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Capital and Credit in Agriculture:

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ITALY (1)

THE income of Italian agriculture is insufficient to supply more than a very small part of its capital needs.

On the basis of the following estimates drawn up by the *Istituto Nationale di Economia Agraria*, and also on the basis of reliable calculations for 1956, it can be said that Italian agriculture provides an average income of 615 milliards of lire from capital and of 1,600 milliards from labour.

TABLE 1

	1954	*1955*
	milliards of lire	
Income from farm real estate .	435·4	423·6
Income from farming activities .	186·2	161·4
Income from labour . . .	1,486·5	1,630·6
Net farm product . . .	2,108·1	2,215·6

Source: *Yearbook of Italian Agriculture*, Rome, 1955 and 1956.

Of the 615 milliards income from capital it can be said (taking into account the standard of living, the propensity to save and the uses to which savings are put) that 8 per cent. or, say, the round figure of 49–50 milliards, goes into agriculture in the form of land improvement and increases of stocks and machinery. It can be presumed on the other hand that labour income, consisting of wage disbursements and remuneration attributable to the self-conducted enterprise of entrepreneurs and their families, provides another 50 milliards for investment in agriculture, thus doubling the quota provided by income from capital.

It is definite, then, that the extent to which Italian agriculture finances itself does not exceed an annual amount of 100 milliards of lire. This can contribute only modestly to the formation of the capital needed for its development. If it be assumed that the return on the new investments in terms of net product is at the rate of 15 per cent., these 100 milliards would allow of increasing the net farm product of Italian agriculture, estimated at about 2,300 milliards, by a rate of barely six-tenths of 1 per cent. a year.

This is not surprising since it is in line with an historical truth grasped intuitively by Adam Smith who recognized that Italian farming had been given life, value and considerable impulse through the use of capital derived from trade and manufacturing industries even before the invasion of Charles VIII.[1] This truth was illustrated more fully later by Carlo Cattaneo who, when examining the conditions that had determined the development and prosperity of agriculture in Lombardy, found good grounds to affirm, 'the farming industry is a part of the mercantile life of nations, it is not born of natural genius, of rural inspiration, it comes from institutions and laws which give to capital and industry access to the land', and also to conclude emphatically, though not arbitrarily, that a prosperous agriculture is almost a monument which industry and trade leave behind them and which therefore 'comes out of the cities'.[2]

Not from agriculture came the funds required to break up heathland and drain marshes and cut that network of irrigation canals that is at once the glory and wealth of the Po Valley; and not from agriculture came the funds necessary for the planting of olive and vine and the terracing of the Tuscan hills—for the land of itself does not offer a sufficient margin for big works of land transformation. Instead, it was mercantile activities which produced wealth for investment. It was due in no small measure to a desire to become estate owners and so to provide for their future that city people from industry, commerce and the professions were induced to put their profits into the land and its cultivation. In this way agriculture was assured of a copious flow of that capital of which it stood in need.

The phase of private investment of capital in agriculture, which was more characteristic of northern and central Italy, was continued with varying emphasis throughout last century. It showed the first signs of crisis with the growth of the socialist movement which spread from the Po Valley to Apulia and thence to Sicily involving, more or less, the whole of rural Italy.

It was the claims advanced by workers under the pressure of unemployment and hunger which first induced the government to intervene in matters of land reclamation and to assume a considerable part not only of the burden of expense connected with so-called public works (irrigation, drainage, &c.) but also of the cost involved in the construction of rural buildings and the reclamation and improvement

[1] Adam Smith, *An Enquiry into the Nature and Causes of the Wealth of Nations*, book iii, ch. iii.

[2] Carlo Cattaneo, 'Dell'agricoltura inglese paragonata alla nostra', 1837, in *Saggi di economia rurale*, compiled by Luigi Einaudi, Turin, 1939.

of land in general. The crisis became more acute after 1929 when, *vis-à-vis* the crumbling of nineteenth-century capitalism, large-scale state intervention increased while private investment fell away. It was the Second World War, however, which marked the end of private investment in the mercantile form outlined by Adam Smith and Carlo Cattaneo which had characterized Italian agriculture since the fifteenth century.

Social unrest, the claims of workers, the occupation of lands, the new product quotas of the share-tenant pact, the fear of a more radical land reform and an electorate 40 per cent. communist-minded—these were the factors which formed the disincentives that discouraged and slowed down private investment in agriculture. In fact, big industrial firms such as Fiat, Pirelli and Snia-Viscosa have been induced to sell or divide up their landed interests, and some agricultural bodies of industrial and commercial origin such as the Bonifiche Sarde, Maccarese, Torrimpietra, Bonifiche Ferraresi, S.A.I.M., and S.A.C.R.A., have reorganized on a smaller scale or have even gone into liquidation as did the Fondi Rustici.

What is of more account, however, is the fact that now very rarely are there industrialists or merchants who are disposed, as were their ancestors in Lombardy, Genoa, Florence or Lucca, to take up farming. For this there are two kinds of motive, the first, a general one with far-reaching psychological effect; the second, coercive and with a fiscal aspect. The first finds substance in the official sympathy which has matured with the Republic for small-scale operating ownership. This is the Italian equivalent—though a little nearer to the soil—of the 'family farm', that well known and consolidated ideal of much of the agriculture of the United States of America and the United Kingdom. This official sympathy may be accompanied by discrimination and the application of different yardsticks in assessing qualification for government help, technical assistance and, conversely, social burdens (unified contributions) according to whether small-scale operating ownership or ownership and enterprise on a large scale be concerned. This in itself has a psychological effect and deters those who have been fortunate in industry or in tertiary activities from taking up agriculture. Such people would otherwise willingly try out a new field of activity and one which in many ways is attractive.

The second finds substance in the tax on companies which was instituted in 1954. This tax lays particular burdens on land patrimonies and deters from farming those persons who, from their experience of industrial or commercial enterprises, prefer an associative form of undertaking even if it is confined to themselves and their families.

It is not the meagreness of the income from agriculture which is the determinant, for that was well known also to the many who came new to farming and who took it up and infused life into it, introducing new systems and franker human relations while breaking down the niggardly conservative traditions of country squires. Such were those who sprang from the merchant classes of the time of the Communes and the Renaissance and who continued to take up farming throughout the eighteenth century and, in ever greater number, during the nineteenth century, reflecting in fact the growing prosperity of the *bourgeoisie*.

One pleasant fact emerges at the present time and takes some of the greyness from the picture. There have appeared recently in Italy some part-time farms, run by dilettantes who pursue certain hobbies, such as the cultivation of this or that crop or the rearing of a particular breed of livestock. They invest money which may be from their pay packets or their Christmas bonuses and which, even if partly wasted or used merely to procure pleasure, goes constantly and substantially towards the financing of agriculture. Nor can it be said of Italian farming that the peasants are the guardians of all the virtues and that they can infallibly choose the best machines and the best fertilizers or build the best stables. This is so even though the part-time farmers —who may be office workers, tobacconists or hairdressers—may plant vines with their roots upwards and try to milk cows by their horns!

There is no statistical source which makes it possible to infer the extent to which these marginal farmers exist. Nor are there bases on which to build an estimate of the amount of capital which has been brought by them to agriculture and which has originated from sources outside the industry. Methodologically too, estimation is difficult as some of their capital funds would have to be deducted as not being destined for agriculture—those funds (and they are not few) which are spent on erecting dwellings or *pieds-à-terre* for the owners' families, or merely for pleasure.

A figure of 5 milliards, however, may be considered to represent the annual contribution made by this category to the formation of farm capital in the strict sense. This figure will certainly grow, for it is to be presumed, as it is to be desired, that part-time farms are likely to increase in number and to constitute an important link welding together more strongly the old ties which have always existed in Italy between town and country.

If agriculture remains static, bound to low technical levels and set in a traditional mould, investment is limited and capital functions badly. On the other hand, when agriculture begins to move forward, capital is needed to give impulse to its various organs and life to all its sectors. But it is not possible to indicate in abstract the capital that agriculture needs. Theoretically there is no limit because, if enough capital were forthcoming, even deserts and polar regions could be turned into vineyards and orange groves. Enterprises which may be technically possible today may be quite uneconomic, though occasionally states (which generally provide for the financing of agriculture in homage either to the reasoning of Keynes or to the theory of depressed areas) look with favour on undertakings not a great deal more economic than those mentioned. The capital needed by agriculture is therefore an expression without sense unless it is considered as directly deriving from the availability of capital on the part of the individual or the group.

For Italy, within the framework of an integrated economy and the lines of the general economic policy fixed by the Vanoni Scheme,[1] the net investment possible in agriculture over the decade 1955–64 is estimated as follows:

TABLE 2

	Milliards of lire	%
1. Land-reclamation works	543	16
2. Land development (with and without irrigation) and mountain improvement . . .	1,004	29
3. Land reform	522	15
4. Mechanization	313	9
5. Other stock investments (cattle, &c.) . .	385	11
6. Equipment for grading and storing products .	300	9
7. Technical aid and vocational training . .	400	11
Total	3,467	100
of which:		
State expenditure	2,015	58
Private expenditure	1,452	42

[1] State capital investment in agriculture, on the basis of the calculations effected by the *Istituto Nazionale di Economia Agraria*, was 147 milliards in 1954 and 166 milliards in 1955. Credit institutes furnished 35 milliards in 1954 and 33 milliards in 1955 from their own funds for land improvements. Furthermore, it can be calculated that every year another 20 milliards for farm operating credits goes to swell fixed capital in agriculture.

Therefore, according to the programme of the government scheme known as the Vanoni Outline, the fundamental lines of which are agreed by practically all Italian economists, the annual supply of capital for agriculture is set at 347 milliards, of which 201 are to be furnished by the State. Moreover, in Italy, as Schultz says, agriculture is to be considered a declining activity if, in order to keep it afloat, almost three-fifths of the needed capital has to come from public funds.[1] And the estimate can be regarded methodologically as falling short, for it does not take into account the amount paid to the farmers in putting into effect the support programme—albeit mild and inorganic—for agricultural prices (wheat, rice, sugar-beet). We say 'can' and not 'must' because it does not take into account the tolls which agriculture pays to the mechanical and fertilizer industries.

In agriculture the fundamental task of capital is to take the place of excess of manpower so as to allow of an increase in production per worker. This premise is always sound provided the accompanying development of industry and tertiary activities can absorb the influx of men from agriculture. It does not imply that substitution of this kind should take place at the existing level of production, of course, but at a rising level. It is here that the new techniques which spring from reserves of knowledge correctly applied by public agencies and individual farmers have a fundamental influence.

For these new techniques capital is needed while at the same time they represent capital, but capital alone is not sufficient. Nor, as Schultz points out, has there yet been an explanation, either by scientific method or by contrete studies, of the economic relations between productivity, technical progress and capital.[2] Certainly it is a chapter of rural economics that is very interesting, seeing that inventive power, ability and balance in human relations are things which spur productivity forward more than do the ordinary factors of production and which determine a considerable accretion of wealth.

In this respect it has been affirmed authoritatively from olden times and is still claimed that one of the elements most conducive to Italian agricultural development prior to the nineteenth century was the law, inherited from Roman Law, concerning aqueducts. This gave the

[1] Theodore W. Schultz, *Production and Welfare of Agriculture*, New York: Macmillan, 1950, p. 104.

[2] Theodore W. Schultz, 'The contribution of the agricultural economist to programmes of technical development', in the *Proceedings of the Ninth International Conference of Agricultural Economists, Otaniemi, Finland, 1955*, Oxford University Press, 1956.

right to carry water for irrigation through neighbouring lands, even without the consent of their owners, on payment of only minor compensation. The same has been said of the principle that was at the base of many old land registers in accordance with which improvements carried out by a landowner remained for a long time exempt from tax. This provided a lively stimulus.

If we turn from past times to the present, it is possible that the objectives of the Vanoni Scheme, directed to lighten the human burden of agriculture by 900,000 units in ten years and at the same time to increase net farm income by some 2,775 to 3,320 milliards of lire, could perhaps be achieved at less cost to the government than the 1,452 milliards indicated. This might be achieved if the present restrictions on workers' freedom of movement and the compulsory allocation of manpower were abolished and if social welfare contributions were adjusted to real and not presumed average employment. Whether considered from the particular point of view of the Vanoni Scheme or more generally, it does not make sense that in Italy today the mass of unemployed or under-employed persons should come to be considered agricultural manpower to be paid for directly or indirectly by agriculture. For just so long as, conceptually, urbanism is considered a sore and for just so long as the peasant in Calabria finds it easier to emigrate to Venezuela than to transfer to Rome or Milan, labour and capital in Italian agriculture will always be badly utilized. Productivity will remain low and there will be bitter feeling between members of the community.

The best use is not always made of all the capital assigned to agriculture. Frequently farmers pass from one extreme to the other and so render investment less productive. They are either too sparing and leave their work unfinished or they are over-enthusiastic and prodigal and, after listening to a rural conference or after reading an advertisement in a paper, decide immediately to construct this or that stable or to purchase this or that machine, without calmly and patiently setting the costs against the advantages, real or presumed, of the new investment. Broadly speaking, for example, too much is spent in Italy on farm buildings, many of which are not well thought out, lack comfort and are not very practical. Irrigation too, the benefits of which may be very great in a climate such as that of Italy, often gives rise to extravagant hopes and induces the shouldering of expenses for the sinking of wells and the installation of pumps which are out of proportion to the results obtainable. Again, it is difficult for an economist to understand why preference is so often given to high-powered long-range sprinkler systems which entail heavy operating costs, while lesser-powered shorter-range systems, if incurring perhaps a heavier initial expense, permit of far more economical use.

Agencies operating on behalf of the government in the agricultural sphere should have a 'sense of money' when drawing up plans for investment. This applies particularly to the reclamation consortia and land-reform organizations. The latter, unfortunately, are somewhat unwilling to accept the reasoned criticisms of economists and people of good sense. It would seem, for example, neither opportune nor advantageous to proceed farther with that splitting-up of the land that they undertook with so much enthusiasm; particularly just now when one of the agricultural problems of the country consists of scaling up the area of farms. Consequently, perhaps a half or a quarter of the 522 milliards of lire assignable under the Vanoni Scheme to land reform (Table 2, Item 3) might be sufficient to complete organically (but with new criteria) the programme drawn up in 1950. And perhaps, in order to assist farming, a small part of the remaining sum could be set aside for the expropriation every year of a number of holdings among the worst managed and worst cultivated. The larger part, however, should go to subsidize the consolidation of fragmented holdings, as land fragmentation and dispersion constitute probably the greatest evil with which Italian agriculture is afflicted.

Agriculture needs a lot of capital in order to increase its productivity and allow of better remunerated manpower. The state does well therefore to induce farmers to invest through grants and subsidies or part payment of interest on loans. However, progress in agriculture 'is due in very great part to that which is neither labour nor capital but merely acts of intelligence'[1]—intelligence which is essential in the public sphere to co-ordinate the various aspects of economic policy and prevent unprofitable investment with sheer loss for both the individual and the community.

In the south of Italy a large number of reinforced concrete silos, constructed with the help of the government, remain unused because returns from the rearing of livestock represent little or nothing compared with those from the cultivation of wheat, aided and price-supported by the government. Although farmers in Apulia know little

[1] Carlo Cattaneo, op. cit.

of the Rothamsted experiments, they have been able to obtain reasonably good results by using tractors and fertilizers in such ways as allow of cultivating wheat over successive years on the same ground.

It is not only in Italy, of course, that there is a problem of making good use of the capital that agriculture needs. As a matter of fact wherever conditions of uneasiness prevail in the rural world, it is probable that they derive more from poor use of capital than from its lack. To ensure that investment is directed to good results, therefore, is a most serious task. Whether at farm, national or international level it should receive careful attention both for the progress of agriculture and the protection of rural people.