forest produce. In the long run the plan will also give increased employment and larger earnings for the local population. In many places investment in afforestation is an important means of enabling small farms to become self-supporting.

The financing of afforestation at the moment is usually shared, the government paying 50 per cent., the commune 25 per cent. and the owner of the land 25 per cent. of the expenses. In many communes a communal afforestation leader is employed and the government supports him by covering 1,000 kr. of his yearly salary. The landowner's share of the expenses of afforestation is not expected to be larger than he can cover by his own efforts. The planted area in Western Norway has increased considerably in recent years, and this indicates that the work is no longer hindered by the problem of finance.

USE OF CAPITAL IN AGRICULTURE IN RECENT YEARS

The National Agricultural Budgeting Committee calculates every year the amount of capital expended in agriculture to cover depreciation, net investment and working capital. Depreciation is defined as the combined writing-off and maintenance of farm buildings, ditches, machines and tools.

Table 2 shows the amount of capital used annually in farming, and how this capital is apportioned amongst the various items.

TABLE 2. *Annual capital usage (million N.kr.)*

	1939–40	*1954–5*	*1955–6*
1. *Depreciation*	115·9	339·0	356·0
Land capital	4·0	16·0	16·0
Farm buildings	75·0	208·0	214·0
Machines and tools	36·9	115·0	126·0
2. *Net investments*	32·4	204·8	198·0
Land capital	17·4	41·8	46·0
Farm buildings	15·0	76·0	76·0
Machines and tools	—	87·0	76·0
3. *Total investments*	148·3	543·8	554·0
4. *Working capital*	264·0	712·0	798·0
Annual capital usage	412·3	1,255·8	1,352·0

The table shows that the amount of capital used in farming has more than trebled since before World War II. There has been an especially large increase in investment in machines and tools in recent years, but the net investment in farm buildings is more than five times larger than before the war. The gross receipts in farming in the operational year 1955–6 were 2,306 million N.kr. The capital used in farming during that year represented about 59 per cent. of the gross receipts. This is higher than in the majority of other industries in the country and shows that modern farming makes large demands on capital.

ASSESSMENT OF CAPITAL SITUATION IN NORWEGIAN AGRICULTURE

Borrowed capital in Norwegian agriculture has shown a marked increase in the last ten years. But the market value of the total agricultural assets has also risen, so that private capital in 1955 represented 75 per cent. and borrowed capital 25 per cent. of the market value of agriculture. In 1939 private capital represented 64 per cent. of the market value. Agriculture, therefore, has a relatively lower debt now than before World War II; but should the present comparatively high price level fall, the capital situation may quickly deteriorate.

If the relation between long-term and short-term loans is considered, the capital situation appears less favourable than when only the total sum is considered. In 1955 the long-term mortgages represented about 75 per cent. of all loans in farming; and it is here that the greatest increase is shown. It is probable that a great deal of the high investment in machines and tools is financed by loan against mortgage in real estate. This can have an unfortunate effect in reducing the possibilities of obtaining loans for genuine long-term investments.

The credit institutions which serve agriculture in Norway are well developed and function satisfactorily on the whole; but the strong technical-economic development since the war has greatly increased the need for capital and will lead to a steadily increasing necessity for credit financing. If the credit institutions are to fulfil their task in the future, they will have to be assured of capital to meet the increasing demand for loans. It would also be desirable for the regulations to be adjusted so that loans could be granted against mortgage in chattels. The increased mechanization in recent years has given rise to a new and real need for such loans.