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BOOK REVIEWS

EDITORIAL BOARD

THE PLACE OF CO-OPERATIVE CREDIT IN AMERICAN AGRICULTURE

By

B. L. Agrawal

The problem of financing American agriculture dates back to the first colonization of the Atlantic Coast. But by the close of the last century, the change in the character of agriculture, which was losing the features of a self-sufficient way of life and becoming an industry organized along business lines, gave a particular significance to this problem. Mr. R. C. Engberg of the Farm Credit Administration wraps most of these changes in agriculture under one term "technological advances."

During the present century and more particularly in the past few years, the increased use of electrical and mechanical power and related equipment is in part the cause and in part the result of an increase in the size of the unit of production. Since 1950, the number of farms in the United States has decreased by 11 per cent. Total land in farms has remained virtually unchanged, so that the average size of the farm has increased from 215 acres to 242 acres. Moreover, there have been improvements in a large number of techniques and practices, the use of which generally requires not only larger cash outlays for materials but frequently calls for investment in special equipment.

Above all, the fact that prices and costs have been at substantially higher levels in the recent past than in previous decades is a most significant change in the credit picture. One of the most obvious effects of these developments having credit significance is a substantial increase in the total capital requirements in farming. In 1930, the average capital investment per farm in the United States was only $9,103. Unfortunately, no such estimate for the recent period is at hand. However, the farm that can support a family in decent middle class living in the mid-east now requires an investment of more than $40,000.[1]

Not only have the capital requirements in farming increased, but there has also been a substantial decrease in the net farm incomes of the farmers because of the high level of costs and recent decline in the prices of farm commodities. The cost-price squeeze has caused some farmers, who earlier had met their expenses from income, to use credit, and it has caused others to rely more on credit than was formerly the case. In addition, many farmers are using more credit to mechanize, expand, and adjust their operations in the hope that, despite lower prices, acreage allotments and marketing quotas, they can maintain or improve their incomes by lowering unit costs and operating on a larger scale or diversifying their source of income. In short, credit has become an indispensable tool of present-day United States agriculture, not as noticeable, when you drive by the farm, as the tractor or field chopper but it is just the same.

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1 Michel, Clyde, "Credit in an Expanding Economy, *Land Economics*, University of Wisconsin, Vol. XXXII, No. 4, November 1956, p. 331.

SOURCES OF AGRICULTURAL CREDIT

A farmer, who is in need of credit, may obtain a loan from one of the several different sources, which may be classified as follows.

(1) Private : These include insurance companies, commercial banks, individuals, merchants, dealers, privately financed agricultural credit corporations, cattle loan companies and other miscellaneous lenders.

(2) Co-operative: These include Federal land banks, which make loans through national farm loan associations ; production credit associations ; co-operatively owned agricultural credit corporations and live-stock loan companies; and banks for co-operatives.

(3) Public : These include direct government loans as well as loans insured by the government. The most important public agency is the Federal Farmers' Home Administration.

Some of these agencies advance both long-term real estate and short-term non-real estate loans, while others make either long-term or short-term loans.

GROWTH AND ORGANIZATION OF CO-OPERATIVE FARM CREDIT SYSTEM

About a century long drive for a credit system, specifically designed and adapted to meet the needs of agriculture bore fruits in 1916 when Congress enacted the Federal Farm Loan Act which created 12 Federal land banks and the national farm loan associations through which the long-term loans are made. The situation regarding short-term non-real estate credit remained unchanged until 1923 when Congress established a permanent system of Federal intermediate credit banks, which through the sale of securities in the investment market, could obtain funds for the extension of credit for production purposes to the local lending institutions serving farmers and ranchers.

For a number of years the Federal intermediate credit banks did little business because of Federal and State laws requiring a co-operative farm loan association to have a relatively large amount of funds in the form of paid-in capital stock before it could discount notes of farmers with an Intermediate credit bank, as one farmer said, "If we had the cash to buy the stock we would not need to borrow." The inadequacy of the Federal intermediate credit system was recognized and the Congress authorized, by the Farm Credit Act of 1933, the establishment of the production credit system, designed to make production credit readily available to individual farmers in all parts of the country, and also provided for the banks for co-operatives. The Farm Credit Act of 1933 provided for the establishment of 12 Production Credit Corporations which in turn financed the start of local co-operative short-term production credit associations.

The whole co-operative credit set-up of the United States consists of an administrative organization—the Farm Credit Administration at the centre, and 12 district organizations, one in each farm credit district. Since January, 1, 1957 when under the Farm Credit Act of 1956, the 12 government-owned production credit corporations were merged into 12 government-owned Federal intermediate credit banks, each district credit organization is now comprised of one Federal land bank, one "1957 model" Federal intermediate credit bank and one bank for co-operatives.

At the local level there are at present 1,000 national farm loan associations to provide real estate credit and 498 production credit associations to meet the non-real estate credit needs of the farmers. The national farm loan associations have always been completely farmer-owned. The Federal land banks became completely owned in 1947. The production credit associations were at the start partly farmer-owned and partly owned by the production credit corporations. Over 91 per cent of the total production credit associations are now completely farmer-owned. During 1956, under the impetus of the Farm Cerdit Act of 1955, farmers through their marketing and purchasing co-operatives took important strides towards their goal of complete farmer-ownership of the 13 Banks for co-operatives. The final step in co-operative goal of ownership of the Farm Credit System was taken up on January 1, 1957 when, under the provisions of the Farm Credit Act of 1956, farmers through their production credit associations started buying the 12 government-owned intermediate credit banks. While this process, undoubtedly, will take some years to accomplish, a completely farmer-owned co-operative farm credit system is definitely within sight.

RELATIVE IMPORTANCE OF CO-OPERATIVE CREDIT

The accomplishments which the Co-operative Farm Credit System has made, may be discussed under two main heads—(1) direct advantages ; and (2) indirect advantages.

Direct Advantages

The direct advantages of the system to the American agriculturists may be summarized below :

(1) Supply of credit : In terms of volume, there has neither been the desire on the part of the co-operatives nor the means to monopolize the field of farm credit. As on January 1, 1956, co-operative credit account for 16.5 per cent of the total long-term farm real estate loans and about 8 per cent of the total short-term non-real estate loans, which may seem to be a small part of the total credit used by farmers. However, the volume of co-operative credit seems to be large enough to provide for efficiency in operation and produce good competition to the private lenders. Table 1 gives a long-term view of the situation in the field of long-term credit.

Due to the non-availability of the estimates of short-term debt held by individuals and others over a long period of time, it is not possible to show the long-term trends in the non-real estate loans. However, some information covering a period of three years is presented in Table 2.

TABLE I—PERCENTAGE OF THE TOTAL LONG-TERM REAL ESTATE LOANS HELD, BY TYPES OF LENDERS, UNITED STATES, 1921-56.*

Period	Federal land banks	Land bank commissioner[1]	Life insurance companies	Joint stock land banks[2]	Commercial banks	Individuals and others	Farmers' home administration[3]	Total
1921-25	6·1	—	15·2	2·4	13·5	62·8	—	100
1926-30	11·5	—	21·8	6·5	11·3	48·9	—	100
1931-35	16·3	1·8	21·3	5·4	9·3	45·9	—	100
1936-40	30·1	11·3	14·5	2·0	7·3	34·7	0·1	100
1941-45	28·0	8·9	17·5	0·6	8·4	34·1	2·5	100
1946-50	18·6	2·5	19·3	—	15·0	40·9	3·7	100
1951-55	15·3	0·4	23·8	—	15·6	41·4	3·5	100
1956	16·5	—	25·4	—	15·0	40·0	3·1	100

*Compiled from *Agricultural Finance Review*, Vol. 18, Supplement, May, 1956, U.S.D.A., Washington, D. C., p. 4.

1 Direct government loans authorized by the Emergency Farm Mortgage Act, 1933. The authority expired on July 1, 1947.

2 Have been liquidated.

3 Was created under Farmers' Home Administration Act, 1946, through a merger of the Farm Security Administration (the system of supervised credit started in 1937), and the Emergency Crop and Feed Loan Division of the FCA.

TABLE II—PERCENTAGE OF THE TOTAL SHORT-TERM NON-REAL ESTATE LOANS HELD, BY TYPES OF LENDERS, UNITED STATES, 1952-55.*

Type of Lender	1953	1954	1955
Commercial Banks	42·0	39·7	40·2
Production Credit Associations	7·8	7·8	7·9
Federal Intermediate Credit Banks	1·1	0·9	0·8
Farmers' Home Administration	4·5	5·6	5·9
Individuals and Others	44·6	46·0	45·2

* Compiled from the *Annual Reports of the Farm Credit Administration*, 1952-53, 1953-54, 1954-55, Washington, D. C.

(2) Unlike private sources, credit has been provided to all farmers without any discrimination, if they fulfilled the requirements of this system. The co-operative institutions have been most useful in those areas which were thought to be high risks by the insurance companies and others.

(3) As may be seen in Table 1, the co-operative credit helped the farmers when they needed it most, that is, during the depression period when the insurance companies, commercial banks, individuals and others were shrinking their credit.

(4) Credit has been provided on terms and conditions most suited to the needs of agriculture. Long-term amortized mortgaged loans of the Federal land banks and short-term budgeted loans of the production credit associations are good examples.

(5) Loans have been made to farmers at as low a cost as possible.

(6) Elimination of requirements that existed in some areas that producers had to promise to sell their products through certain agencies or buy their products through specified channels in order to get credit.

Indirect Advantages

The Farm Credit Administration provides an alternative source of credit for all types of farming within proven agricultural regions, all the time, to all farmers with a basis for credit. This has stimulated keen competition among the lending agencies especially for the best loans in the best regions, and the farmers have been benefited from this competition in a large number of ways. The main ones are discussed below :

(1) Rate of Interest : Co-operative credit agencies, through strong competition, have forced the private lenders to lower their rates of interest substantially, as evidenced in the following table.

TABLE III—FARM-MORTGAGE INTEREST RATES : AVERAGE FOR LOANS HELD BY ALL LENDERS AND BY PRINCIPAL LENDERS, UNITED STATES, JAN. 1, SELECTED YEARS 1910-55.*1

Year	All lenders	Federal land banks and Federal farm mortgage corporation[2]	Life insurance companies	Other lenders			
				Banks	Individuals	Miscellaneous[3]	Other lenders combined
	%	%	%	%	%	%	%
1910 ..	6·0	—	5·5	6·2	6·0	6·5	6·1
1920 ..	6·1	5·4	5·8	6·5	6·1	6·3	6·2
1930 ..	6·0	5·4	5·7	6·5	6·1	6·1	6·2
1940 ..	4·6	3·7	4·9	5·5	5·2	5·1	5·3
1950 ..	4·5	4·1	4·3	5·0	4·6	4·4	4·7
1955 ..	4·8	4·1	4·5	5·4	@	@	5·1

* *Agricultural Finance Review*, Vol. 18, November, 1955, U.S.D.A., Washington, D. C. p. 86.

1 Contract rates except on the loans of the Federal land banks and Federal farm mortgage corporation 1940, which are included at temporarily reduced rates.

2 Federal farm mortgage corporation was created by the Congress in January, 1934 to finance the Land bank commissioner loans and to buy Federal land bank bonds. The authority to make new mortgage loans expired on July 1, 1947.

3 Also includes Farmers' Home Administration and Joint-Stock land banks.

@ Data not available.

The interest rates of the private lenders for short-term loans have also been dropped far below their former charges to enable them to compete with the production credit associations.

(2) Terms of Loans : Another important effect of the competition among the co-operative and private lending agencies is that private lenders now provide the farmers with longer term loans. Latest information is, unfortunately, not available but an idea about the change in the terms of loans may be had from the following table.

TABLE IV—AVERAGE TERM OF FARM MORTGAGES RECORDED BY SELECTED LENDERS, IN SELECTED PERIODS, UNITED STATES, 1917-45.*

Type of lender	Periods				
	1917-21	1922-26	1927-31	1932-35	1945 (Mar.)
Federal Land Banks and Land Bank Commissioner	30·9	29·6	28·8	20·7	22·9
Individuals	3·7	3·3	3·1	2·9	4·5
Banks	2·7	2·5	2·1	1·9	4·5
Insurance Companies ..	7·5	8·7	8·1	7·2	15·0

* *Agricultural Finance Review*, U.S.D.A., Washington, D. C.

It is noticed from the above table that the change has been brought about most significantly in the case of insurance companies. Before the establishment of the Federal land banks, the insurance companies used to make five-year loans which had to be refinanced, renewed or extended each time they matured and the farmers had to pay the additional costs of such steps. The insurance companies liked the five-year term because it gave the company a theoretical and often an actual opportunity to liquidate at frequent intervals.

Individuals and commercial banks still provide loans for a shorter duration than Federal land banks. This is because 20 or 30 years is very long period in an individual's life and he does not like to make long-term loans. As regards banks, the nature of bank deposits makes it difficult for them to make loans for the longer periods.

(3) Repayment Procedure : As a result of competition from Federal sponsored agencies, significant changes have also been affected in the procedure of repayments. For example, the insurance companies' loans are now mostly amortized, and prepayments are also acceptable to them, some thing which was not to be heard of in the pre-co-operative credit era.

(4) General Credit Services : There has also been a considerable improvement in the general credit services. The private credit agencies are now much more considerate to the borrowing farmers, and are making loans more on the basis of ability to repay out of operating income than simply loaning on the net-worth of the borrower. The very basic attitude of the lenders towards their borrowers has changed.

PROBLEMS CONFRONTING THE CO-OPERATIVE CREDIT SYSTEM

There are three serious problems which the co-operative credit system faces today. Firstly, the increasing rates of interest that the co-operative credit agencies have to pay for their loan funds because of a tight credit market. These rates have caused an edging up of the co-operative credit rates and evidently there is some risk of losing business, especially in the field of short-term non-real estate credit. Secondly, the support that government has been giving to the permanent co-operative farm credit institutions is being challenged by the private credit agencies. Most vigorous opposition in the Congress from the Mid-West and North-East parts of the country is being directed at the production credit institutions. Thirdly, banks and life insurance companies have learned much about how to make good farm loans and are now providing loan service that means keen competiton to the co-operative lending agencies.

It is the opinion of the writer that the success that co-operative farm credit has had in America is due principally to three factors :

(1) Recognition that a co-operative credit association must be operated on sound business principles—there is no magic in the word co-operative.

(2) Reasonable government financial and advisory assistance in starting co-operative credit programmes and the tapering off of such assistance as farmers' capital and responsibility warrant.

(3) Keen competition with private lending agencies.