EDITORIAL

CAPITAL INVESTMENT IN AGRICULTURE.

The continued development and expansion of Australia's rural industries demands an increasing rate of investment in agriculture. The necessary finance may be provided by farmers from their savings, by private or semi-public investment, or directly by governments and government instrumentalities. In practice the necessary funds will be derived from all of these sources. However, whether the rate of investment will prove sufficiently high to enable the rural industries to meet the expanding needs of the Australian economy is open to doubt. Numerous problems and difficulties are involved, and it is essential that every effort be made to facilitate and encourage increased investment in the rural industries.

Investment needs for rural development may be grouped into three broad categories. Firstly, there is the need for investment in large-scale developmental works such as water conservation and reticulation, soil improvement, electricity extension and closer settlement. Investment of this type is traditionally provided by governments, although there may be scope for occasional private investment of considerable magnitude.

Secondly, there is the need for investment to enable new farmers to enter the rural industries to replace those who are constantly retiring, and in so doing, removing their capital investment in agriculture. Investment funds for this purpose are provided mainly by the banking system. Finally, there is the need for continuous investment by existing farmers to develop properties already in their possession. Such investment is currently provided largely out of farmers' savings, although some investment of this type is financed by banks and other financial institutions.

It is not the present purpose to discuss problems associated with the first-mentioned type of investment—that is, for large developmental works—although it is obviously essential that if rural production is to be expanded significantly and with reasonable rapidity a considerable rate of investment for such purposes must be maintained.

The problems involved in securing an adequate volume of investment to provide for the purchase of farms by new producers and for the development of existing properties by the present owners or operators, are in many respects identical. However, there is one particular problem attaching to the former type of investment which warrants attention. Capital investment in farm properties of an economic size is now extremely high. Over £20,000 is required to purchase a moderate-sized wheat-sheep, fat lamb or merino wool proposition, while even for dairying an investment in the vicinity of £8,000 is usually necessary. As a result of the high initial level of investment, relatively few young men with experience in farm work are in a position to raise the capital necessary to finance the purchase of suitable farms. From a national viewpoint this is unfortunate because there can be little doubt that, in general, younger men, establishing themselves in farming, are prepared to work harder, farm more intensively and develop their farms to a greater extent than are the more elderly men whom they would in most cases displace.

Problems involved in providing the necessary finance are particularly complex. It is quite apparent that neither financial institutions nor private investors can be expected to assume the risks that might be involved. On the other hand, rural output might well be increased significantly if many experienced younger men could be placed on farms, providing it were apparent they were well suited to rural life. Of course an extension of the War Service Land Settlement Scheme would largely fulfil this function, but it is apparent that the loan funds available in the immediate future will not permit of any significant acceleration of settlement under that scheme. It is possible though that alternative schemes involving guarantees, without direct financial contributions of any substantial nature, could be evolved, particularly where the prospective settler had some capital of his own to invest. The potential contribution which further closer settlement and the settlement of more young men on farms could make to food production is sufficiently great to warrant careful consideration of settlement schemes involving contingent liabilities, without direct financial contribution.

Quite apart from the need to finance new settlers. there is a vital need for greater capital investment in existing farm properties. In most countries which have a high standard of living and a highly commercialized agriculture, investment of capital in farming is substantially below the optimum and has been so for many decades. This is reflected in high marginal returns on capital invested in agriculture—returns which are not only higher than ruling interest rates, but are also higher than returns in the non-agricultural sector of the economy. Such a situation implies a considerable waste in production potential, especially as research is rapidly uncovering more efficient production techniques, the wide-spread adoption of which is limited by the shortage of capital. Whilst the problem is a long-standing one, and common to many economies similar to Australia, it is of particular importance to this country at the present time, when higher farm output is urgently needed.

Increased investment in existing properties can come only from farm income or from the farmers' borrowing. It is difficult to be optimistic about a rapid increase in investment through the latter source. The disinclination of farmers to borrow and the reluctance of investors to lend for farm developmental work are the two factors largely responsible for capital rationing in this and other countries. Several recent economic surveys have verified the existence of this attitude amongst primary producers in this State.

It appears probable that any rapid increase in the rate of development of existing farms will be financed largely from farmers' incomes. Recent investigations have indicated that higher farm incomes tend to result in reduced farm indebtedness rather than increased farm investment, at least in the earlier stages, and in fact this is what has occurred in New South Wales in recent years. After a series of prosperous years farm indebtedness has been reduced to a very low level, and considerable investment appears to be occurring out of current earnings. It is therefore reasonable to expect that if agricultural incomes remain at their present satisfactory levels, an increasing proportion of those incomes will be used for farm development. But in the absence of positive measures, such as subsidies to encourage improved farm practices, or further taxation concessions aimed at stimulating farm development, there seems no reason to assume that there will be any large and rapid inroads made on agriculture's unused potential.