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**Contemporary
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the Economics of
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Commercial credit is increasingly important for family farms in the more developed countries of the world. Even so, the total credit now outstanding in agriculture is lower than pre-war in terms of asset values in agricultural plant. Farm real-estate values in the highly developed countries are from three to five times pre-war levels. The rise has been steady and persistent since 1940 except for the past few years. Until the mid-1950's net farm earnings increased rapidly but have receded recently.

During war-time and pre-war years, outstanding credit increased, but at a slower rate than asset values. Increases recently have been more nearly in line with earnings. Net capital additions to agriculture came largely from internal sources—farm earnings—until the mid-1950's. Since then much of it has come from external sources—largely credit. Additional needs have recently emerged from the pressure to adjust sizes of farm units and to use new techniques. This report discusses the role of credit in highly developed and under-developed countries. Between these two groups there is a wide range of countries in various stages of economic development to which the report has varying degrees of application.

Highly developed countries. These possess facilities of long standing and considerable sophistication for the mobilization of capital. But significant differences exist in the types of finance made available. In some, commercial banks play little direct part, leaving it to more specialized institutions such as land mortgage banks and co-operative

credit associations. In others, both banks and specialized institutions provide credit. Some countries have established state credit institutions. Some of these are outside the field which private institutions would regard as creditworthy; others supplement the often limited supply of credit from other sources.

In all countries an important source of non-institutional credit is merchant credit for agricultural supplies and equipment. It is flexible, the rather higher risks being met by the terms and interest rates charged.

There are two fields in which deficiencies in the supply of agricultural credit appear to exist in some countries. The first is the need, where it is desired to preserve family owned farms, for finance for generation-to-generation farm transfers, the second is to help the individual seeking to take up a farm. Inflation of real estate and asset values over the last two decades has made it increasingly difficult for these transfers to be financed. As a result, the number of intra-family farm transfers (on the death of the farm owner, for example) has been declining in some countries, with a concurrent increase in the proportion of farms which are moving into the 'absentee landlord' class. This tendency poses important problems in some countries.

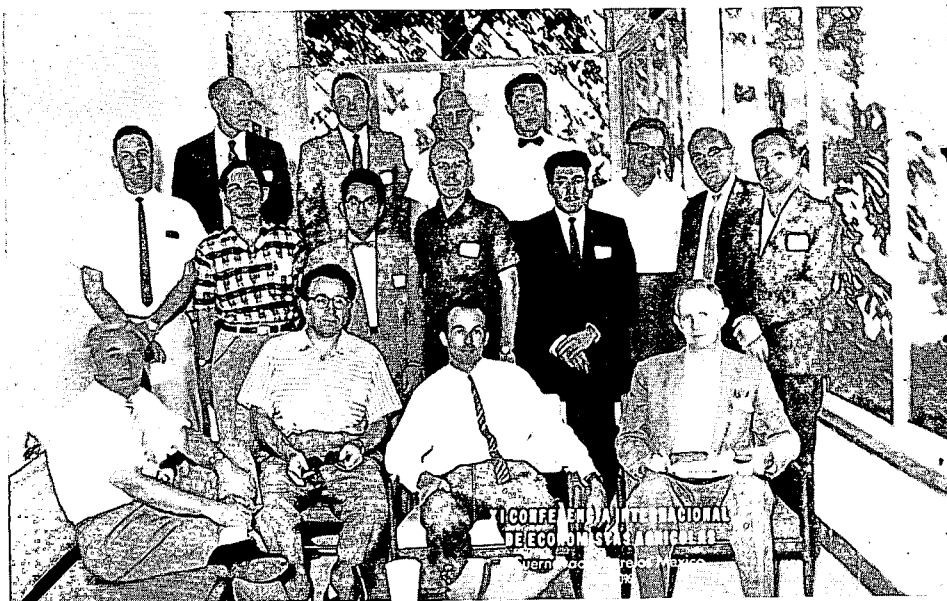
In some, a partial remedy is found in family corporation farming. Whether this may be generally applicable depends upon existing corporation law and related fiscal institutions. In any case, the general relevance of these arrangements has limitations.

The solution of these problems must be primarily related to a country's social, fiscal and economic policies and the attitude towards the desirable form of farm business unit.

If the move away from the family owned farm is regarded as injurious to existing policy in the field of agriculture, then lending institutions and governments should consider the extent to which positive measures can be taken within the fields of fiscal and monetary policy, and the associated institutional arrangements, to modify or develop existing facilities for financing family-farm transfers.

Under-developed countries. Here the traditional, sociological and individual attitudes to economic activity bear little relation to those which have emerged with experience in more fully developed countries.

Development from a subsistence economy depends as much on the extent to which technology can give rise to a surplus for commercial sale as it does upon the provision of means to foster this development.



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Most under-developed countries recognize the need for credit for increasing agricultural production, but a major problem is the scarcity of capital for investment in agriculture. To be effective the credit machinery must be in a form which is adapted not only to an agriculture becoming commercial, but also to a situation where surplus earnings need to be marshalled for investment.

In many countries emerging from subsistence and during early stages of development the organization of co-operatives is an attractive method for mobilizing savings and providing a credit base. This form of development can be identified with the farmer's community and gives him and his community an introduction to the rudiments of commercial credit and its potential for economic development. In a basically subsistence economy, the farmer has no real appreciation of the difference between the consumption purposes for which he has been used to borrow money and the productive uses of agricultural credit. This emphasizes the need for community education. In developing from the purely subsistence base the need for credit may not be great, but attention should be paid to the need for elementary credit facilities. These may most appropriately take the form of co-operatives which integrate sale of produce, purchase of supplies, mobilization of savings from income and provision of credit to members.

Even where other semi-private and private credit institutions exist, their investment policies are often oriented to non-agricultural purposes, and are too security-minded to meet the needs of a sector which can initiate growth only on a basis of future potentialities rather than on current assets. Credit machinery in an emerging subsistence economy must place emphasis on supervision of the use of credit in the interests of its most productive use.