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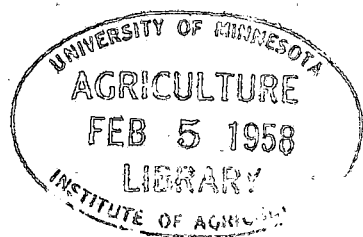
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PROBLEMS OF THE FORMATION AND USE OF CAPITAL IN GREEK AGRICULTURE

THE problems of the formation and use of capital in agriculture are of particular interest for Greece because of the high rate of interest. In fact the bank interest on current accounts varies from 10 to 12 per cent., and savings accounts bank interest from 7 to 10 per cent.

It has been estimated that the total capital investment in Greek agriculture for the year 1955 amounted to 3,857 million dollars; fixed capital was about 85 per cent. and operating capital 15 per cent. The small proportion of operating capital was due to the following reasons.

(a) The relatively high value of land as a result of its scarcity (only one-fourth of the total area of the country can be used for agricultural purposes). Orchards and vineyards reflect even more the value of fixed capital because they amount to about 44 per cent. of its value.

(b) The small size of farms (the average is about 3.5 ha.), the family type of farming, and the large proportion of farming located in mountain regions. As a result, machinery and equipment are used to only a small extent though there has been a post-war increase in the capital investment from 90 million dollars (pre-war) to 140 million dollars (in 1955).

(c) The circulating capital (current assets) is relatively small (about 158 million dollars) in spite of the increasing use of fertilizers, pesticides, &c. This is due to the fact that most of the labour is unpaid family labour.

Livestock numbers were reduced during the war, but since then breeding animals have increased to more than the pre-war figures, while working stocks remain below pre-war levels.

The average capital investment per farm, for one million farms in 1955, was 3,857 dollars (fixed capital 85 per cent., operating capital 15 per cent.). The average size of 3.5 ha. per farm unit mentioned above refers to units ranging from 0.1 ha. to 30 ha. (50 per cent. are 1-5 ha., 25 per cent. are very small, 0.1-1 ha., and only 25 per cent. are between 5 and 30 ha.). Apart from the reasons already given, the small size of farms is due to a redistribution of land that has taken

place in recent years. Uncultivated land used as pasture (if under 50 ha.) and forests were excluded from the redistribution and are not considered in this article.

Farm size and capital investment do not always correspond because many farm units in irrigated land are small, but as they carry more productive plantations (orchards, vineyards, &c.) they give higher revenues than units in non-irrigated lands which are usually larger and have most of their capital invested in machinery and equipment.

The annual interest charge for capital investment in farms is:

| | | | <i>million dollars</i> |
|--------------------------------------|--|----------------------|----------------------------|
| 1. Fixed capital | | | |
| Land, pasture | | $1,717 \times 5\% =$ | 85.85 |
| Orchards and vineyards | | $1,460 \times 7\% =$ | 102.20 |
| Buildings | | $100 \times 6\% =$ | 6.00 |
| | | | <u>194.05</u> |
| 2. Livestock | | $322 \times 9\%^1 =$ | 29.00 |
| 3. Machinery and equipment | | $100 \times 8\% =$ | <u>8.00</u> |

Interest charge for machinery and equipment is estimated on the current value of assets. Depreciation is estimated on original cost, and machines and equipment have therefore to be differentiated from a practical point of view as follows:

| <i>Type of machine</i> | <i>No. of years' depreciation</i> | <i>Total value (million dollars)</i> | <i>Depreciation</i> | |
|---|---------------------------------------|--|---------------------------|--|
| | | | <i>Rate per cent.</i> | <i>Total (million dollars)</i> |
| Ploughs, dusters, &c. | 5 | 5.90 | 20 | 1.18 |
| Tractors, mowers, &c. | 10 | 66.40 | 10 | 6.64 |
| Pumps, &c. | 15 | 13.37 | 6.66 | 0.90 |
| Combines, &c. | 20 | 57.30 | 5 | 2.87 |
| Total annual charge: depreciation | | | 11.59 | |
| interest (as above) | | | 8.00 | |
| | | | <u>19.59</u> | |

The value of small hand-tools that are replaced in less than five years is not included in the table.

Circulating capital

This includes the value of such items as seeds and fertilizers and the value of hired labour. The total value under this heading is estimated at 158 @ 10% = 11.85 million dollars.²

¹ There is no charge for depreciation because animals are reproduced on the farms.

² Interest is calculated for a nine-month period because half of the expenses are for winter crops and half for summer crops.

The total annual charge for the total capital investment in Greek agriculture amounts to 254.49 million dollars.

Capital derives from three sources: (a) the Agricultural Bank, (b) State investment and (c) Personal investment.

The Agricultural Bank was established by the state to supply loans to the farmers. In 1955 the total value of such loans amounted to 117.4 million dollars, distributed as follows:

| <i>Kind of loan</i> | <i>Per cent.</i> | <i>Interest charge per cent.</i> |
|--------------------------------------|------------------|--------------------------------------|
| Short-term loans | 65 | 6.5-7 |
| Warrant loans | 31 | 7.5-8.5 |
| Middle and long-term loans | 4 | 6.25-7 |
| | 100 | |

Most of the loans are supplied through co-operative channels.

Short-term loans amount to about 10 per cent. of the total value of the agricultural and livestock production of the country.

Warrant loans are supplied mainly to tobacco producers for processing.

Middle-term loans are for covering livestock and machinery needs, while long-term loans are for small-scale improvements, mainly irrigation.

The government has invested a small amount of capital in agriculture for large-scale improvements and for reafforestation. This sort of investment accounted for 7.37 million dollars in 1953, reducing to 6.13 million dollars in 1955.

Loans from private agencies are of little importance for short-term purposes but they play a certain role in the provision of machinery.

Some agricultural capital comes from the farmers themselves who invest the surplus of their profits or the labour potentialities of their families in order to expand their businesses.

It is estimated that the total capital invested in Greek agriculture for the period 1927-39 amounted to 7.8 per cent. of the average annual gross revenue.

Of this, 2 per cent. represented capital invested by the State, and 4.8 per cent. personal investment by the farmers (2 per cent. capital and 2.8 per cent. family labour).

After the war total capital investment declined and for the three years 1953-5 it represented only 2.2 per cent. of gross revenue. This is very important for the future economy of the country as the

increase in productivity of Greek agriculture depends to a large extent on those improvements (irrigation, drainage, new planting of orchards, &c.) which require increased investment of capital.

The decline of investment in agriculture in the last three years is due to the fact that costs of production have increased without any comparable increase in the prices of agricultural products—especially such export products as tobacco, cotton and olive oil—with a resulting decrease in farm incomes.

The State's approach to this crisis is by way of a flexible price support programme for the most important agricultural products and a schedule of prices for fertilizers.

But if productivity is to be increased the State will have to follow a more stable policy in its price-support programmes, and it would be most helpful to farmers if the State were to expand the system of long-term loans for improvements through the Agricultural Bank.

A new effort for public investment by the State for large scale improvements would be one of the best measures for increasing the productivity of Greek agriculture.