

READINGS
IN
AGRICULTURAL ECONOMICS

**REHABILITATION OF LOW-INCOME GROUPS
IN AGRICULTURE**



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CONTENTS

	Page
<i>Foreword</i>	v.
<i>Introduction</i>	1

SECTION I.

PRINCIPLES OF ECONOMIC DEVELOPMENT

1. Spatial Organisation of Agriculture.	<i>Dr. George Pavlovsky.</i>	19
2. Economic Policies Necessary for the Attainment in Asia of the Social Objectives of the I. L. O.	<i>I. L. O.</i>	32

SECTION II.

REHABILITATION OF BACKWARD REGIONS

3. The South as a Region for Economic Development.	<i>(i) Sub-Committee on Cotton of the Committee on Agriculture (U. S. D. A.) and (ii) Joint Committee on the Economic Report on the Impact of Federal Policies of the South. (U. S. D. A.)</i>	41
4. The Tennessee Valley is Paying Off	<i>T. V. A.</i>	77
5. The Widening of Economic Opportunity through TVA.	<i>David E. Lilienthal.</i>	85

SECTION III.

PROBLEMS OF FARM INDEBTEDNESS AND INFLATED LAND VALUES

6. Agricultural Indebtedness and the Means for its Prevention and Control.	<i>Dr. G. Costanzo.</i>	91
7. Farm Debt Adjustment.	<i>U. S. D. A.</i>	116
8. Debt Relief Schemes.	<i>Rural Reconstruction Commission on Financial and Economic Reconstruction of Farms—Commonwealth of Australia.</i>	123
9. The Agricultural Land Market and its Control.	<i>Dr. G. Costanzo.</i>	137
10. A Reaction to Land Value Control Proposals.	<i>C. H. Hammar.</i>	145
11. Problems of Land Value.	<i>Rural Reconstruction Commission—Commonwealth of Australia.</i>	152

CONTENTS

SECTION IV.

AGRARIAN REFORMS

	Page
12. Japanese Programme of Land Re-distribution.	<i>Natural Resources Section—SCAP.</i> 167
13. Redistribution of Land and Agrarian Reforms in Poland.	<i>A. Jalowiecki.</i> 170
14. Problems of Consolidation of Holdings in Europe.	<i>M. Tcherkinsky.</i> 174
15. The Regrouping of Holdings in France.	<i>J. C. Abbot.</i> 184
16. Replanning of Holdings in the Netherlands.	<i>A. Rienks.</i> 188
17. Small Holdings.	<i>The Small-Holdings Advisory Council—Ministry of Agriculture, U. K.</i> 192
18. The Small Holding: its Creation and Problems.	<i>Dr. G. Costanzo.</i> 202
19. Recommendations for Tenancy Reforms in the U. S. A.	<i>President's Committee—U. S. A.</i> 224
20. Improving the Farm leases.	<i>H. C. M. Case and J. B. Cunningham.</i> 230
(APPENDIX)	

SECTION V.

REHABILITATION OF THE INDIVIDUAL

21. Rural Rehabilitation Programme.	<i>Raymond C. Smith and W. W. Alexander.</i> 241
22. Towards Farm Security.	<i>U. S. D. A.</i> 250
23. Lessons from Rural Rehabilitation Experience.	<i>Olaf F. Larson.</i> 271
24. Rehabilitation in U. S. A.	<i>U. S. D. A.</i> 278
25. Food-stamp Plan.	<i>Norman Leon Gold, A. G. Hoffman and Frederick V. Wough.</i> 281

FOREWORD

This volume on problems relating to low-income groups in agriculture, is the second in our series entitled "Readings in Agricultural Economics".

The problems of low-income groups are at the core of agrarian poverty. Yet, even in those countries where these groups are over-whelmingly large, their problems have received scant attention. In the world which is awakened to the need of 4-Freedoms for every citizen, a complacent attitude towards these groups cannot be justified. Governments in these countries have been trying to improve agriculture but, generally speaking, they have relied on some patent economic measures such as debt-adjustment, supply of co-operative credit, regulation of rents and the like. Such measures, however, are too general to afford relief specifically to the low-income groups. This is borne out by the fact that, inspite of these efforts on the part of the government, "landlessness" has increased since the economic depression in most of the agricultural countries.

The main objective in our bringing out this volume is to focus attention on this vital problem in agriculture and to point out the intensity and the scale of efforts necessary for its solution. This study, however, is not exhaustive. It only highlights some aspects of the problem on which good literature was available. This explains why, for instance, we have touched in this volume only the major planks in land reform. The problems of low-income groups in agriculture are still not fully explored and, we hope, this publication will stimulate interest in the subject and induce research workers to examine the problem in all its aspects.

With this volume, we propose to bring out two other companion volumes, one on rural rehabilitation in U.S.A. and the other on relief measures in favour of low-income groups in Europe. The former is a summary of a report of U.S. Department of Agriculture and the latter is a brochure, specially prepared for us, by Dr. Sigmund Frauendorfer. If these three volumes are taken together as complementary to one another, they will throw sufficient light on the magnitude of the problem of low-income groups in agriculture. They will also, we hope,

FOREWORD

give an impetus to Governments and to those engaged in agricultural economic research to fulfil their obligations towards this unfortunate section of the agricultural community to a greater extent than hitherto.

The Introduction explaining the selection of extracts and their logical sequence has been written by our Research Secretary, Shri B. S. Mavinkurve.

MANILAL B. NANAVATI

President.

1-4-1951.

INTRODUCTION

The major economic problem in most of the so-called "undeveloped" or "under-developed" countries is that of an increasing population pressing on inadequate or insufficiently exploited land resources. This problem expresses itself in the form of unemployment or under-employment, lower standard of living and general unrest among some segments of the farming community. Few countries in which agriculture is of some importance have been able to avoid this problem of 'low income' or 'submarginal' farm population. Even the U.S.A. whose agricultural programmes provide models to other agricultural countries are no exception. "Regardless of the basis for classifying our farm population" says Raymond Smith, "the conclusion seems inevitable that we do have disadvantaged classes in American agriculture. Standards of living among these people are so low that to be realistic we must say that disadvantaged farm families are under slum conditions While low living standards tend to be concentrated in certain problem areas they are found to a certain extent in every State in the Union."* Smith estimates such disadvantaged groups in American agriculture to be between one-third and one-half of all the farm people in the country. Evidently, the problem is more serious in less industrially developed countries which have relatively a larger proportion of surplus agricultural population.

Plans for agricultural rehabilitation, therefore, would be incomplete if they fail to take cognisance of this vital problem of low-income groups in agriculture. "Poverty anywhere constitutes a danger to prosperity everywhere" is all the more true with regard to agriculture. Poverty leads to misuse of land while misuse of land in turn further intensifies the economic distress of the farming community. Erosion of soil and erosion of society thus take place simultaneously, making the conditions worse cumulatively for each succeeding generation of farmers. Indeed, "There are many parallels between cancer, with its growth of hungry, functionless cells, and this nameless disease which is characterised by the growth of enormous groups of human beings who have little or no apparent functions in our society." The disease, if not eradicated in time, would not only become chronic but corrode the whole economic structure.

The problem of low-income groups in agriculture, therefore, is not one of mere sentimental interest. In fact, according to present-day

* "Farmers in a Changing World" (U.S.D.A. Year Book of Agriculture 1940) pp. 810-17.

agricultural thinking, the real criterion of sound agriculture is not so much—as the Mercantilists thought—the volume of exports of agricultural produce nor—as the Protectionists think—its contribution to economic selfsufficiency, as is the level of living of those who work on land. This view is coming fast to the fore in recent years and, in several countries, agricultural planning includes definite schemes designed specifically for the betterment of sub-marginal or low-income groups in agriculture.

In this volume—which is the second in the series entitled “Readings in Agricultural Economics”—we give excerpts which would indicate lines of approach to the problem of rehabilitating these submarginal groups. The volume is divided into five sections. The following is a *résumé* of each of these sections.

SECTION I.

PRINCIPLES OF ECONOMIC DEVELOPMENT

Section I discusses the broad principles of agricultural planning with special reference to undeveloped or under-developed countries. It begins with an excerpt on the theory of **spatial** organisation of agriculture with special reference to the laws governing the location of different branches of agricultural production and of different systems of farming, concentration of agriculture in particular areas and the effects of such concentration on agricultural efficiency and on the distribution of population. According to Dr. Pavlovsky—the author of this excerpt—it is essential to understand these laws for the purpose of planning for an all-round development of agricultural and other economic resources and for harnessing the skill, resourcefulness and abilities of the people to fuller extent. If, for instance, population needs re-distribution to relieve pressure on soil in certain areas, it is first necessary to alter the location pattern of production after a careful study of the socio-economic factors that underlie it. This again, involves at least an approximately accurate assessment of the effects of such a step on agricultural production, location of industry, transport and marketing. There arises also the problem of providing incentives to production in the newly settled areas in the form of facilities for transport, marketing, and technological development. These and allied issues relating to the building up of a rational spatial organisation of agriculture which would ensure the most advantageous utilisation of human and material resources are dealt with in this excerpt.

This essay on the basic principles governing economic organisations in agriculture and industry and on the impact of new adjustments in these spheres is followed by an excerpt giving the basic

economic policies necessary for an integrated development of resources. These policies, which were recommended specially for Asian countries by the Preparatory Asian Regional Conference of the International Labour Organisation, bring out in clear terms the deficiencies in the economies of eastern countries and also point out the way to fuller exploitation of resources so as to secure for each country a 'balanced' economic development. The excerpt is mainly concerned with the lines of approach to the problem of surplus population on land. It, therefore, lays special emphasis on (i) the provision of opportunities for productive employment in industries which will absorb excess agricultural population; (ii) the expansion of agricultural production; (iii) securing a fair distribution of agricultural income; (iv) acceleration of capital formation and (v) encouragement to private enterprise to play a constructive part in the industrial development. Mention is also made of measures to improve the health and education of the working population as an essential feature of all major development projects.

SECTION II

REHABILITATION OF BACKWARD REGIONS

The proof of a plan's merit lies in the implementation thereof. We, therefore, cite in this section examples of some undeveloped and underdeveloped regions where efforts are being made to develop economic resources largely in the light of the theories of planning expounded in the preceding Section. The first excerpt deals with the Cotton Belt, a region comprising 13 American States generally known as "the South." The Southern population, of about 16 million, is predominantly rural and agriculture is much more important in this region than it is in the rest of the country. Its agriculture is characterised by inadequate farm family incomes and low standard of living. These deficiencies are in a large measure due to low crop yields, inefficient livestock protection, depleted soils, inadequate land and capital resources per family, poor farm organisation and a low level of managerial ability. As these deficiencies characterise most of the "backward" countries of the world, the economic plan drawn up for the Cotton Belt should be of practical value in studying economic problems and in formulating economic policies for other countries as well.

The excerpt which we have given is a summary of the comprehensive plan drawn up by a committee of experts for the rehabilitation of Southern economy. The plan primarily aims at eliminating the existing deficiencies in agriculture by the application of scientific methods of farming, adoption of better managerial practices and by a better com-

bination of production factors. It is recognised that this transition to an efficient agriculture would involve significant changes in other sectors of economy—particularly in industry. Above all, the plan lays special emphasis on the improvement of the human element in economic production. The low income of the worker in the South is attributed to his low efficiency. But efficiency itself, according to the Report, is, in some degree, a function of economic conditions. A high birth-rate and low economic efficiency have been responsible for poor health and a lower standard of living, while these in turn, have perpetuated the unsatisfactory economic condition of the people. To break this vicious circle, the plan recommends two more planks in the rehabilitation programme, viz. provision of opportunities for education and measures to raise the level of health of the people. Better health and a fair level of education are considered essential to train the people for sustained hard work, to infuse in them a healthy social outlook and to make them fully and collectively respond to the call of the national programme.

It is obvious that over-all public policies and programmes of such magnitude raise problems of regional co-operation and centralised administration to facilitate the execution of the plans in harmony towards the common goal. A striking feature of the two Reports from which we have culled the excerpt is that they allocate between the State and the Federal Government the responsibility for the implementation of different programmes so as to ensure a balanced economy to the regions and an integrated development of the nation as a whole. In general, the Federal Government is expected to “stimulate, facilitate and co-ordinate” the programme for the economic development of the States. More specifically, the Federal Government is expected to shoulder responsibility for such matters of nation-wide importance as maintenance of full employment in agriculture and in industry, a sound price policy for agriculture, industrial expansion, development and conservation of natural resources, provision of capital funds for economic development, labour policy, education and trade. It may also be pointed out that these Reports are remarkable for their wealth of statistical and other information necessary for assessing the potentialities of development of the various economic sectors and for evolving the methods of achieving the desired objectives. To these two features, the Reports owe their realistic and methodical approach to the numerous economic problems they have sought to solve.

The other two excerpts in this Section relate to the Tennessee Valley Project. They show the results of concentrated efforts in harnessing natural resources and human skills and abilities for an integrated development of a neglected region. Two decades ago, the Tennessee Valley was losing ground as measured by the general dis-

parity between it and the other regions of the United States. But today, the Valley soils, once eroding and dwindling in fertility, are being restored through the use of new farm-techniques and shifts toward more diverse and stable agricultural patterns. Production of food and fibres is being increased. The Tennessee River has been transformed from a destructive stream to a steady and a beneficent channel of production throughout the year. Power production has been multiplied ten times for the benefit of farm, home and industry. Besides, it has enriched the region by developing water-transport and multiplying fish and wild-life.

How did these developments help agriculture? A developing industrial economy relieved the pressure of population on land, created new wealth and provided new income. In the decade upto 1945, two million acres were brought under soil-conserving types of agriculture. Pasture lands increased and milk-production went up by 22 per cent. Farm tenancy declined by 38 per cent and farm production began to move up. The per capita income which in 1933 was only 40 per cent. of the national average rose to 60 per cent of the national average within 12 years. In short, the Tennessee Valley Project shows how effective an integrated approach to regional development can be in widening the economic opportunities of the people and raising their standard of living.

SECTION III

PROBLEMS OF FARM-INDEBTEDNESS AND INFLATED LAND VALUES

The excerpts given in the preceding two Sections deal generally, and from a wider standpoint with the problems of agricultural development. In this Section, we include excerpts on agricultural indebtedness and control of the land-market. Indebtedness and inflated land-values are the two major handicaps that have to be reckoned in any scheme for the rehabilitation of low-income groups in agriculture. When farm debts increase in subsistence-agriculture, a large number of farmers slide down the "agricultural ladder" and, consequently, add to the low-income groups. Unregulated land-values, on the other hand, defeat the efforts of the low-income groups to go up the agricultural ladder; the effects of inflated land-values in times of land-boom are no less disastrous than those of indebtedness in times of depression.

(i) Agricultural Indebtedness :

This Section, therefore, opens with a *resumé* of Dr. Costanzo's study of over-indebtedness of farms and the means for its control. The

excerpt presents an account of the debt-legislation enacted in several countries during the post-depression years. After a careful appraisal of these various measures, Dr. Costanzo comes to the conclusion that most of them have proved mere palliatives for dealing with effects rather than the causes of debt. Measures for regulating credit and those trying to effect compulsory reduction in the debt-burden have led to a severe contraction of credit and in some countries as in Germany and the U.S.A., involved the Government into large-scale financial operations.

In some countries, however, specific measures were taken to prevent further growth of indebtedness which proved comparatively more effective. The following among them need special mention:

- (i) State support to prices of farm produce at a particular level, taking care at the same time, not to allow simultaneous rise in the cost of means of production.
- (ii) Provision of assistance, in the form of technical advice and cash subsidy, to small farmers who are incapable of securing loans on reasonable terms elsewhere and are in a position to make good use of State assistance.
- (iii) Prevention of transfer of land from debtors to creditors.
- (iv) Control of land values and regulation of land transactions.
- (v) Urging the farmers by diverse methods, optional and compulsory, to conform to a national plan for agricultural development. To induce the farmers to participate in such schemes, Governments undertook to compensate them for any losses they might incur in carrying out programmes involving a change of farm practices.

Dr. Costanzo's critical study is followed by a brief outline of the Farm Debt Adjustment Programme which appears to be the most effective method evolved so far for rehabilitating indebted families. This programme sought not only to rearrange the terms of outstanding loans but also to reduce the total amount payable, with a view to assisting the farmers to remain in agriculture and preventing foreclosure which might drive them out of agriculture or reduce their tenure status. It was also felt that as the causes of debt vary from farmer to farmer, primary reliance must be placed on the individual case method of approach in effecting debt reduction.

All the same, it was realised that a debt adjustment programme as a tool for rehabilitating the indebted cultivators has certain limitations, because debt adjustment "by its nature, is likely to emphasize

relieving an already bad debt situation rather than preventing the development of such a situation". It was, therefore, decided to carry on the programme in co-operation with other measures that would assist in the rehabilitation of the farmer and his family. As a means towards the latter objective, the Government directed its attention to the improvement of farm tenure, to prevent the units from further loss of ownership and the increasing insecurity of tenants and the consequent lowering in the levels of the low-income farmers. In fact, tenure improvement was found so closely connected with the improvement of the debt situation that the two programmes were consolidated in 1941 and their operation was placed in charge of a single section.

On this subject of indebtedness, we give one more excerpt from a Report of the Australian Rural Reconstruction Commission, which points out the short-comings of the debt policy adopted by the Australian Government during the post-depression years. In the opinion of the Commission, the Commonwealth Government was mistaken in assuming that the depression was only a temporary slump and that prices would soon return to 1928 levels; it was on this hope that the Government followed a policy of forbearance and postponement of debts. The Commission also pointed out that the facilities of forbearance in respect of farmers' obligations, particularly by Government departments and institutions were frequently badly abused by its extension to cases where merit and necessity were lacking or to other cases where the debtor had no prospect of recovering owing to an unsatisfactory long-term revenue outlook.

The Commission, therefore, recommended that Government policy relating to forbearance in respect of obligation should take into account both merit and necessity of the farmer and that forbearance should be granted only where there was some prospect of improving the farmer's position and eventually enabling him to meet his obligations.

The Commission also criticised the use of public funds for debt-relief. "Too frequently, it only staves off the day when the fundamental faults must be dealt with, and, further, it involves the Government in heavy losses without the satisfaction of having achieved lasting results. This method of relief is not commendable except where it is a necessary prelude to, or part of, a general adjustment." The Government's policy of debt adjustment and granting moratorium was also reviewed and recommendations were made to improve the same.

From a study of the policies adopted by the several countries to mitigate the evil of farm indebtedness and to rehabilitate the necessitous farmers, it would appear that restoration of solvency is not possible without restoration of the productive capacity through a

more broadbased policy of rehabilitation. Mere postponement or reduction of obligations too often leads to abuse by farmers who do not need or deserve it and thus impairs the morale of the farm community. Similarly, any positive State aid in the form of a loan or subsidy in times of such crisis would also have undesirable effects unless provision is made to ensure that the funds would not be used to bolster up farms which are economically deficient. The one sure criterion for the success of farm debt relief policy, therefore, is not the number of farmers dealt with or the volume of debts suspended or redeemed, but the number of farmers who are successfully rehabilitated and the proportion of expenditure incurred which would be ultimately recovered from the farmers who have improved their economic position as a result of this policy. In short, the success of debt adjustment and debt relief policy is conditioned largely by the provision it makes for re-organisation of farms and reconstruction of agriculture.

(ii) Control of Land Values

As pointed out above, inflated land-values present a serious obstacle to the low-income groups in agriculture to improve their tenure status. One of the measures often recommended in this case is control of the agricultural land market. According to Dr. Costanzo from whom we have taken an excerpt on this subject, Government intervention in the field of agricultural production cannot be completely successful unless it is also extended to the constituent element of the real property of the farm and first of all to the land. In his opinion, it is an essential measure in the evolution of agriculture towards peasant-proprietorship. How helpful this measure is to the farming community is explained by Dr. Costanzo, in the light of the experiments of some of the Continental countries which adopted direct as well indirect forms of control of the land market.

While Dr. Costanzo is emphatic on the need for controlling the land market, there are others like Hammar who feel that "rising or falling land values are hardly a major calamity as such." We, therefore, give here an excerpt from Hammar presenting a view of the other side of the shield. Hammar's main thesis seems to be that normally younger farmers form the bulk of buyers and older farmers form the bulk of sellers. The gains and losses of the farming community, therefore, offset one another, for what one farmer loses another gains, and "any gains from this source are certainly a dubious foundation for so ambitious a project as the control of land values." He even fears that the control of land values has often undesirable effects. Genuine sellers of land, for instance, may find to their dis-

advantage that, when forced by circumstances to part with their holdings or portions thereof, they are unable to realise the real value due to heavy taxes on transfers of land. Bonafide farmers thereby may find it difficult to acquire land for cultivation. The author points out such other unhealthy repercussions of the major types of controls of land values and recommends, as an alternative, mopping up of excess purchasing power by requiring each seller to accept a portion of the purchase price in non-redeemable and non-transferable bonds of the Government. These bonds could be redeemed when the pressure of excess purchasing power would ease and thereby create need for additional purchasing power.

The third excerpt on this subject which is taken from a Report of the Australian Commission on Rural Reconstruction strikes at the golden mean between the two extreme view-points discussed above. The Commission admits that many buyers enter the market and buy farms at prices in excess of their true productive values, and this leads to the creation of debt which is too high in relation to capacity. It becomes, therefore, necessary to check the prospective value of land being driven by speculation far above its productive value. While thus recognising the need for regulating land values, the Commission rules out any permanent policy of arbitrarily controlling agricultural land prices. Its objections to such a direct control of land prices, however, are more convincing than those of Hammar.

The Commission rightly points out that there are certain elements of value which can be satisfactorily determined only by a land-market. However, the open market is desirable for its influence on the organisation of farms into efficient size; its closure would give rise to "black-markets" which may become a permanent feature of land-economy. With the disappearance of freedom to purchase or sell land, individuals may be pegged to the holdings they own with no opportunity to shift to another location.

The Commission, therefore, suggests that to overcome the abuses of open-market dealings in land without abolishing the system, Government should curb the tendency of the market to over-estimate the productive value of land. Dissemination of knowledge on climatology, soil classification and economies of farming through agricultural extension services would raise the purchaser's capacity to "read" holdings and assess their productive value. Government should build up a national service under which authoritative advice on soil-classification, productive capacity and productive value for each farm holding would be available; they should also make it compulsory that any description of a holding for purpose of sale includes an up-to-date official assessment of productive values. A service of this

type "will provide intending purchasers of farms with reliable information which they now have difficulty in getting; it will exert a marked controlling influence on farm prices without the objection of a direct control; it will provide a reliable guide to credit institutions and help to control overborrowing; and it will provide Government with reliable information which will be of great value in assessing the merits of farmers' demands for price-guarantees and subsidies or in guiding production control."

While objecting to any permanent system of fixing land prices, the Commission does not rule out the possibility that under certain circumstances, the need for a temporary pegging of land prices may arise. Two such circumstances in which resort to pegging may be justified are discussed in the excerpt: one, in a state of national crisis, such as war and the second, when Government undertakes a major development scheme, such as large-scale irrigation projects which may increase substantially the value of farm-holdings.

SECTION IV

AGRARIAN REFORMS

So far we have dealt with measures which are intended to help the low-income groups by increasing the economic resources of the community. In this Section we discuss the possibilities of making certain improvements within a given set-up of agriculture and thereby, of making an intensive effort at adjusting the population, as far as possible, to the available land resources. So far as the cultivating classes are concerned, the main forms in which the maladjustment of population to land resources expresses itself are (i) inequitable distribution of land, (ii) excessive sub-division and fragmentation of land and (iii) predominance of tenancy-cultivation under rack-renting landlords. This section therefore, comprises excerpts on reforms to solve these major problems concerning the disadvantaged classes in agriculture.

(i) Re-distribution of Land.

The first excerpt in this Section relates to Japan which provides a good example of a country with a heavy pressure on land and "a highly inequitable land tenure system." The American Government immediately after occupying Japan took up the question of setting this situation aright and formulated a comprehensive scheme of redistribution of lands owned by absentee landlords, as also "excess" lands cultivated either by owners or tenants and lands reclaimed for agricultural purposes. Those who wanted to purchase land were allowed to pay the price in 24 yearly instalments; buyers could also

sell the land back to the Government on terms similar to those on which it was purchased. The entire re-distribution programme was, indeed, a remarkable achievement and the fact that it reduced the tenant-operated area in Japan from 46 per cent to 12 per cent of the total cultivated within a period of three years is a testimony to its success.

In Poland where "the problem of population is more acute than in any other European country," a similar scheme of land distribution had been in operation since 1920. This is described in the second excerpt in this Section. The object of this scheme, was to reduce agricultural unemployment, to enlarge very small holdings and to redistribute land so as to make agriculture support the maximum number of people and, at the same time, yield the maximum economic return per hectare. To speed up the programme, a plan for the partition of lands in the current year was drawn up at the beginning of each year. Lands which were not voluntarily partitioned by private owners were compulsorily purchased by the State and divided mainly among the tenants on the lands so partitioned and uneconomic holders in the neighbourhood. During the twenty years between 1919 and 1939, the Government have been able to partition on an average 2.5 million hectares and thereby constitute 694,300 holdings each year. By 1938 the programme had covered all but 0.8 million hectares or one-third of the area already partitioned and had helped to establish 1.3 million new holdings, to organise 55,000 farmers in Special Colonies and to provide 68,000 farms as Workers' plots etc. It may, however, be noted that inspite of this achievement, the Polish Government held that this reform was only a palliative and that "the general problem of the rural over-population can be definitely solved only by a very rapid industrialisation of Poland."

(ii) Consolidation of Holdings :

Consolidation of holdings is a reform which usually follows in the wake of redistribution of holdings, as a part of the larger scheme to increase the productivity of land. The first excerpt on this subject is taken from an article by M. Tcherkinsky surveying the work done in this regard by some countries in Europe. In many countries, consolidation began on an experimental basis as a voluntary measure, depending for its materialisation on the will of the cultivators. There was, however, not enough response from the body of cultivators in many countries. Inability of cultivators to pay off owners of lands whose lands were to be restripped was also a handicap. Better results accrued only where, as in Germany, the State with sufficient resources initiated and implemented the schemes of consolidation. Even so, the experiment has not been without results, for the increased yields

obtained as a result of consolidation are estimated on an average at 25 per cent.

France provides another example where permissible legislation failed to make this reform effective. After adopting a series of such legislation, the Act of 1941, took up the problem in earnest and introduced an element of compulsion. In fact, the law provides that even where consolidation of holdings is not essential, a communal commission may be appointed to ensure that the land is being put to best use. Consolidation of holdings in Netherlands, which is described in the third excerpt, shows how better results were achieved by combining compulsion with State assistance in meeting the costs. The State met the costs of preparing plans, arranging meetings, etc. as also that of carrying out the scheme. After the completion of the scheme, the costs were apportioned among the holdings according to their sizes. The amounts debited were made repayable over a period of thirty years at an interest rate of 5 per cent and were levied through the land tax. Not all the costs were borne by the cultivators. The Land Service which carried out the Scheme was required to determine what part of the costs could be borne by the cultivator on the basis of the profits that would accrue to him as a result of the reform. The rest was borne by the Government. On the whole, these excerpts go to show that efforts at consolidation of holdings have greater chances of success where the State itself undertakes to initiate these reforms and, if necessary, compels the agriculturists to adopt the schemes and, above all, to make the financial burden involved in the scheme as light for the cultivators as possible.

(iii) Creation of Small-Holdings:

Rehabilitation calls for an attempt at complete and more or less permanent restoration of productive efficiency to a desirable level. Hence, the creation of holdings on an "optimum" size has to be a part of the rehabilitation programme.

We, therefore, include in this section an excerpt outlining the general policy for the creation and working of small holdings in England. It describes the duties of the Small Holdings Authorities and the part this body plays "at providing small-holdings for letting people with previous agricultural experience so that they shall have an opportunity to become farmers on their own account." The excerpt also makes an appraisal of the working of the policy and suggests lines for its improvement.

But the creation of such holdings of adequate size may not be feasible in most of the backward countries with heavy pressure on land and tardy industrial development. In these countries, such a

policy would give rise to special problems as the holdings may not be large enough to provide an adequate level of living to the operators. The excerpt from Dr. Costanzo's article which we include here analyses these problems and suggests the lines on which remedial measures can be taken to neutralise the drawbacks of small-holdings.

(iv) Reform of Tenancy :

It is true that agriculture in many countries is evolving towards peasant proprietorship through the reforms dealt with above. But the pace of progress in this direction is bound to be slow. For one thing, these reforms involve huge financial commitments on the part of Governments. Secondly, agricultural resources are more or less limited while the population is increasing without a corresponding increase in new avenues of employment in industry or other non-agricultural pursuits. This explains why even in a country like the United States, there was a progressive decline in farm-ownership and an increase in tenancy from 25 per cent to 42 per cent of all farmers in the course of 55 years between 1880 and 1935. For a long time to come, therefore, most of the agricultural countries will have to take tenancy for granted and direct their attention to making the system as advantageous for the landless classes as possible.

We, therefore, include in this Section, two excerpts on this subject. The first excerpt is taken from the Report of the President's Committee (U.S.A.) on Tenancy Reform. The Committee's recommendations for this "insecure group" of agriculturists fall under three divisions: (i) Rehabilitation measures; (ii) Improvement of lease contracts and land-lord tenant relationships and (iii) Provision of education and health services. The second excerpt deals with the question of improving farm leases, for on the solution of this question mainly depends the tenants' economic well-being. This excerpt discusses the need for improving farm leases, defines a "fair lease" and makes general suggestions for securing an equitable farm lease. The basic principle which should govern the lease is that the landlord and the tenant should share the income in the same proportion as they contribute to the expense of its operation. To ensure the observance of this principle in any contract between the landlord and the tenant, and also to give security to the tenant, the model lease has to be put in writing. We, therefore, append to this excerpt a checklist of points to be considered in making a farm lease. The list shows how a lease could specifically provide for stability and security of tenure and equitable rental rates to the tenants, and, by clearly allocating responsibilities as well as expenses between the two contracting parties, ensure conservation and improvement of the farm as well as efficient production.

SECTION V.

REHABILITATION OF THE INDIVIDUAL

In this Section, we give excerpts on the direct methods of helping low-income farm families to improve their standards of living and attain a greater degree of economic security. Nowhere has this rehabilitation work reached such an advanced stage as in the United States; all these excerpts, therefore, relate only to that country. They show the intensity and the scale of efforts needed to tackle this complex problem of ameliorating the sub-marginal groups, the types of organisation needed for this work and the different lines of approach made by Government from time to time.

Three of the five excerpts in this Section relate to the rural rehabilitation programme of the United States Government. The programme is administered by the Farm Security Administration which is defined as the agency which "aids low-income farm families to re-establish themselves on productive land and to become self-supporting, through a three-fold programme of rural rehabilitation, farm-purchase by tenants and rural homestead." The first excerpt describes the general scope and method of rural rehabilitation programme of the F.S.A. While grants of direct relief and emergency loans have been made to thousands of needy families by this agency, the main part of the programme has been concerned with assisting what are called "standard cases." County rehabilitation supervisors with the help of county committees assist applicants for "standard loans" in analysing their needs and in working out a programme for their rehabilitation. The families, with the assistance of the county supervisors, prepare farm and home plans for the year's operations. These plans provide for careful budgeting of expenditures and estimating probable income. A standard loan is made to finance necessary purchases of livestock, machinery, seed, fertilizer, household equipment, and other items needed to ensure the soundness of the plan and the following of good farm and home management practices. The excerpt also shows how such disadvantaged families were shifted from sub-marginal lands to new locations where they could make a new start in life. These families were not only placed on sounder economic footing but their problems of housing, education and health were also attended to by the F.S.A.

The second excerpt defines the objectives of the F.S.A. and gives a detailed outline of the organisation set up for implementing the rehabilitation programme. The whole programme of the Administration is also described at length with reference to each of the deve-

lopment activities viz. health, sanitation, diet, housing, debt-adjustment, security of tenure, purchase of land by tenants, organisation of co-operatives and homestead projects. In the third excerpt are given some important "lessons" taught by this experience in rehabilitating low-income farm families. The working of the programme has shown that rural poverty is not simply a new depression or drought caused phenomenon, but was in fact deeprooted in a multiplicity of causes. Another equally important lesson learnt is that rehabilitation should have "a cluster of inter-related economic and social goals. It is not just paying off the loan or just acquiring more capital." Experience has also confirmed the view that loans plus supervision, with associated techniques, constitute an invention which can be a powerful instrument of rural social change for the welfare of the low-income farm people. The rehabilitation work of the F.S.A. helped, within a period of 4 years of its start, over a million farm families of which more than 87,000 families paid off their loans in full within this period and "graduated into a self-supporting status." The remaining families had made "surprising gains in their net worth, standards of living and capacity for self-support."

The last two excerpts in this Section deal with schemes intended to meet some specific needs of the low-income farm families. The one on "Rehabilitation Relief in U.S.A." describes the working of the Farmers' Home Administration with special reference to its provision of credit to farmers who are not able to get the credit they need anywhere else. These loans are often supplemented by supervision to assure successful farming and thus protect the Government's interest. The other excerpt describes the "Food-Stamp Plan" of the American Government. This plan was devised to direct the surplus foods which had accumulated during the post-depression period into consumption, with the specific objective of raising the dietary standards of low-income consumers. The Plan sought to achieve this objective by means of a Federal subsidy paid to low-income consumers in the form of blue stamps. These stamps could be used for the purchase of specified surplus foods from any retail dealer in food. The excerpt describes the theory of the Plan, its operation and effects both on trade, employment and the dietary standards of the low-income consumers. While aiding these groups to raise the dietary standard, the Plan if extended to over the whole nation, was calculated to cost the country 400 million dollars a year and raise the farm incomes annually by 240 to 444 million dollars, depending on the elasticity of the non-participants' demand for food.

The problem of low-income groups characterises agriculture almost in every agricultural country of the world. Only, its magnitude varies according to the stage of the economic development of the country. The problem, generally speaking, is too vast and complicated:

to be solved by piecemeal efforts at a few 'rehabilitation' measures such as debt-adjustment or regulation of rents as is being done in India. The problem needs, first of all, to be studied intensively on a regional basis so as to find out the deficiencies as well as potentialities of each region. In the light of these studies, development programmes have to be drawn up, keeping in view the goal of maximum utilisation of resources and a balanced economy. It is also necessary to provide for an efficient and elaborate administrative machinery with a high-grade service in research and extension, which would be able to influence the economic well-being of every low-income farm family. The working of the regional authorities and the central administration has also to be harmonised so that the economic progress of the country as a whole may not be haphazard and sporadic. In short, the problem of low-income groups needs to be tackled on many fronts simultaneously. The resources at the command of these groups have to be increased. They have to be provided with wider economic opportunities of employment and income. Their education, health and housing needs have to be met. They have to be helped to make adjustment to technological changes in farming. Above all, every disadvantaged farm family has to be provided with the means and facilities to earn a good living through the conservation and maximum utilization of the human and material resources.

SECTION I

PRINCIPLES OF ECONOMIC PLANNING

1. SPATIAL ORGANIZATION OF AGRICULTURE *

Dr. George Pavlovsky.

The spatial organisation of agriculture at a given stage of a country's economic and social development depends upon two sets of factors which determine the location of the different branches of agricultural production and of the different systems of farming. One of these sets comprises the natural factors, such as climate and soil, on which depends the possibility of the successful exercise in a given locality of certain branches of agriculture or of small husbandry. Besides the natural factors of the location of agricultural production there are the economic factors. These comprise all those factors which affect the economic position of farming in a given locality by determining the prices of farm products and the costs to the farmer of labour and of material means of production.

While the natural factors of location have, in the main, to be taken for granted, save for various technical adjustments and adaptations which, at a certain cost, permit natural obstacles to be more or less successfully overcome, the economic factors are much more accessible to the deliberate action of man. Indeed, almost at all times Governments have sought to influence the development of agriculture and industry in various localities by creating or assisting in their working certain economic factors of location, such as roads, waterways, organized local markets, supply of labour, etc. Now, when, with the development of planned economy, the movement towards a deliberate rationalisation of economic activities is continually gaining ground, the problem of a rational spatial organisation of agriculture is naturally coming to the fore, and the essential theoretical and practical aspects of this problem have to be thoroughly studied.

Approach to the Problem of Location

Our theoretical economics assumes the existence of an economic system of which the prime mover is the individual human agent acting in accordance with his particular economic interests. Under such conditions, which constitute the essential premises of a competitive system, the basic problem of the human economic agent as the prime mover of the whole system, concerns the price-costs ratios ruling in his branch of production. These ratios natur-

* International Review of Agriculture, November, 1942. pp. 321-E—354-E.

ally differ according to time and to space, as time brings about various changes in technique and in economic conditions affecting the prices of commodities and services, while space involves the question of the costs of transport for the products marketed and for the necessary means of production. It is, therefore, from the point of view of the influence of a given geographical situation of his business upon its price-costs ratios that, under a system depending for its working on profit, the producer naturally approaches the problem of location.

The Economic Problem of Location from the Individual Point of View

Thus, the economic problem of location appears in the first instance, as a problem of private business economics. It consists, in the manufacturing industries, in finding the geographical situation in which the factory or works would enjoy the most advantageous conditions for the marketing of its products and for the supply of labour and material means of production. In agriculture, where the geographical situation of the farm is given, it consists in finding the system of farming which would ensure the most profitable ratio between the prices of the products and the costs of production.

The Economic Problem of Location in the Social or Collective Sense

When we come to envisage the general pattern of the spatial distribution of economic activities within a given community, we pass from the private aspect of the problem of location to its social or general aspect. From the domain of private business economics of the several manufacturing or farming businesses belonging to a community, we pass into the domain of the collective economic life of the community itself.

The economic problem of location in the social or collective sense involves the general consideration of the economic factors which, acting through the deliberate choice or decision of the individual producers in connection with the geographical situation of their particular economic activities, determine the spatial distribution of the various forms of economic activity within a given community.

The object pursued by the economic investigation of this problem consists in discovering the laws which govern the statics and dynamics of the spatial organisation of the economic system.

THE PROBLEM OF LABOUR INTENSITY

The Problem of the Location of Labour Intensive Systems of Cultivation

Labour intensity was usually considered as merely a makeshift for capital-intensity where capital was scarce, as it generally is in the eco-

nomically less advanced regions. That this is true to a certain extent, cannot be denied; but neither could it be said that it is the whole truth. It does not account for the numerous cases in which labour-intensive systems of farming or branches of production live more or less side-by-side with capital-intensive farming, or are found scattered here and there in zones of extensive cultivation, or, finally, when capital and labour-intensity are combined in the same farm. If labour-intensity could be seen to substitute itself gradually for capital-intensity with the increase in the distance from economic and cultural centres and with the passage to less economically advanced regions, the now usual attitude to it could be justified. But as this is not the case, and as this phenomenon has the disconcerting habit of cropping up unexpectedly in the most unlikely places, thus confusing the design of the ideal agricultural map drawn according to the current theories of location, it has to be examined more closely.

The truth is that the density of population is frequently determined not by the earning possibilities of the country or region, but by historical and other factors, and is, therefore, often non-economic. Unless a given zone is already densely populated and offers the advantage of cheap labour, such labour-intensive branches of farming as the cultivation of technical plants can hardly have an incentive to establish themselves there.

What really happens is that technical plants are frequently, though by no means always, cultivated in regions remote from the market and having low prices for farm products, but this depends primarily on the presence in the locality of abundant labour and on low labour costs, which make good the drawbacks of the geographical situation. That the technical and other labour-intensive branches of cultivation are not necessarily confined to the outer zones, is clearly demonstrated by the sugar beet cultivation in Central and Western Europe, by flax growing in Ireland and in the Netherlands, by the cultivation of hemp and tobacco in Italy, etc.

Labour as an Economic Factor of the Location of Farming System

In agriculture as well as in the other branches of production, the costs of transport are not the only determining economic factor of location, as high costs of transport may to a certain extent be compensated by other costs being low. Among these other costs, and that particularly in agriculture, labour is, as a general rule, the most important single item. Accordingly, the presence in a given locality of abundant and cheap labour may not only go very far to make up for high transport costs, but may actually play a decisive part in determining the concentration in that locality of certain branches of production requiring a relatively large outlay of human labour, especially when high

transport costs are due not so much to the nature of the product as to the distance from market.

In most countries and regions where peasant farming predominates the typical form of intensive cultivation is generally represented by labour-intensity. By the employment of family labour, with its flexible rate of remuneration in kind, the peasant farmer is in a position, with given prices for his products, to increase his gross return per acre, by the intensification of his methods of farming, to a considerably greater extent than the large farmer depending on hired labour. In the regions suffering from agricultural overpopulation, where the peasant smallholders are particularly in need of increasing the gross return from their holdings, they often go far beyond the economic limits of rational intensification, as determined by the prices of farm products, meeting the deficit out of their families' labour earnings. As this phenomenon is very widespread, and as it affects large farming as well through the local level of farm wages, which are low in the congested rural districts, it cannot be left out of account in any theoretical scheme of the spatial distribution of farming system. As a recent German writer puts it, "small farms are mostly very richly endowed with labour, which represents in this case a definite factor of location."

Three Basic Problems of Economic Planning in Connection with the Spatial Organisation of Agriculture

Economic planning seeks generally to ensure steady economic progress, undisturbed by business fluctuations which have proved to be an inherent feature of the economic organisation based upon competition and in the long run to secure to the community as a whole the highest possible return from the co-ordinated working of all the productive forces, human and material, at its disposal.

This principle naturally applies to the spatial distribution of economic activities in the country. In a planned economy, instead of being taken for granted, such as it comes out of the free play of economic forces in competition, the spatial distribution of economic activities must be rationalized and controlled with the definite object of achieving the highest possible degree of productive utilization of all the resources. Such rationalization must permit technical progress to be fully put to the service of the community, thus avoiding the paradox of "misery in plenty" which the competitive system proved unable to master.

The spatial organization of agriculture, apart from the influence of natural conditions, which is essential is determined by the factors of economic location. These consist of the situation of the farm with

regard to the market, which determines the cost of transport and, therefore, the local prices of the products and of the means of production; of the capacity of the local markets, which depends upon the industrial development of the country and the distribution within it of industrial centres and of non-agricultural population; and, finally, of the spatial distribution of the agricultural population, which determines the supply and the cost of agricultural labour in the different parts of the country. Thus, in any attempt at achieving a rational spatial organization of agriculture, which would ensure the most advantageous utilization of the country's agricultural resources, economic planning must aim, in the first instance, at creating those conditions of economic location which would permit this object to be achieved. This will involve the solution of the three following basic problems:

- (1) The overcoming of distances by the rational organization of transport facilities;
- (2) The rational distribution of industries and of industrial population over the territory of the country;
- (3) The rational spatial distribution of agricultural population.

Only if and when these three basic problems are solved, the necessary preliminary conditions of economic location will be created for the technical organization of agriculture proper which will enable the agricultural resources of the country to be used to the best advantage.

Development Of Transport

In the economic system, whatever its organization, the problem of space which determines the burdens imposed upon the various branches of economic activity by the necessity of long distance transportation, plays an enormous role.

In this form the problem of space presents itself mostly in the countries less developed economically and demographically, where it is reduced to the provision of transport facilities. Even in such countries, it is true, the problem of spatial organization is not confined to that of the creation of a sufficient network of railways, roads, waterways and other means of communication. With the exception of regions still in course of colonization, even these countries are also faced with various anomalies, mostly due to survivals of the past obstinately clinging to life and standing in the way of rationalization.

In the countries more advanced economically, with their basic network of railways already sufficiently dense, the centre of gravity of

the transport problem lies now mostly in the construction of motor roads, serving partly to lighten the burden of traffic on the railways, partly to bring into closer connection with the markets the districts lying in the interstices between the zones of economic gravitation of the existing railways. Here, in the solution of the various problems of spatial economic organization, the development of motor roads and the scientific application of differential tariff rates are probably the most powerful instruments in the hands of the Governments.

Decentralisation Of Industries.

In his work on the economic location of industries, ALFRED WEBER included the tendency of industries towards agglomeration in great centres among the three principal factors which determine the choice of location for a factory or works. Both direct observation and statistical data would appear to support the contention that, in spite of some undoubted drawbacks such a choice of location may present, the attraction exercised by the existing great industrial centres upon new business ventures is sufficiently great to bring about the continuous growth of such agglomerations.

From the point of view of the rational spatial organisation of economic activities, such agglomerations of industries present themselves in a somewhat different light in the more advanced industrial countries, on the one hand, and in economically younger countries, still in the early stages of their industrial development, especially if their relatively great territorial extension makes their transport problems difficult of solution, on the other hand.

In both cases there exist industries which have practically no choice of location, such as mining or some other branches of heavy industry which are naturally bound to a certain geographical point. These frequently constitute the original nuclei of future agglomerations, as by forming large concentrations of population and by the need they have of various subsidiary branches of production, they attract to the spot various other industries. Here we have cases of natural agglomeration, which often cannot be avoided without considerable loss not only to the businesses concerned, but to the community as well. It is not in connection with these cases, but with those which are largely due to historical causes and to the influence of other non-economic factors, that the question of decentralization arises.

In the highly industrialized countries, the decentralization of industries is mostly rendered necessary or useful by reasons of economic and social policy, or even by political and military considerations.

Among the economic and social reasons, we should point in the first instance to the more even territorial distribution of sources of earnings, to the improvement of housing and general living conditions of the workers and to the prevention of the depopulation of the countryside by creation of additional sources of earnings in rural districts. In these countries, it is practically never necessitated or rendered desirable by reasons connected with a reduction in the costs of transport of the raw materials to the factories and of industrial products to the places of final consumption.

In the economically less developed countries, the problem presents itself in a somewhat different light. There, the question of transport is one of the basic considerations, and all those industries which are not necessarily bound to a certain geographical point, and which produce goods for direct consumption, should be located, as far as possible, in or near the places of consumption, and should make the largest possible use of local raw materials. To achieve it, the programmes of industrial and agricultural production for each particular region should take into account this consideration by ensuring the production on the spot of the necessary raw materials and the setting up of factories for their transformation. Here, in countries in which industrial production is in course of being developed, the problem of decentralization, in the strict sense of the word, does seldom arise. Their problem is rather that of not permitting excessive concentration of industry in large agglomerations to take place by giving the spatial organization of industrial production the right start.

Considered from this standpoint, the centralization of industries is important not only because of the economic effects exercised by it upon the industries themselves, but because of its effects upon the economic system as a whole, and especially upon agriculture.

In an economic system based upon private property on land, the excessive concentration of industries in a few large agglomerations leads to the creation in the immediate vicinity of these centres of relatively wide zones of suburban agriculture, distinguished by high prices of agricultural products, intensive cultivation, high rents and inflated land prices. The high profits of farming and the competition for land on the part not only of farmers, but of industries and speculative investors as well, generally tend to raise the prices of land far beyond its agricultural value and thus to produce an overcapitalization of farming in these localities. Such overcapitalization, due to excessive purchase prices of land, represents a great danger to the financial stability and solvency of the farm business, and it may prove on occasions particularly dangerous in the suburban zones of high farming generally engaged in the production of relatively high priced "luxury"

commodities having a very elastic demand and much affected by fluctuations in the earnings of the urban population.

Moreover, the overcapitalization of farming, in its effects upon agriculture, is not unlike agricultural overpopulation in that, like this latter, it has the tendency to push the intensification of farming beyond the economic limits. Faced with the absolute necessity of meeting the fixed capital charges, the farmer is driven to disregard the relative diminution of his earnings in respect of the additional portions of labour and capital invested in cultivation, if by that he achieves the much needed increase in his gross return. In the general economy of the country this involves a definite waste of labour and capital, which would be better employed elsewhere, a loss which a rational spatial distribution of economic activities should seek to avoid.

The impulse towards the intensification of agriculture, in a country in which the industries and the non-agricultural population are more evenly distributed is more widespread and less urgent. Under such conditions, the fresh investments in cultivation, not being made under the pressure of the urgent necessity of increasing the gross return of the farm at all costs, may be kept within rational limits, thus achieving better results from the point of view of the utilization of the country's resources.

One of the most important effects of the decentralization of industries upon agriculture thus consists in the levelling of land rents and land prices. While the inflated land values of the suburban zones of the overgrown industrial agglomerations are deflated, the land values in the other parts of the country are raised, and land which, before, in the remoter districts, had occupied a marginal position, is made to pay rent and to fetch better prices.

Another exceedingly important aspect of the decentralization of industry from the social and economic points of view, consists in that it helps the solution of the problem, particularly acute in the more congested rural districts, of the profitable utilization on the spot of the surplus of labour, thus avoiding the necessity for large numbers of people to abandon the land and to migrate into the overcrowded urban and industrial centres. In this respect, the decentralization of industrial production creates a substitute for the various rural districts, arts and crafts, in which, in the past, the rural population found a source of supplementary earnings, and which have been mostly destroyed by the competition of factories.

The wider spread of industries over the country also tends to the better penetration into the countryside of those various little amenities

and cultural possibilities of the cities which are undoubtedly among the contributing causes of the power of attraction exercised by the town over the youth of the country.

The Spatial Distribution of Agricultural Population

As we have had occasion to point out, the spatial distribution of agricultural population in any country at any moment is the result of a combination of numerous factors, and, being a product of heterogeneous complex of historical influences, it can frequently find no economic justification. In other words, the agricultural population is generally distributed not according to the capacity of the different localities to ensure a certain standard of living of the people engaged in agriculture, but according to the historical conditions which, in the past, have led to the greater or lesser agglomeration of population in certain localities, to the distribution of holdings and their size, to the various legal and customary bonds which tied the population to the spot and prevented its migration between the different regions, and to an infinite number of other causes.

As a result, from the point of view of ensuring to the community the most advantageous use of the human and material resources at its disposal, the spatial distribution of agricultural population in most countries leaves much to be desired. The principal manifestation of the irrational distribution of agricultural population, which brings about the incomplete or inefficient utilization of the human and material productive forces in agriculture, as well as a lowering of the standard of living of the agricultural population compared with the other social groups * is the widespread phenomenon of agricultural overpopulation.†

In dealing with the case of labour-intensity, we have already referred to the fact that, in the congested rural districts, where the small farmers have to make a living out of holdings not large enough to provide for the needs of the peasant family, the peasant, unless they can eke out their income by sufficient outside earnings or by some domestic industries, have to push the intensification of their farming far beyond the limits indicated by the Law of Diminishing Returns. This means that, in order to raise the gross return of their farms to the maximum, they would employ on them their family's labour with-

* See Hugo Boker, "Agriculture's Share in the National Income and the Agricultural Situation," *Monthly Bulletin of Agri. Economics and Sociology*, January, 1941.

† See C. J. Robertson, "Population and Agriculture, with Special Reference to Agricultural Overpopulation," *Documentation for the European Conference on Rural Life, 1939, I.I.A. Rome, 1939.*

out any regard to its remuneration. Indeed, as the family's labour earnings do not represent for the peasants disbursements in cash, as do the wages of hired labour, this item in their costs of production is very elastic, being only a conventional formal entry in their accounts, which is calculated on the basis of current wage rates. During periods of depression, the elasticity of this item enables the peasant farmer to resist better than does the large farmer dependent on hired labour, and this constitutes a great source of force and vitality for the peasant family farm. In the congested rural districts, however, this elasticity is strained to the extreme, the peasant family's labour earnings being permanently reduced to a minimum and their standard of life often dangerously lowered. It is hardly necessary to dwell here on the economic and social effects of such a situation, from both the peasant's own and the community's point of view.

When we consider the question of rural congestion from the point of view of the rational spatial organization of agriculture, by which we mean an organization which ensures the most advantageous utilization of the human and material resources at the disposal of the community, we can see that the existence of agricultural population in certain parts of the country represents a definite waste of labour.

In the congested agricultural districts, as we have said, the peasant is so urgently concerned with the raising at all cost of the gross return of his small holding that he pushes labour-intensity beyond the economic limits. As a result, the return per man-day is more or less considerably reduced, and the contribution of the labour employed under such conditions to the aggregate production of the country is much smaller than would have been that of the same amount of human working power if it were applied elsewhere, to a holding still leaving enough room for the profitable intensity of the system of cultivation. This indeed, in many cases constitutes the economic reason of the policy of internal colonization by which the working power whose efficiency is unreasonably low in one locality is transferred to another locality, where it can be utilized in agriculture to the greater advantage both of the community as a whole and of the individuals concerned.

Apart from internal colonization, which is the obvious remedy in this case, when it is practicable, the principal means for combating the evil of agricultural overpopulation consists in the creation of employment outside their family holdings for the surplus of agricultural labour.

In the case of the countries still predominantly agricultural this implies in the first instance industrialization, the possibilities and directions of which depend on the natural resources of the country and

on its capacity either of obtaining from abroad the necessary capital, or of organizing industrialization by its own means and bearing the temporary sacrifices involved by it for the population.

In the industrial countries, this problem is largely merged with that of the decentralization of industry and the general revision of its spatial distribution over the country. Here, rural congestion must generally be dealt with by means of remedies of local character, involving the encouragement of the transfer of industrial production to the congested areas and the establishment there of newly founded factories and works. This must be considered as the principal way of solution. In some particular cases, the situation may be improved by the development of small rural industries arts and crafts; but this solution requires special technical or artistical aptitudes in the local population, which are not always available in such districts; moreover, an improvement achieved by this means is always precarious owing to the continuous menace of factory competition if the venture proves really a commercial success.

In our modern industrial civilization, it is rather from industry itself, through its decentralization and its deliberate diversion towards congested rural districts, that one can expect a solution of the problem. This is all the more so that, as it would appear, the rapid technical progress of farming, which tends continually to increase its production, creates a situation in which a state of relative agricultural overpopulation, with its unavoidable concomitant of the lowering of the standard of life of the agricultural population as compared with that of the other social groups, instead of being a localized complaint, becomes increasingly generalized, and demands a comprehensive solution. Indeed, it may prove that, in order to prevent excessive urbanization, with its undoubtedly evil social and hygienic effects, the Governments, faced as they are with the problem of agricultural impoverishment and of the depopulation of the countryside, will have to envisage the ruralization of industry, thus achieving a combination of rural life and industrial occupation for millions of people who would otherwise have migrated to the towns.

Apart from the phenomenon of overpopulation, the incomplete utilization of the working capacity of the agricultural population may result from too one-sided a system of farming, in which periods of intensive seasonal work alternate with long spells of enforced idleness. In this case, the principal remedy consists in the modification of the local organisation of agricultural production by the introduction of new crops, etc. The possibility of such improvements, however, besides natural conditions, depends upon economic factors, and unless the existence of suitable marketing facilities at home or abroad per-

mits it, no efforts will succeed in the long run in changing the situation. Accordingly, here also, the problem will consist, in the first instance, in so planning and organizing the spatial distribution of industries as to provide agriculture in the districts where working power is wasted in this manner, with a possibility of modifying the farming systems and thus ensuring more regular occupation to the available labour. In some cases, the situation in this respect may be improved by the development of exports abroad of the agricultural products of the districts concerned, if foreign markets may be found which will permit a more varied production.

The work of creating and improving the conditions of economic location on which we have been dwelling in the preceding few pages will have to be based upon a solid foundation of concrete data of facts which at the moment are often either scarce or non-existent, and will require a large amount of theoretical investigation in order to establish the general principles of the various measures to be taken, as well as to estimate their probable effects. All this will open up a vast field of statistical and economic research of vital importance for the success of eventual planning and organization.

In connection with the development of transport facilities and their better adaptation to the objects pursued, statistical and economic investigations will have to concentrate, in the first instance, upon the actual traffic of the various regions coming into consideration, its principal directions and the means by which it is served, as well as its costs. The transport requirements of the region will then have to be studied, taking into account its producing and consuming capacities, as well as the local prices of the various essential commodities compared with those ruling in other parts of the country and on the world market. Then the question will have to be investigated as to the best way in which the transport facilities of the region concerned should be developed so as to contribute to the improvement of the conditions of economic location of its agriculture. The costs of transport and the incidence of the goods' traffic upon farming in the different localities should form a subject of particularly close study.

In connection with the spatial distribution of industry and, with it, of non-agricultural population, apart from a general survey of the existing situation in this respect, which must form the basis of all further work, numerous local investigations will have to be carried out with a view to improve the position of the districts most in need of greater marketing facilities for their agricultural products and of additional earnings for the surplus of rural labour. These investigations will evidently have to take into consideration the natural conditions and resources of the districts concerned, their present conditions:

of transport and the changes in these which their industrial development will require, etc., so that the field of research in this case will be particularly wide. To a certain extent these researches will necessarily overlap with those in connection with transport facilities and of the distribution of agricultural population, which, however will be a purely theoretical inconvenience as, in most cases, the districts coming into consideration from these various points of view will be the same.

In connection with the spatial distribution of agricultural population, the groundwork will be constituted by the general statistical surveys of the statistics and dynamics of the distribution of agricultural population and of the different aspects of its economic situation. Local studies will have to be carried out in connection with the situation of the agricultural population in the districts coming under consideration because of the prevalence there of such phenomena as absolute or relative agricultural overpopulation, open or latent unemployment, etc. In connection with such studies the results of farm-accountancy of the districts concerned, as well as representative budget investigations, may prove exceedingly useful. Economic research will have to investigate the general conditions of economic location in the districts, in order to find out what particular measures might prove most effective in combating the evils by which it is affected. According to the results of such investigations, it will be possible to decide whether the situation of the agricultural population may be improved by the development in the locality of industries, by the improvement of transport which would open the way to new markets or by some other means which would leave the existing population on the spot, or whether the only solution lies in the bodily transfer of some of the population elsewhere, by way of internal colonization.

2. ECONOMIC POLICIES NECESSARY FOR THE ATTAINMENT IN ASIA OF THE SOCIAL OBJECTIVES OF THE ILO*.

The Conference requests the Governing body to bring the following considerations to the attention of the Governments represented at the Conference, the Economic and Social Council of the United Nations and the Economic Commission for Asia and the Far East, the Food and Agricultural Organisation of the United Nations, the International Trade Organisation when established, and such other international bodies as may have primary responsibility for international action in respect of the various measures suggested; and to arrange for such further studies of the problems of economic development as may be calculated to assist the Asian countries in implementing the objectives of the International Labour Organisation to be made by the International Labour Office or other appropriate international bodies.

I. Provision of Industrial Employment for Excess Agricultural Population

1. In most Asian countries there exists a great excess of agricultural population in relation to the available supply of cultivable land.

2. This agricultural overpopulation, manifesting itself in the smallness of the average size of farm and in the insufficiency of income derived therefrom to provide an average rural family with a minimum subsistence level of living, is a key factor in the poverty of Asia.

3. Effective steps should therefore be taken to provide new opportunities of productive employment in manufacturing and service industries which will absorb excess agricultural population.

II. Expansion of Agricultural Production

4. Notwithstanding industrial development, agriculture will for a long time to come remain the chief source of income for the majority of the population of the Asian countries.

5. The expansion of agricultural as well as industrial production must therefore be regarded as a primary objective of the economic policy of the Asian countries.

* Text of Resolution considered by the Select Committee of the Preparatory Asian Regional Conference of the ILO, New-Delhi, October-November 1947—Record of Proceedings (pp. 180 ff.).

6. With a view to expanding agricultural production, measures should be taken—

(a) to bring into cultivation land hitherto unutilised;

(b) to increase yields per unit of land by the control of insects and diseases, the use of more and better fertilisers, the improvement of seeds and the adoption of improved methods of cultivation;

(c) to increase agricultural output per worker by the improvement of agricultural implements and wherever economically feasible, by the introduction of labour-saving machinery;

(d) to establish agricultural implement stations operated by Governments for the purpose of lending such implements to agriculturists in need of them;

(e) to improve the organisation of farm enterprises by the consolidation of fragmentary holdings and the development of co-operative farms;

(f) to raise productivity of animal husbandry and fisheries.

7. Provision should be made for large-scale public investment in water and soil conservation schemes and irrigation and drainage works.

III. Fair Distribution of Agricultural Income.

8. A fair distribution of agricultural income is of primary importance for the social and economic well being of the agrarian population.

9. With a view to securing a fair distribution of agricultural income measures should be taken—

(a) to prohibit usuary and establish rural credit institutions to facilitate the provision to agriculturists of non-interest bearing loans for financing essential consumption needs and of short, medium and long term loans at low rates of interest for productive purposes.

(b) to reduce to a minimum the tax burden of low-income agriculturists.

(c) to fix agricultural rents at a reasonable level, afford greater security of land tenure and promote a more equal distribution of land ownership;

(d) to improve the organisation of agricultural marketing and, more particularly, to encourage the development of co-operative marketing.

10. In formulating agricultural policy for areas whose economy is at present based upon export crops the prices of which are subject to wide fluctuations consequent upon cyclical and long term changes in the world conditions of demand and supply, special consideration should be given to:

(a) the desirability and economic possibilities of diversification of crops; and

(b) the desirability of intergovernmental arrangements designed to promote greater stability of prices and to bring about prompt and orderly adjustments of international demand and supply of such products.

IV. Capital Formation.

11. Capital formation on a large scale is of central importance as a means of raising productivity and national income in the Asian countries. Such capital formation should be accelerated by measures—

(a) to promote the most efficient utilisation of unemployed and underemployed human and material resources;

(b) to achieve rapid improvements in productive techniques, especially those requiring little or no capital expenditure, and in organisational efficiency in all lines of economic activity, so as to enable parts of resources to be released therefrom to capital formation without affecting the production of goods and services for current consumption;

(c) to "introduce" utility schemes in industries producing essential consumption goods;

(d) to augment the domestic supply of essential productive factors the scarcity of which is likely to retard the whole process of capital formation unless diverted, in significant quantities, from the production of goods and services for current consumption;

(e) to curtail the consumption of luxury and non-essential non-durable goods and services and to limit the acquisition of unnecessary consumers' capital goods by high-income classes;

(f) to increase the resources of foreign exchange needed for financing the imports of goods and services essential to capital formation; and

(g) to encourage the inflow of foreign capital in the form of private and intergovernment lending, direct investment and loans from the appropriate international agencies on terms beneficial to all parties concerned.

12. In early stages of economic development, the process of capital formation is liable, unless adequate safeguards are adopted to involve an increase in money incomes accompanied by shortages of consumption goods which, by causing a cumulative price inflation, will both occasion greater inequalities in the distribution of income and arrest the process of capital formation itself. Policies of capital formation should therefore be formulated in such a way as to avoid as far as possible the use of methods of inflationary financing whenever the level of full employment is reached; to the extent that such methods are employed, safeguards, including the following, should be taken to check inflationary effects—

(a) fiscal measures designed to absorb excess monetary demand of the population;

(b) price controls over goods and services, particularly food, clothing and other daily necessities;

(c) encouragement of voluntary savings;

(d) limitation of demand for consumption goods by such means as rationing; and

(e) establishment and improvement of such administrative machinery as is necessary for effective enforcement of the above measures.

V. Industrial Development.

13. Appropriate measures should be taken to encourage private enterprise to play a constructive part in the industrial development of Asia; these measures should include—

(a) measures to improve the organisation of the capital and credit markets with a view to channelling monetary savings into the most productive fields of employment, and to reducing the rates of interest long-term and short-term, to the lowest possible level;

(b) measures for the provision of adequate assistance, financial, technical and other, to newly established enterprises in need of such assistance;

(c) measures to secure wider knowledge of modern technology and scientific methods of business organisation and management, to train specialists in these fields and to promote organised industrial research; and

(d) measures to reduce the costs of capital equipment, transport and fuel needed for industrial production.

14. Public enterprise has an important part to play in initiating and promoting the industrial development of Asia and should be conducted in accordance with the following general principles:

(a) Public enterprises should be so organised as to ensure that they are efficiently managed without political interference with the conduct of their operation.

(b) The budgets of public enterprises should be treated separately from budgets for current governmental revenue and expenditure.

(c) The budgetary and production policies of all public enterprises should be co-ordinated by a central authority.

(d) The pricing policies of public enterprises should be framed in the light of long-run social objectives.

16. Every effort should be made, by such means as fiscal and credit policy and the direct control of investment, to direct private enterprise towards the industries the development of which will be most advantageous from the long-run economic point of view, having due regard to the country's legitimate requirements for national defence.

17. Effective measures should be taken to secure high standards of productive efficiency in existing industries, more particularly with regard to—

(a) output per unit of labour, of capital, of fuel and of raw materials.

(b) efficiency in the organisation of the industry, especially in respect of its size, financial position and structural balance.

(c) efficiency in marketing and distribution; and

(d) efficiency in labour-management co-operation.

18. Governments should ensure the maintenance of reasonable standards of industrial efficiency and should take prompt steps to facilitate the reorganisation of an industry on a more efficient basis whenever changes in the conditions of demand and supply beyond the control of that industry make such reorganisation necessary.

19. In order to ensure that the fruits of industrial development are passed on to the mass of the population, measures should be taken to prevent the overconcentration of economic power and to restrict the growth in inequality of distribution of income and wealth.

20. In order that handicraft or cottage industry may play a more effective part in providing supplementary employment and income for the rural population in Asian countries, the development of large scale industries should be supplemented by a parallel programme for the modernisation and reorganisation of traditional handicraft or cottage industries and the development of new simple industries with small capital investment in rural districts; in framing such a programme, special attention should be given to—

(a) the desirability of developing industrial co-operatives as a method of organising small-scale industries;

(b) the need for co-ordinating the development of large scale and small industries in such a manner as to make them complementary to each other; and

(c) the importance of the part which can be played by Governments in preparing, initiating and promoting such a programme of industrial development, particularly with respect to—

(i) the financing of individual projects;

(ii) the training of a sufficient number of technical personnel; and

(iii) the provision of capital equipment specially designed to meet the needs of small-scale industries.

21. In the early stages of industrial development, special attention should be devoted to the improvement of communications, and the development of electric and hydraulic power.

22. Public works should be undertaken by the Governments with the object of creating productive employment for unemployed persons in cities as well as for the excess population in rural districts.

VI. Miscellaneous.

23. Measures to improve the health and education of the producing population should be regarded as an essential feature of all policies for the improvement of economic productivity by the development of natural resources, and Governments should take the necessary steps to ensure the provision of adequate medical and educational facilities in connection with all major development projects.

24. The programmes of economic development undertaken by the Asian countries should, so far as practicable, be co-ordinated in such a way as to secure the maximum gains in international division of labour; with this end in view, each Asian country should keep the appropriate international organisations informed of its prospective development programmes.

25. Measures taken by the Asian countries to deal with post-war economic restoration should so far as possible be so framed as to contribute towards the economic development of Asia on a long-term basis.

SECTION II

REHABILITATION PLANS



3. THE SOUTH AS A REGION FOR ECONOMIC DEVELOPMENT*

The South includes the 13 States lying between Potomac and Rio-Grande Rivers; these States have many elements of homogeneity, although in varying degrees, such as geography, population, climate, income and industry.

I. AGRICULTURE.

Land Area and Uses

The South contains 843,812 square miles or 540,040,000 acres of land area. This is 28.3 per cent of the land area of the United States. Proportionately, the South has half as much pasture and range land, a little more cropland, and about 50 per cent more forest land than the rest of the Nation.

* (1) "Study of Agricultural and Economic Problems of the Cotton Belt"—Hearings before the Special Sub-committee on Cotton of the Committee on Agriculture and (2) "The Economy of the South"—Report of the Joint Committee on the Economic Report on the Impact of Federal Policies on the Economic Policies of the South.

"Study of Agricultural Economic Problems of the South" was prepared by the Agricultural Economics Department of the nine Southern States working in co-operation with the Bureau of Agricultural Economics, United States Department of Agriculture. Representatives from the Farm Credit Administration, Federal Reserve System, Agricultural Extension Service, etc. also helped assemble and analyse certain data pertaining to special problems.

The other Report—"Economy of the South" was prepared by "two highly competent Southern Economists" working in conjunction with the members of the Committee of the South of the National Planning Association.

We would like to point out that the chief merit of the former report lies in its comprehensiveness and the intensive search for the deficiency in the various sectors of Southern economy. Only thus could it present a detailed plan for improving almost every type of economic activity carried on in that region. The growers of cotton, for instance, would find in it valuable information on questions such as factors determining the demand for cotton (strength, appearance, standard quality of trade-mark products) from the manufacturers. Quality improvements in cotton such as warmth, resiliency, lustre, etc., are indicated for the benefit of those growers who want to produce for a particular purpose e.g. for apparel, domestic use or other industrial purposes. Similarly, the industrialist would find in the Report a wealth of data relating to the profitability of expanding any particular industry and, further, the lines on which he should start his venture and the type and quality of goods he should manufacture. Elaborate studies are prepared for the guidance of cotton manufacturers indicating the competition offered to them by manufacturers of rayon, silk and woollen goods and suggesting the ways and means of successfully meeting this competition. Entrepreneurs interested in textiles other than cotton goods are also advised as to the various factors which have determined the level of profits in these industries for a number of years in the recent past. The Report also shows in detail the prospects for further industrial expansion and recommends the various innovations to be introduced in each type of industry. Even the question of making industrial goods is not ignored. The extent to which the marketing problems have been elaborated would be evident from the fact that the Report assesses even the effects of location of goods in stores on the potential demand for certain goods and makes useful suggestions for a better retail pricing system, wider market contacts, improving packing and display and catering more efficiently to consumers' preferences.

It may truly be said of this report that there is hardly a study of any other region or country, which is so comprehensive, elaborate, and of practical guidance to the farmers, industrialists, businessmen, and to the public at large.

A. THE PLACE OF AGRICULTURE IN THE ECONOMY

The South's population is predominantly rural and agriculture is much more important in the region than in the remainder of the nation.

In 1940, only 34.8 per cent of the population was classed as urban in the South, compared with 65.0 per cent in the non-South. The South's farm population was about 15.5 million out of the total of approximately 37 million; the region had almost exactly half of the Nation's farm population and had 2,857,000 of the country's 6,097,000 farms.

The same year, 34.9 per cent of the employed persons in the South were engaged in agricultural occupations, compared with 12.8 per cent in the rest of the country.

Also in 1940, 15.5 per cent of total income payments in the South came from agriculture, as against 7.3 per cent in the non-South.

In brief, two-thirds of the southerners lived in rural areas and two-fifths of them on farms. One-third of the employed people were engaged in agriculture and they received less than one-sixth of total income payments. The agriculture on which the region depends so heavily rests, in turn, upon two major crops, cotton and tobacco. In 1946 these two crops accounted for 34.6 per cent of the total cash farm receipts of the region, while no other crop brought in as much as 5 per cent. Livestock and livestock products accounted for 37.1 per cent of the total, and the remainder was distributed over a large number of crops.

As one indication of productive deficiency, southern agriculture is generally characterized by inadequate farm family incomes and relatively low standards of living. These are due in important measure to low crop yields, inefficient livestock production, depleted soils, inadequate land and capital resources per family, poor farm organization, and a low level of managerial ability. And in addition, there needs to be marked improvement in the general distributive system for agricultural products. Not all these limiting factors are peculiar to southern agriculture, but all of them do affect adversely agricultural production. Most of the existing deficiencies can be reduced or eliminated entirely by the application of scientific knowledge, by a better combination of productive factors, and by better management practices.

Present Productive Status

Generally speaking, southern agriculture has not kept pace with the scientific and technological progress made by agriculture in other sections of the country or with industry.

Per capita production on southern farms is low, physical resources are uneconomically and often unwisely used, and capital equipment is deficient. On the average, cotton, the major crop, requires about five times as much man labour as wheat and about three and one-half times as much as corn to produce a given income. Man-hour labour requirements for such production of a bushel of corn for a typical Southern State is more than three and one-half times that required in Iowa; one and one-half times that required to produce a ton of alfalfa hay; twice as much to produce a ton of soyabean hay; and three times as much to produce 100 bushels of soyabeans.

This low per capita productivity is reflected in low per capita incomes. For example, 100 Southern States in 1940 had 43 per cent of the total farm population, but received only 20.3 per cent of the cash farm marketing income. The per capita net farm income for these States was \$108 in 1940 as compared with \$191 for the country excluding the 10 Southern States. Incomes by 1944 had improved materially, but the margin of difference was still about the same—the 10 Southern States receiving only 22.2 per cent. of the total.

B. CHANGES NEEDED FOR AN EFFICIENT AGRICULTURE

Nature of Adjustments

Development of an efficient agriculture involves improvement along four major lines: (1) Enlargement of farms, (2) recombination of enterprises and of farm resources, (3) better utilization of low-grade resources, and (4) more effective use and more widespread adoption of improved crop, livestock, and woodland practices. Adjustments proposed in this report are not new. Some farmers now have efficient operating units, are using improved production practices, and are mechanizing at a rapid rate.

A large portion of the farms in the South are too small to permit efficient operation. With a small farm it is necessary for the operator to maximize the crop which returns the highest value per acre even though large amounts of hand labour are required. This often leads to under-utilization of other resources. Mechanization is not practical on too small farms, and they are not conducive to the fullest use of some improved production practices. All of these tend to keep production and income per worker at low levels.

Increasing the size of the farm leads to greater efficiency in three important ways. It makes practicable the use of motorized equipment; it affords the opportunity for a better combination of enterprises; and it makes possible more effective use of family labour and management. With a larger farm unit and with labour-saving prac-

tices, the operator can produce more of the high income crops and make better use of other resources because there is sufficient land for the efficient prosecution of other enterprises. All of this leads to higher output and larger income per worker.

In areas where low-grade land represents a high percentage of the total farm-land, it would be profitable to utilize these resources more fully for pastures and improved woodlands even though it meant reducing the acreage devoted to the high-income crop. This suggests larger farms and a more extensive agriculture. In such areas cotton would be relegated to a minor place or even dropped from some farming systems. Adjustments of this kind have been suggested for parts of sub-regions.

Where it is profitable to mechanize cotton production and harvesting, and where cotton has a relative income advantage over other enterprises, it has been maximized and other enterprises have been combined with it to balance the farming system.

Improved efficiency, in a literal sense, means getting more out of the resources that are used. Improvements in production practices and their widespread adoption would do much toward increasing incomes and conserving resources. Experimental results indicate that their use could be pushed much further from the standpoint of intensity of use as well as in their adoption by more farmers. By and large, the use of improved agronomic practices on cotton and the major cash crops has progressed rather far. This is particularly true of practices which are easy to apply. For example the application of fertilizer per acre of cotton has nearly doubled during the last 20 years. The greatest need is for improvement in forage and pasture crops. Much progress could be made by a wider adoption of the practices which have been proved profitable by the experiment stations and by leading farmers. However, additional research pertaining to the development of better forage and pasture crops, and for improved methods of production, is badly needed.

Changes in Size of Farms and Systems of Farming

Existing physical resources and their adaptation to crop and livestock production, opportunities for advancement in production technology, location relative to markets and market facilities, and the characteristics of the farm family are important factors influencing the organization of an efficient farm unit.

For most subregions the efficient farms suggested are single-family, one tractor units. In the flue-cured tobacco and the Delta sub-regions the units suggested have three or four families—multiple

family operation. In the Delta larger units permit more efficient use of big type power and equipment. In the flue-cured tobacco area the proposed units provide for efficient use of motorised equipment in the production of crops other than tobacco, but they retain tobacco as the most important enterprise.

Compared with the present situation, larger farms that result in more farm land and cropland per worker are suggested for all sub-regions. In the South-west and in the Delta the units as outlined contain from 300 to 700 acres. Cropland acreage range from about 160 to 450 acres. These areas are generally level, cropland is contiguous in large areas, and constitute a high percentage of the total land in farms. Crops can be grown and harvested almost completely with mechanized equipment.

For such of the belt outside the South-west and the Delta, the more efficient farms would contain 175 to 250 acres. Exceptions would be the larger farms where beef cattle constitute an important part of the system, and the smaller farms where large amounts of hand labour are required in the production of major enterprises. Where the topography is rolling to hilly and cropland frequently interspersed with woodland, steep hillsides, and streams, the fields are often small and widely scattered. Crops such as tobacco and vegetables as yet do not lend themselves to mechanization, and their acreages must be kept in line with the labour available at peak seasons. On such farms the cropland acreages would range from 65 to 125 acres.

Employment and Population Shifts in an Efficient Agriculture

Low income has long standing recognition as the dominant economic problem of the South. Under-employment as a fundamental cause of low income is recognized less adequately. It is essential that consideration be given to the efficiency in the use of human resources if the possibilities for increasing Southern farm income are to be correctly evaluated.

Under-employment, or ineffective use of labour, is the chief cause of low physical productivity per worker. This under-employment takes the form of actual idleness during certain periods of the year, and even more significant in relation to cotton production, use of too much labour relative to given amounts of capital and land. A study in the Delta area of Mississippi shows that the amount of man labour per month under full-row mule-power cotton production varies from 0.4 hour per acre in January and February to 36.5 hours in September. A secondary peak of 20 hours per acre is found in May. Assuming the average of 11 acres of cotton per family, these data indicate that the cotton crop would require less than one-half day of work in January

and February; 22 days or a full month's normal number of working days for one man, in May; and 40 days, or almost 2 workers' time in September. It is estimated that the development of more efficient agriculture in the 16 sub-regions studied would be accompanied by a reduction from 1943 of 31 per cent in the farm population that is directly dependent upon farming for the major source of income in these areas under the competitive situation and 34 per cent, assuming controls for cotton.

The desirability of population adjustments in an efficient agriculture emphasizes the need for the removal of barriers which retard people from moving out of agriculture. In fact, it indicates the need for developing ways and means of facilitating their movement into other occupations. It also emphasizes the importance of developing other natural resources of the South concurrently with the development of an efficient agriculture.

A prosperous agriculture would furnish the basis for expansions in the trade and service industries. Those who cannot find effective employment in an efficient agriculture might well form the labour-supply nucleus for these industries as well as for others which would utilize and develop more fully the non-agricultural resources. This would provide investment opportunities for southern capital. Rural living could be combined with nonfarm work, and the number of people living in rural areas might be even larger under an efficient agriculture.

All of this points to the importance of maintaining full and effective employment opportunities. The development of an efficient agriculture is dependent upon a high level of economic activity, but it in turn will go a long way toward accomplishing and maintaining that objective.

If for any reason full employment cannot be realized and it becomes nationally expedient for more people to remain on the farms than can be efficiently employed there, then the burden of unemployment or under-employment should be borne nationally and not by farm people alone.

Size Of Operating Capital Units

The analysis of the previous section of this report emphasizes the importance of increasing the size of operating units in most of the 16 subareas studied. Changing the ownership pattern will not be easy, but it must be done if the benefits of more efficient farm organization and operation and low-cost mechanized production are to be attained. Such adjustment will lessen the tendency to squeeze as

much as possible from inadequate sized farms without regard to good soil building and soil conservation practices. Larger, more diversified farms will permit improved rotations with a smaller percentage of the cropland in low crops and greater emphasis on close-growing and sod crops and forestry.

The economies of more efficient production will tend to reduce the numbers of operating units that are smaller than that required for sound organization and efficient mechanical operation, but the adjustments can be accelerated by the adoption of policies and programmes consistent with the needed changes. Without significant improvement in the large number of uneconomic size operating units, a high level of efficiency cannot be attained for southern agriculture. A shift to economic size units in the 16 sub-regions studied would involve a reduction in the number of farm units 40 per cent below the existing number in 1943.

Population Pressure

One of the conditioning factors to an increase in the size of small uneconomic units and adoption of better practices is that of easing the pressure of farm population on the land. The man-land ratio in the South-eastern Cotton Belt is about 1 to 5 acres of cropland, whereas the ration in the Mid-west farm States is approximately 1 to 20 acres of cropland.

Even though the farm population in the Cotton Belt had been reduced rather sharply by 1943 as a result of employment opportunities provided by the war effort and the selective service, a still further reduction of 31 per cent. below the 1943 level is necessary to the attainment of an efficient agriculture as visualized in the first part of this report.

The problem of more effectively utilizing labour on southern farms will involve not only a reduction in numbers but also a maximum development of speciality farming that will provide for high farm labour employment. Also the matter of processing of farm products wherever opportunities may be developed must be a part of the adjustment programme. Finally, nonfarm employment opportunities within and without the region must be available.

The problem of population adjustment to facilitate the attainment of an efficient agriculture will be one of the most serious and most difficult of all the problems associated with the programme of agricultural adjustment. The shifting of redundant population from farms and the attainment of a better balance between human and other resources is further complicated by the fact that the farm population replacement rate for the south-eastern cotton States is about three times that required for normal replacement.

C. SOME MEANS FOR TACKLING THE ABOVE-MENTIONED PROBLEMS

Adapting Loan Policies to Credit Needs

When convinced of the effectiveness and desirability of such production adjustments as are discussed, it is probable that existing credit institutions can furnish necessary capital on favourable terms within present legal limitations. However, a number of modifications in loan practice will be required before this service can be performed effectively.

An integration of short, intermediate, and long-term credit, geared to the farm needs and ability to repay, is basic in providing capital to southern farmers. Such an account with an established lending agency would provide separate but inter-related schedules of needed advances and repayments. Each major class of credit would bear an appropriate rate of interest, and repayment schedules of the different classes would be correlated with respect to timing and amount, so that the aggregate annual principal reduction would be in keeping with probable annual earning.

The financial and credit plan should be carefully related to the over-all, long-time farm plan. Such major adjustments as indicated cannot be accomplished in any short period, due to physical factors alone; therefore, a conversion programme will be required whereby individual farms may shift over to the desired efficient organization. The credit plan will become a complementary part of this farm development plan.

A variable repayment provision should be established. In developing a repayment schedule, average prices and rates of production might be used. It should be recognized, however, that the level of income may vary from year to year, and that for the lender and the farmer to obtain the surest degree of safety, the contract should provide that repayments will be related to earnings in any given year.

Utilization of All Resources

One of the deficiencies in southern agriculture is that of failure to utilize all available agricultural resources. Thousands of acres of low-grade land lie idle and exposed in the worst way to the ravages of erosion. Large areas of land that once grew valuable pine timber are now covered with scraggy oak or other non-commercial shrubs or trees.

Most of the land and timber areas now running to waste could be converted into economic productive resources by careful planning and some capital investment. Wildlife and recreational facilities

should be carefully appraised with a view of developing these into still greater economic and aesthetic use. The tremendous population pressure gives emphasis to the need for utilizing to the fullest extent low-grade and neglected resources, along with the other agricultural resources of the region.

Management as a Limiting Factor

Another conditioning factor to the attainment of an efficient agriculture is that of better management practices. The matter of raising the managerial level of efficiency on southern cotton farms involves putting into practice information generally known by farm operators and managers and that of increasing significantly the "know how" with reference to better farming systems and practices.

The objective of greatly improving the efficiency of southern agriculture through increasing the size of farming units and the availability of adequate capital for specific needs can and will be circumvented by combining these with poor and indifferent managerial ability.

The problem can be approached through better educational training opportunities, including better adult training through extension, and supervision. Because of the high birth rate and prevailing low incomes, the educational training programme in the cotton belt is entirely inadequate, despite the fact that the percentage of the tax dollar spent on education is higher than that for other sections of the country. The only apparent solution to this problem is that of Federal aid pointed towards equalization of educational opportunities.

Agricultural programmes and credit-loan policies could be tied in with certain minimum requirements with reference to sound managerial practices. Such programmes, in addition to exacting certain minimum requirements, could be used as effective educational devices designed to raise the level of managerial ability and practices. This problem that is so essential and fundamental to better farming will be a stubborn and difficult one to deal with effectively. It must be given careful attention in any well-planned programme of readjustment.

Markets and Transportation

Production adjustments designed to increase the efficiency of southern agriculture will involve significant adjustments in the regional marketing pattern and will raise new and difficult problems. Transportation facilities and services must be improved, and transportation costs made consistent with that for other regions of the country. From the marketing standpoint, the outstanding results of

adjusting agricultural production in the Cotton Belt to an optimum level of efficiency are reductions in farm population, increases in commercial production, and shifting of volumes among enterprises. The results of these changes are to increase quantities of food products and tobacco for market. Such adjustments and larger volumes of marketings emphasize the importance of a high level of demand and necessitate the most efficient marketing organization and processes possible under given economic conditions.

In the development of adjustments and in increasing efficiency to improve farming opportunities in the Cotton Belt, three types of markets must be taken into account: local markets, national markets, and international markets. Looking ahead to continuation of improved farm technology and to biological improvements in plants and animals, the trend will be toward greater commercial agriculture and fewer people living on the farms.

Local markets promise considerable expansion in taking of farm products. If the people who leave the farms as the result of establishing an efficient pattern of farming go into industrial employment in the South, they will broaden the local market for food commodities. There is a potential market in the South for increased volumes of food products, especially meat, eggs, milk, and vegetables. With a sustained high level of consumer purchasing power and food consumption more nearly approaching minimum nutritional requirements, a large portion of the estimated increases in such marketings could be processed and distributed in the local markets of the area. In expanding food production, therefore, farmers and marketing agencies should give first consideration to exploiting the local market.

The national market absorbs a large proportion of the major products of the South. These farm commodities move rather long distances through an elaborate but loosely jointed marketing system to find their way into the national market. Such a marketing pattern will continue because of the existence of industrial areas and associated large centers of population together with the specialized production pattern in agriculture. Economic and physical forces that combine to bring about efficient production of agricultural products in certain areas and, on the other hand, serve to locate industries and industrial people in other areas which are often great distances from the producing regions will always make it necessary to move farm products to the consuming areas. This means that the seasonal and perishable commodities such as fruits and vegetables, and the major surplus crops such as cotton, tobacco, wheat, rice, and sugar will be dependent upon the national and international market for a large part of their outlet.

Export markets for cotton and tobacco traditionally have constituted a major portion of the total market outlet. For a long time, at least half of the cotton grown in the South was sold in foreign markets. This tied the price of cotton in the farmers' markets of the South to the world price of cotton. Likewise, a substantial portion of the flue-cured-tobacco crop produced in the South has found its way into export markets. Because of these conditions cotton and tobacco farmers are dependent upon world markets and prices for a substantial portion of their income. The prospect for the continued export of a good share of the tobacco are good. So far, the exports of American flue-cured-tobacco constitute a sufficiently large part of the total world supply to be the major force in determining world prices.

Policies, Programmes and Agricultural Development

One of the important aspects of agricultural policy, historically and at the present time, is that of price support, either by subsidy or by control of supply, or both. Such programmes often result in uneconomic utilization of production factors and the retardation of needed adjustments. In addition, such programmes may create further hazards for cotton by jeopardizing its competitive position in the market place. Artificially high prices tend to stimulate cotton production in other countries and weaken the competitive position of cotton with substitute and synthetic fibres at home and abroad. The growing competition of synthetics is a challenging problem.

Policies designed on the national level to reduce or eliminate the swing of the business cycle and to encourage full employment benefit agriculture materially. Neither logic nor experience, however, supports the thesis that prosperity in other segments of the national economy automatically insures prosperity for agriculture. Agricultural policy must be related to the over-all national policy so that conflict may be eliminated, but consideration must continue to be given to special problems as these relate specifically to the rural economy.

The major objective for agriculture should be to keep it relatively free and flexible, and to keep it on a highly efficient productive basis. The national as well as the farmer's stake in sound conservation practices will also influence some phases of policy. And if agriculture is to remain free and efficient, other segments of the economy must likewise remain free and efficiently productive. The existence of monopolistic influences, both in industry and in the ranks of industrial labour, has been in the past, and will continue to be in the future, a factor in shaping agricultural policy. A much vigorous and widespread attack on artificial restrictions on all segments of the

economy would greatly lessen the tendency to establish restrictions in the field of agriculture.

Sound policy and programme should operate along the following lines :

(1) More closely co-ordinating the activities of all agricultural agencies on and among all levels of government.

(2) Providing funds and leadership for the development of an adequate research programme.

(3) Providing a more effective educational programme for all farm people, consistent with the requirements for adjustment toward, and the operation of, an efficient agriculture.

(4) Reducing the number of uneconomic operating units.

(5) Establishing requisite programmes for the creation of alternative employment opportunities and for the shifting of surplus farm people in each type of farming area.

(6) Adopting the credit structure so as to encourage adjustments toward greater efficiency.

(7) Promoting and encouraging the development of farmer co-operatives where needed.

(8) Re-examining the parity-price concept with a view to adjusting policy toward parity income in such a way as to encourage needed adjustments for greater efficiency.

(9) Encouraging the development of sound international trade relations that will insure the retention of present foreign-market outlets, and open new ones, for farm products.

The present day pattern of small ownership in most southern areas cannot be easily and suddenly recast. Present and prospective pressure will be difficult to ease, even with a continuation of high level of national economic activity and significant regional industrial expansion. Educational and health deficiencies will tend to resist even well-organized attacks. Poorly adapted farming system and low managerial performance can be expected to improve slowly under the most favourable conditions. Lack of the technical skill and the general know-how that are required for an efficient agriculture will necessitate concerted, prolonged attack for requisite improvement. The relation of new and expanded production to adequate and efficient market organization, methods, and practices will require careful planning.

D. BASIC CONSIDERATIONS FOR FRAMING OF PROGRAMME

Better Balanced Area Economy

The economy of the South is basically agricultural. The region produces vast quantities of agricultural and other raw products, large quantities of which are shipped to other areas for processing and manufacture. In many ways the South has served as a colonial empire to other regions of the Nation. Much of the wealth of the region has been owned or controlled by outside interest. Credit to an important extent has been either directly or indirectly in the hands of outsiders; the transportation system has been geared to encourage the out-shipment of raw materials and discourage the shipment of finished products; and the tariff and other aspects of national policy have worked to the detriment of the region and have made the development of a balanced regional economy difficult and slow.

A better balanced economy would serve to provide markets for farm products close at home, open up alternative employment opportunities for surplus farm people, and establish a wider and stronger tax base for the support of essential public institutional services. The South is moving ahead in industrial development and in the establishment of a better-balanced economy at a rate that is encouraging in certain areas. Progress as would be expected is sporadic and non-uniformly dispersed. All of the Cotton States, however, are keenly conscious of the need for more industries to better balance the existing agrarian economy, and many of them have organized programmes pointed toward this end.

In addition to the development of new basic industries, there are distinct opportunities to develop community service establishments which are now badly needed in small towns and cities. Opportunities run to such small concerns as laundries, frozen-food lockers, small slaughter and meat-curing plants, drycleaning establishments, greenhouses, milk pasteurization and ice cream plants, local farmers' markets, and many other types of business service units, depending on local situations. Efforts to balance agriculture with industry should include plans to balance community service facilities with local needs.

Regional And National Planning

In order to move toward a more efficient agriculture, it will be necessary to formulate such policies and develop such programmes as will enable production to be continued to the fullest practicable extent while facilitating the making of needed economic and social adjustments and minimizing the losses which will result to farm operators from changing types of farming and to farm workers from shifting employment.

Agricultural policies and programmes for the South must be pointed toward sound adjustments and not palliatives designed merely to give temporary relief. The regional leaders themselves must assume the responsibility of sound regional planning consistent with national planning goals.

The solution of the agricultural adjustment problems in the South will require time and Nation-wide adjustments, both by farmers and by management and labour in other industries. It is a national as well as a regional problem. A modern nation cannot avoid balancing its total production-consumption budget. This can be done at a low level with a great deal of unemployment, inefficiency, and suffering; or it can be done at a high level with full employment high efficiency, and a better life for all.

The problem of attaining a higher level of living for the great mass of the South's population, which will in turn make for a stronger and more prosperous Nation, is not an easy one. The present-day pattern of small ownership in most of the southern areas cannot be easily recast. Present and prospective population pressure will be difficult to ease, assuming a high level of national economic activity and regional industrial expansion. Educational and health deficiencies will tend to resist even well organized attacks. Poorly adapted farming systems and low managerial performance can be expected to improve slowly. Lack of technical skill on the part of farm labour will require concerted attack for improvement. It will be necessary to plan new and expanded production in accord with efficient and adequate market organization, methods, and practices. The two will have to be developed concurrently which will require careful planning and skill. New credit policies will need to be formulated before a truly favourable environment for needed adjustments on individual farms can be attained.

That an efficient agriculture for the region as a whole can be attained is attested to by the fact that it has already been accomplished in many areas of the South. The ingredients of success will be that of sound planning and execution of policies and programmes based on factual information rather than wishful thinking or no thinking at all, preceded by research and concerted effort on the part of regional leadership in all phases of economic and social life.

Needed Research

Even though accomplishments in research fields relating to southern agriculture have been great, there is imperative need for broadening and intensifying the research programme now under way. Basic and adaptation research information is needed to make more

distinct the shadowy outlines of an efficient agriculture that have been visualized in this report and to make possible the attainment of the high level of efficiency when clearly visualized.

Those adjustments suggested in this report that require the farmers to do a little more or a little less of the things they are now doing will be easy to accomplish. The situation, however, is quite different when the adjustments require radical changes in the organization of farms, the use of new machinery or new methods of performing farm tasks, an increase in the scale and type of farm operations, and the finding of new markets and new ways of distributing old and new products. Information for making these adjustments on a sound economic basis is not available or is inadequate. It is for this reason that emphasis in the final section of this report is placed on the very great need for acquiring through research the additional information needed to facilitate the adjustments to a relatively efficient level of agricultural production.

No effort is made here to "blueprint" a needed research programme for the southern region. The prime objective of this section of the report is to give emphasis to the need for more adequate research in both the field of agriculture and outside the field of agriculture.

There needs to be a sharp intensification of research as relates to problems in production, in the more efficient processing and distribution of agricultural products, in problems of industrial development, and in the more effective utilization of all resources in the region—both human and natural.

Policies and Programmes

Over-all public policies and programmes and specific policies relating to agriculture need to be carefully and objectively scrutinized and appraised by research workers. Policies and programmes in and out of agriculture should be consistent and in harmony with national welfare goals. This has not always been true in the past. Inconsistent antagonistic programmes tend to defeat the purposes of public policy.

Long-run policies and programmes should be pointed toward the allocation and utilisation of productive resources to the maximum in providing for the satisfaction of human wants. Efficient maximum production points the way toward economic progress.

Agricultural policy must, however, take account of the economic and political environment in which it finds itself. Research on policy

and programmes must thus be realistic and not be developed within a framework of assumptions that disregard institutional and legal forces that are the very essence of agricultural difficulties. Those who formulate and execute public policy could be assisted materially in this very important field of capacity by a more adequate research programme dealing with the many complex problems involved in this field.

Many of the problems associated with adjustments in agriculture toward a higher level of efficiency and toward the improvements of the total regional economy will involve regional planning and regional co-operation in adjustment and improvement programmes.

For instance, in the establishment of expanded or new production which also involves the expansion or establishment of adequate marketing facilities and outlets, large numbers of farm operators and agricultural service agencies must work in harmony toward common goals. Individual farm operators cannot make satisfactory adjustments except in isolated cases without regard to what others may do. There has been too little planning on a broad over-all basis and too little co-operation among farmers and between agriculture and industry in improvement programmes.

Research is needed on the best methodology and techniques of co-operative planning and execution on the neighbourhood, community, type of farming area, at State, regional, national, and international levels. In planning for the research needs of the future, this important field must not be overlooked.

II. INDUSTRIALISATION AND THE SOUTH

The most fundamental forces operating against the Cotton South are tied in with its present agrarian pattern. A disproportionate part of the southern manpower is attempting directly and without adequate tools to wrest a living from soils that with few but important exceptions are mediocre in quality, highly erosive under intensive cultivation, and badly damaged by past practices. Moreover, the population on southern farms is highly prolific. Until non-farm alternatives can be found for a part of the present farm working force, and for nearly all the net increase in the farm population, there can be no lasting improvement in the productivity and in earned incomes of southern farm people. In addition to these agrarian forces of long standing there appears now the spectacular force of farm mechanisation. Revolutionary new tools such as the mechanical cotton pickers, flame weeder, improved tractors, and other less dramatic labour-saving equipment will increase the productivity of southern farm labour but

are expected to reduce by about 2,000,000 the number of farm workers required.

Only as this manpower on farms can be shifted to useful non-farm jobs within or outside the Cotton South can earned incomes there be brought closer to those prevailing in other parts of the country. For such a shift of manpower to take place, a very large new capital investment will be required. The investment in manufacturing plants to provide a place for new labour to work, and in housing to give their families a place to live, may amount to as much as 12 to 15 billion dollars over the next 20 years. Programmes for the South should encourage maximum investment and facilitate in other ways the industrial expansion necessary to give employment for manpower coming off farms.

This transformation will require time, patience, inventiveness and harmonious collaboration between individuals, groups, and government at the Federal, State, and local levels. To make it possible, an eight-point programme is recommended:

1. Provide financial assistance to small business through local insurance.

2. Carry on research and promote the application of research to business enterprises.

3. Promote a transportation policy that will stimulate a more diversified and a more highly finished type of industry throughout the Southern States. Two suggested measures are greater use of class rates, based as far as possible on cost principles, and co-ordination of expansion in transportation both within itself and with other branches of the southern economy.

4. Eliminate monopolistic practices that hold back Southern production.

The committee regards monopoly as so peculiarly detrimental to the South that it recommends a long-range study of the problem by competent public or private agencies.

5. Eliminate interstate trade barriers, and work for the elimination of restrictions in other regions on the use of southern products (e.g. margarine).

6. Promote use of the large surplus war plants in the South by small business through plans such as multiple tenancy.

7. Provide minimum standards of welfare and promote wage agreements that reflect the full contribution of workers to production through adequate minimum wage standards and through the responsible exercise of collective bargainings.

8. Maintain a substantial federally financed investment programme designed—

(a) to encourage industrial expansion or other readjustment that will increase productivity;

(b) to maintain and improve both human and natural resources through Federal aid particularly for education, health, and conservation; and

(c) to moderate fluctuations in the level of economic activity.

Broadly speaking, there are today four main classes of industry in the South: (1) Producers' goods industries which supply agriculture and forestry; (2) industries which process the basic raw materials of the South and market their products for the most part outside of the South; (3) other producers' goods industries which supply local markets; and (4) consumers' good industries which are dependent in the main upon southern, chiefly local, markets. The first type—producing chiefly agricultural implements and machines, fertilizers, feeds, cooperage, containers, and bagging—are among the oldest of southern manufacturing industries. Establishments are typically small and are widely scattered throughout most of the Southern States. Except in the case of cotton ginning machinery, the production of agricultural implements has been retarded and even diminished in most areas by the development of large-scale production in the North.

The industrialization of the South has progressed chiefly thus far on the rise of the second group of manufactures—those processing the southern raw materials. They comprise mainly cotton textiles, tobacco, furniture, sugar, paper and wood pulp products, cottonseed oil, iron and steel, naval stores, petroleum products, and rayon. Some like cotton textiles, sugar, and tobacco have roots in the antebellum years but the rapid rise of the group as a whole dates from 1890. Typically, those industries are large-scale although there are still many small establishments in cotton textiles and furniture, especially in outlying areas. Textile, furniture, tobacco, iron and steel, and rayon manufacturing is concentrated in the central Piedmont-Appalachian area, while the processing of the other products, except cotton and oil, takes place mostly in the coastal areas. The phenomenal rise of industrial cities chiefly in the Piedmont, dating from the decade of the 1880's, symbolizes this type of industrialisation. Some of this growth

has already reached a mature stage; some is still quite youthful. There are marked regional differences within the South with respect to these characteristics of industrial development.

The development of group three is largely a concomitant of the expansion of group two. This category is really comprised of two main subgroups. One is a direct auxiliary of group two—textile machinery, accessories, and packing materials, tobacco manufacturing machines, furniture parts and accessories, and all types of containers for manufactured products. There has been a steady growth of industries of this sort, although for the most part they have not developed in the South with anything like the rapidity that has marked the industries which they serve. The second subgroup serves a more general local market such as transportation and construction industries and general commercial businesses; they also supply group one industries. The extent and stage of development of subgroup 2 is much the same as subgroup 1.

The consumers' goods industries are the least developed on the whole of any of the manufacturing fields; especially is this the case regarding durable consumers' goods. Consumers' goods production has developed chiefly in foods, tobacco, printing and cheap clothing.

This brief survey indicates that opportunities for new private capital investments in the South, other than in the further growth of established industries, might be found in the following general fields: (a) The processing of new products from existing raw materials such as raw cotton and wood, and from increased production of minerals; (b) food and feed processing that will create local markets for diversified agriculture, horticulture, truck gardening, livestock, poultry and dairying; (c) further development of auxiliary producers' goods industries; and (d) processing of nearly all types of consumers' goods industries, especially of the durable goods type.

Future industrial growth will be most enduring if it is based on a more efficient use of resources. Many of the enterprises, especially those in group 2, depend on resources for which, as yet, there is no evidence of replacement. For example, there is no evidence that sulphur or phosphorus will always be available in a form that can be used in industry. As these raw materials become exhausted the enterprises based on them will tend to disappear. A good example of what can happen is the current shortage of natural gas in the northern Appalachian area, an area in which many enterprises were established using this resource when it was plentiful and comparatively cheap. Now gas must be piped to the area to serve these enterprises or, as the only alternative, they must seek a more favourable location.

Science has provided enough insight into the natural environment to make possible the use of replaceable sources of energy and materials in many cases. To the extent that these enterprises utilise replaceable resources such as agricultural and forest products, the drain on exhaustible resources will be reduced and the resulting industrial economy will become more stable and permanent. Of course, there will be a continual drain on irreplaceable resources and it is a major responsibility of all the people, and particularly businessmen, to combine the use of the two in the more efficient manner.

Agriculture in the South, changing in response to changed demands made upon it, can by its flexibility facilitate and support a greater industrialisation built on agricultural products. It can furthermore, meet requirements put upon it by all new industrialisation. In other words, agriculture can directly provide raw materials for some industry, and in addition can indirectly support all industries by supplying food and other products for their workers.

Whereas southern industries that makes use of farm products are now limited by availability of those products, the opposite relationship is also true. As southern industry expands and creates larger markets, farmers will respond and change their production. Raw farm products are necessary for industrial growth, but new industry will stimulate improved farm production.

This reciprocal relationship suggests these conclusions :

(1) Concurrent timing is desirable in the shifts in agriculture and development of industry. The establishment of new production patterns in agriculture and industry can proceed most rapidly and effectively if farmers and businessmen can make their adjustments simultaneously.

(2) Changes in the pattern of agricultural production (to facilitate industry but consistent with sound conservation practices) will result in higher productivity of the farms and consequently a higher farm income. This higher farm income, desirable in itself, will also create larger markets for industrial products and thus induce a further expansion of industrial and business activities.

Thus, as industry expands and diversifies simultaneously with agricultural production, both objectives can be obtained rapidly, efficiently and effectively.

Forest Resources

More than two-fifths of the South is forest land, 85 per cent. of which is capable of producing commercial timber. During the first

20 years of this century the region supplied nearly half of the country's timber output, and under good forest management it could furnish at least half of our requirements indefinitely. However, saw timber in the South is now being cut much more rapidly than it is growing, although trees too small, or not favoured, for the production of lumber are growing more rapidly than they are cut.

This means southern forests are deteriorating in saw-timber volume, in size and in quality. The great need is to reverse these trends; only by doing so can there be sound expansion in forest industries.

Forests constitute a major replaceable resource. It is a source important to all of society and justifying their efforts in preservation. Since the welfare of businessmen is so directly affected by the availability of raw materials, they have a particularly heavy share of the responsibility for maintaining the forests in their highest state of productivity.

Mineral Resources

The mineral resources and production of the South constitute one of the most important economic assets of the Nation. There are still opportunities for further utilization of the South's minerals, both in basic mining and processing. Much of the advanced processing of minerals is now done in other regions. This fact suggests that new enterprises which would process more of the raw materials might be a part of the South's expanded industrial economy. Basic minerals are essential to our industrial economy, yet a heavily populated region can usually achieve high wealth and income only if it has a substantial amount of finished goods industries.

The fact that the supply of materials is not being replaced by any known natural phenomena makes it especially important that they be used as efficiently as possible. Mining enterprises that make the most complete use of a given deposit contribute more to the building of a permanent industrial economy than operations employing inefficient processes that leave part of the minerals in the ground in a form preventing economical recovery. Likewise, enterprises that utilize the minerals most completely after they are mined make the greatest contribution to the attainment of the same end. Efficient and effective use of its minerals is of special importance to the future welfare of the region.

It is highly important that the Southern States inventory their natural resources accurately and in terms of the physical and economic conditions affecting their use. An unknown resource is at best only a potential asset.

Capital for Industries

The type of transformation envisaged in this report requires for its realisation a very substantial investment of capital. But capital has traditionally been lacking in the South. Wealth per capita, although rising with the increase in southern incomes during the war, is lower than in other parts of the country, and the total income derived from the use of this wealth is correspondingly low. Hence, the surplus for investment after present minimum needs are met is entirely inadequate to satisfy all the regions' developmental potentialities.

Capital requirements are specially large because they are of several kinds, each of which is great. As noted before, several billions of investments are needed for soil-building practices on Southern farms. Conservation, health and education could profitably receive substantially greater expenditures by States and localities. More billions could be invested in the development of the South's non-agricultural resources—her minerals, the power of her falling streams, and others—to increase Southern incomes and provide jobs for workers being displaced off farms. Residential construction for normal improvements and to house displaced workers is another big need. All these possibilities call not merely for an immense investment in plants, tools, and equipment, but also for a substantial investment in education of the Southern labor force to prepare it for new ways of earning a living.

The main reliance will probably have to be placed in investments by large, national companies from outside the region which build plants in the South. As for specific action by the Federal Government, two policies may be suggested. Neither would require any outlay at present and neither of them would necessarily entail any eventual cost to the Federal Government.

The first could be to extend deposit insurance to cover 100 per cent. of all deposits. There have been numerous suggestions along this line and the Federal Deposit Insurance Corporation has, in effect, extended 100 per cent. insurance in many cases where it has made loans or purchased assets to facilitate the merger or rehabilitation of weak banks. With over a billion dollars of resources at its command, the FDIC is now strong enough to assume this added risk. One major advantage of this change to the South would be the protection it would give to large business deposits in Southern banks. This might reduce the change of their being removed in periods of depression and possible bank failures.

The second change would be to instruct the Treasury to watch the regional flow of funds in any future period of financial tension and if it is found that there was any pronounced tendency for funds to leave any one region, to move treasury deposits to counter-act such movement. With the cash balance which the Treasury regularly carries now, this could be done without serious inconvenience. It would involve no cost and relatively little effort, since the treasury regularly must watch the effects of its cash operations on the banking system.

Employment of Displaced Agricultural Labour Depends Upon Industrial Expansion

It is obvious that a programme for southern agriculture which assumes a great increase in production per capita together with a lowering of the cost of production through mechanisation and a shift in type of agricultural production, could be of advantage to the South and to the Nation only if the labour no longer needed in agriculture could find productive employment in manufacturing, in commerce, and in the service industries. Improvements in the efficiency of agriculture which would permit increased production while dispensing with the need for employment on the farm of one-third of the existing population would raise the spectre of mass unemployment. As has been pointed out, however, the re-employment of manpower released from the armed forces and from war industries demonstrates conclusively that under favourable economic conjuncture no unemployment need arise.

The absorption of workers displaced by the development of greater efficiency and productivity in agriculture could be counted upon however, only if the demand for consumer goods and the expansion of industry were to remain at a tempo not a greatly below that of the period immediately following the war. If a considerable volume of industrial unemployment were to occur it would be absolutely essential that both emergency and long-term measures to deal with it should be undertaken by the Federal Government. Public works programmes and other emergency measures coupled with more basic measures designed to encourage the expansion of employment in industry would be required if desirable adjustments in agriculture were to have a chance to be accepted as socially desirable.

Expansion of Southern Industry

It is primarily upon an expansion of manufacturing that dependence must be placed for employment of labour no longer needed in agriculture. Much of labour displaced by more productive methods in agriculture will normally be absorbed by the so-called service industries. However, the expansion of employment in manufacturing must

provide most of the increase in income necessary to pay the wages of those employed in the service industries.

Although substantial industrial expansion is occurring in the South, there can be no doubt that even greater expansion would be highly desirable. There is no magic formula, however, which will make manufacturing plants spring up where none existed before.

Something can be done through community development corporations which furnish capital or buildings or other facilities to attract new industries. Even so, possibilities in this direction seem quite limited.

There is little evidence that the decisions of corporations which are in a position to build large plants employing substantial numbers of workers are much affected in locating new plants by such efforts on the part of municipalities.

This is not to decry the importance of small-scale industry, however, since such are essential if numerous small 'pockets' of surplus labour are to be absorbed. Furthermore, these small industries are sometimes the kernels from which larger manufacturing establishments develop.

The need for more entrepreneurs who can recognize and develop profit opportunities in the South is probably more important than the need for capital. The opportunities for further processing of all manner of food products which are produced or could be produced in the South have by no means been fully seized. There can be no doubt that the marketing arrangements for such commodities have not been adequately developed and that great potentialities exist in this direction.

The interests of the South will, of course, be served in the most basic way by any factors which can accelerate this rate of industrial expansion. Under our present system of modified free enterprise the major incentive to industrial expansion in the South must remain the prospect of profits for new industrial plants. It is just as true that such profitability must itself depend upon our national ability as consumers to purchase the products of these new plants. The maintenance of a state of economic conjuncture which would make possible both profits for industry and purchasing power for consumers has become increasingly the function of the Federal Government.

III. EDUCATIONAL NEEDS OF THE SOUTH

Illiteracy is higher in the South-eastern States than in any other region, 6.2 per cent. of the total population compared with 3.7 for the

Nation. Each Southern State has a higher than national average proportion of the population over 25 years of age with less than 5 years of schooling. There are 2,176,000 youth, 14 to 20 years of age, inclusive, out of school in the South, most of whom need some type of vocational education. In fact, in 1944-45, less than one-fifth of the total of 3,317,000 which included those in and out of school, were getting some kind of vocational training. In addition to the great need for expanded vocational education programmes among young people is the need for equally effective programmes among adults to equip them for adjustments to changing conditions in the South.

Ways of Improving Education In The South

For maximum improvement, the South's educational programmes must be made more attractive to both children and adults, with better teaching methods, newer materials, and wider use of the school's resources. Functional educational systems can and will be much more widely used than at present as newspapers, civic clubs, business associations, farm and labour organizations, and other agencies help mould public opinion so that people realize the true value of education to social and economic well-being.

Organizational and Administrative Aspects

It has been shown, by several well-recognized studies, that the minimum size for a satisfactory school's administrative unit is 45 teachers for about 1,500 pupils, and that there are gains in efficiency and economy when the unit has up to 280 of the former and 8,000 of the latter. Against these standards, whole counties in some instances are too small for efficient administrative units. Most of the Southern States need to reorganize their local units and all should consider further school consolidation. This applies to schools for coloured pupils especially which are far less consolidated than are those for white, throughout the Cotton Belt. Several States in the South offer good examples for sound study and planning of the reorganization of their administrative as well as attendance units.

Standards and Salaries for Personnel

Higher standards for teachers would do much to improve educational conditions in the South. Someone aptly said, "As the teacher, so is the school."

Higher salaries will help but increased attention must be paid to recruitment, preparation, and proper certification of teachers. Pre-service education of teachers should and eventually will include as high scholastic standards and as much specialised training as are

required for persons in other professions. The training of teachers is a costly process and no amount of effort toward having better personnel will get far until recognition is given to the need for more adequate teacher-education facilities.

With good training facilities provided, it may be necessary to help young persons who give promise of becoming excellent teachers to take advantage of them. This can be done through extending scholarships to those who are seriously handicapped financially as is done in Florida and Louisiana.

In addition to having new teachers well prepared, it is necessary to have those in service continue their education so that the school may advance with the times. This makes it desirable to have more trained supervisors or helping teachers to carry on in service training programmes. It also demands greater continuity of employment which offers personal security. If, then, an effective retirement system can be established and maintained on a State basis, there will be noticeable gains in efficiency and spirit of the South's educational personnel.

Adequate Vocational Education

Training for the right job is another field in which there can be almost unlimited improvement in the South. This applies to veterans, as well as to the civilian population including both young people and adults. Both on-the-farm and on-the-job training prove popular because these programmes offer an income while the men are in training. In fact, they are so popular and so basic to meeting the needs that full-time vocational schools of secondary educational levels are under consideration for making them possible.

The South has a pressing need for vocational schools now and in the future; says a leading educator, "As industrialization goes on, new and expanded factories will be demanding people trained to do technical, exacting, and responsible machine-tending jobs. Industry will soon pick and comb the South for skilled workers who can and should be trained in well-equipped trade schools which function on an adequate size area basis."

Higher Educational Institutions

The soundest and most durable solution of some of the knottiest southern problems lies in the expansion and improvement of the entire higher educational system. It is the college-trained that should take the leadership in the cultural and technical advances which will shape the South's future. But people must be taught laboriously and effectively and brought gradually into an understanding of the needs of our

society and of their responsibility for its successful functioning. Southern colleges and universities that want to live and serve will equip themselves to provide this training in both a qualitative and a quantitative sense.

Education In The Use Of Resources

In the South as well as elsewhere education for the fullest possible use of local and regional resources is gaining momentum. This newer type of education is based on appraisal and utilization of the environment in meeting the needs of the people. Briefly, it is concerned with the health and intellectual development of the people and requires understanding of the potentialities of the natural environment together with intimate familiarity with the customs, technologies, values, and attitudes as they are interwoven in the social structure of the locality or region. As subject matter, it cuts across the several fields of learning—physical sciences, social sciences, and humanities—with an emphasis which is broader than the horizons of conservation education.

Since the task of using available resources in education is magnified in proportion to the number and nature of the socio-economic problems existing in a given area, methods and curriculum must be adjusted and modified to meet the needs in specific situations and localities. A school which is sensitive to the needs of its community usually works with and develops citizens who are cognizant of the needs of society. Co-operative enterprise is the key for adjusting education to the needs of people.

Financing Education In The South

Adequate financing of education in any State involves, first sufficient total revenue to provide the services and facilities necessary for a good educational programme; second, a system of taxation and revenue distribution which will substantially equalize educational opportunities throughout the State without placing undue tax burdens upon the citizens in any section; and third, an administrative organization which will make it possible for the taxpayers to receive maximum return on their investments in public education.

The total amount of money expended per child on education in Southern States is only about half the national average. The South fares badly with respect to total school funds available despite the fact that it is making a greater tax effort. The total revenue available for the support of the public schools in the region is inadequate to provide a good educational programme regardless of how equitably it is distributed or how efficiently it is expended.

Finally, improvement and progress in the South's educational system depend on the availability of funds for financing the desired programmes. Still further progress on the financing of education can be made. Ambitious plans for school improvement are under way in every Southern State. Never has sentiment for public education been so strong and never before has the public been so insistent in its demands for better schools. It is evident, however that the South cannot hope to provide exclusively from its own resources the revenue necessary for an adequate system of public education. The ultimate solution of this problem can be found only when the Federal Government develops a sound and comprehensive plan for assisting the States in providing needed financial support for education.

Making "Education For All The People" Come True

Evidence is unmistakable that the paramount need in the Southern States is to extend the best education which now exists for some persons so that it really reaches all who should have it and to provide new types of education for groups now touched in pitifully small proportions.

Specifically, "all the people" should be interpreted to include:—

(a) All youngsters of school age (5 to 18), regardless of the location of their residence, the colour of their skin, special physical or mental handicaps which they possess, the parental attitude in regard to the value of education, or the economic status of their families.

(b) All the youth (18 to 25) years of age, who have not had access to adequate schooling or who have terminated their education entirely too soon, whether because of dissatisfaction with schooling of the usual type or because of economic pressures.

(c) All those adults whose basic equipment is inadequate for handling the problems of earning a living, of capitalizing fully upon their potential capacities, and of practicing intelligent citizenship.

In the first place, the programme of basic education must be more attractive to children and to adults. Teaching methods need to be modernized, school surroundings made more livable, the school programme made active. The better modern materials, such as sound films, attractive books, and current periodicals, should be available universally. Teachers need to be encouraged and trained in employing approaches which are suited to stimulate interest and desires of the potential students. School activities which have extra appeal to adolescent boys need to be featured as the vehicle for conveying much basic education. Dullness, wearisome routine and endless drill, plain poor teaching, the senselessness of many school offerings—these should be allowed no longer to cause the withdrawals of children from school, or the refusal of youth and adults to keep up again their education.

In the second place, a climate of public opinion which manifests real concern for the attainment of basic education needs to be created. In many communities a low regard for the value of education exists, at least among certain groups if not in the entire community. This fosters separation from school by children and scorn for further schooling among youth and adults. It inhibits the development of an adequate school programme and chokes off promising attempts to raise the educational level. The school itself can do a great deal to change this "low barometer" of public opinion if it sets about the job in an intelligent manner, working with other agencies. When the school acts alone, its potency is minor. Thus, newspapers, civic clubs, farm groups, employers, labour organizations, business associations, governmental agencies, and large landowners must be led to bear the brunt of the load if rapid change is to be made; and it should be clear that rapid change is essential.

Within the rural areas of the South, adequate programmes for promoting school attendance are extremely rare. As pointed out in preceding chapters, compulsory attendance laws are loosely drawn, the age-span and days-of-required-school provisions are entirely too low, and the enforcement machinery provided is either inadequate or largely inoperative. The true problem, however, is not essentially that of providing better compulsory school-attendance laws, but of establishing and maintaining school services which can reach and work with the out-of-school persons and their families.

A third problem to be met in extending basic education to all the people is that of providing adequate attendance services in all school systems. This can be expedited through the use of more well-qualified visiting teachers. Recent years have witnessed a commendable expansion in the number of these employed by school systems, and it is in this direction that further development is essential. A good visiting teacher, who is of a social worker rather than a law-enforcement type, seeks to get at the causes of non-attendance, to eliminate the basic problems which cause separation from school, and to apply individualized treatment in restoring children to school.

A fourth problem to be overcome is that of raising the economic status of all family units in the South to such levels as will make unnecessary the employment of child labour to make ends meet. The school programme itself can and must play a large part in overcoming economic penury by acting directly to improve the use of the South's resources. The attacks by the schools, however, must be supplemented by many others. What those attacks should be is the burden of this entire volume and, obviously, cannot be dealt with adequately in this chapter.

Large numbers of children and youth do not receive basic general education in the South because of the lack of positive, non-exploitative attitudes and policies on the parts of some employers. The past decade has seen a remarkable transition away from the practice of recruiting poorly educated youth at low wages on the part of large industries and businesses, and a trend toward recommending more education and paying higher wages to those who have it. It is small-scale employers, some operators of farms, and some employers of household help whose attitudes in the main constitute this fifth problem to be overcome.

The sixth problem is that of providing financial assistance to those children and youth, and to the families of some of them, who cannot afford to attend school otherwise. In any community the number of persons needing such aid is small, but in the aggregate they represent a sizeable group. It is generally agreed that, where necessary, grants-in-aid to such persons should come from public funds and they should be made available through regular school and social welfare channels.

The seventh problem lies in the provision of organised educational opportunities for early childhood—a field in which the South has made only a meager beginning. Since the proper kind of kindergarten and nursery schooling coupled with the availability of adequate educational facilities for parents has demonstrated high efficiency in preventing the rise of difficulties which cause children to drop out of school later, it seems important that the public school programme be extended to comprise these levels. If this is to be done, additional funds must be found, teachers must be educated for the new positions, suitable school quarters must be provided, and additional school transportation must be made available.

The eighth problem revolves around providing access to the proper type of educational facilities for all the people. In industrial areas there exist too many overcrowded, dangerous, and restrictive school plants. In the open country, the schoolhouses are more likely to be pitiable than adequate; it is true especially that a suitable school plan for Negroes is the exception than the rule. It has been estimated that in 1945 more than 50 per cent of the children of the Negroes in the South did not have reasonable access to an accredited high school and that one white child in six was similarly handicapped. School transportation systems in the South are groaning under a great overload, occasioned chiefly by lack of capital to invest in equipment, with the consequence that in several states only very meager provisions are made for getting Negro pupils to and from school. There are a few bright spots where suitable facilities are being provided for the education of children who are handicapped by physical defects or who

are mentally and emotionally atypical, but for the most part such facilities are non-existent. Other illustrations of shortcomings in the present physical facilities for providing even the minimum essential access to basic education could be cited, all adding up to further realization of the fact that here is a problem of major import.

The final problem in making basic education for all come true is that of making much more adequate usage of the non-school resources for providing youth and adults with basic education. The rapid growth of worker education under labour union or other voluntary sponsorship, the expanding programmes of various governmental agencies such as the Agricultural Extension Service, the development of various forms of educational radio activity, the increasing use of community councils, these and similar developments seem to offer a rich resource for improving the basic education of all the people. The real problem here is one of co-ordinating efforts, of getting agencies to realise the importance of the parts they can play, and of bringing about the co-operative relationships needed between such agencies and the school.

IV. HEALTH IMPROVEMENT IN THE SOUTH

Analysis of southern mortality by age groups reveals to some extent the special nature of sickness problems in the South. The mortality of infants has long been recognized as one of the most sensitive indexes of the general welfare. In 1941, 45 out of every 1,000 babies born alive in the United States died before they reached 1 year of age, but of every 1,000 southern babies 60 perished. The difference in these rates is referable largely to digestive and respiratory causes that are on the whole preventable.

The disadvantage of the baby born in the South does not cease after he reaches his first birthday. From the years 1 to 4, the southern death rate is 3.9 per 1,000 persons compared with 2.9 for the nation. This disadvantage continues for all age groups up to 55 years. For the decade 55-64 years, the southern death rate is 23 per 1,000 compared with 22 for the Nation. It is only at 65 years of age and over that southern death rates are lower than the Nation's.

That the burden of sickness is greater as we descend the income ladder has been repeatedly demonstrated by studies in the South and elsewhere. In families of low income, illness tends to be more frequent and also of greater duration than in families of higher income. This central fact provides circumstantial evidence so to speak, for the thought that the total volume of illness is higher in the South than elsewhere in the Nation. The low per capita incomes of the Southern states undoubtedly mean high per capita disabilities.

We are in hearty accord with the findings and recommendations made by the subcommittee on local health units of the American Public Health Association. Some of these are—

1. The delivery of the half a dozen essential primary services of public health that should be a function of local government responsive ultimately and personally to the needs of the community. These services are vital statistics; communicable-disease control; environmental sanitation; public-health laboratory services; hygiene of maternity, infancy, and childhood; and health education.

2. One-third of the Nation lives under substandard local health organization ill equipped to give basic minimum health protection at all times and to meet public-health emergencies quickly and efficiently.

3. In order to provide the organization of workable administrative units of local health jurisdiction, each State should have enabling legislation, either permissive or preferably mandatory, whereby cities and counties may unite to form districts of suitable size for local health administration.

4. For approximately \$1 per capita every person in the United States of America could have minimum basic health services under a professionally trained full-time medical health officer, with appropriate associated professional and technical personnel and equipment.

5. This country-wide coverage could be achieved through 1,200 local health units.

6. Essential characteristics of these units are—

(a) Population of at least 50,000, smaller populations can only in rare instances either support or justify an adequate local health organization.

(b) Include no unit of government below the county (except in certain States where the county is unimportant as an administrative sub-division of government).

(c) Include both the urban and rural areas of a county.

(d) Where counties have smaller populations than 50,000, as is true in 85 per cent of the 3,070 counties of the 48 States, they should join with one of the more neighbouring counties to form local health districts following natural trade and transportation areas.

7. The minimum staff required by such a local health unit is :

(a) One full-time medically trained administrative health officer.

(b) One public-health nurse per 5,000 population, 1 of each 10 of the nurses to be of supervisory grade.

(c) Two workers in environmental sanitation per 50,000 population, one to be professionally trained, preferably as a sanitary engineer.

(d) One clerk per 15,000 population.

(e) Part-time clinicians and dentists and laboratory workers, dental hygienists, health educators, and other workers as local conditions require.

Equipping Persons to be Healthy and Live Healthfully

Many of the health problems of rural people cannot be solved without the actual participation of the people themselves. For that reason, health education is the essential feature of any programme designated to improve rural health, for in a democracy it is largely through education that people are awakened to problems and stimulated to do something about them.

Why is it, when the desire for health is so universal among us, that individuals are so reluctant to provide the services and facilities they need and to utilize them and follow in their daily living those practices that science has shown will contribute to our health? Here are a few of the possible reasons that may be in our way.

First, there is the necessity that people must know what to do and act on their information, for only those whose behaviour is in keeping with scientific principles of healthful living can be assured of a minimum of illness and disability. Unfortunately for successful health education, those whose behaviour most needs to be changed are those that are the most difficult to arouse to action. Difficult as it may be to interest people in providing a health facility for the community, it is much less difficult than effecting changes in the habits of the people.

A second reason may be termed inertia. We are satisfied with our own behaviour which has been habitual since childhood, and we are little interested in changing it. This resistance is heard in, "I have been doing this all my life and I'm feeling fine today," or "You know I've never been to a doctor in my life and I feel just fine."

A third reason for lack of success in our health education efforts is the various cultural patterns of behaviour, about which we know far too little, that cause people not to do the things that science has shown lead us to a healthy life. During the war, the Food Habits Committee of the National Research Council did a considerable amount of anthropological research, much of which gave a good understanding of ways in which to attack the nutrition problem. Their pioneering in that field

suggests that investigation into the attitudes and resistances of people toward scientific health practices might be extremely valuable in planning effective health education.

In addition to the above reasons for the difficulties of education for health among all the population, there are a few characteristics of rural folk that perhaps increase the difficulties of successful work with them.

One is their independence. The farmer economically is dependent. He develops a kind of independent thinking, and sometimes that independent thinking causes resistance to change of behaviour with reference to all sorts of activities.

The second one is isolation. Because of limited outside contacts, the rural citizen lacks the stimulation of contrary points of view, many of which help to break down traditional concepts and behaviours.

The third is the reduced exposure to the various methods of communication. Surely he has a radio, but he probably listens to it less than the people who work in urban shops. For example, in many stores the radio is playing all day. There is less opportunity to see the movies, there are not as many posters scattered around, there are fewer opportunities for discussion and perhaps pamphlets fall into his hands less frequently and he reads fewer books, magazines, and newspapers.

These are some of the problems. What are the resources that could be mustered to overcome these hindrances to successful health education?

First, there are throughout this country, and here in the south in particular, people organized in a variety of ways. There are the official agencies, many of which are much more interested in health than they have ever been. They include the public health agencies, education, welfare, the Tennessee Valley Authority, Agriculture with its various programmes, the Farm Security Administration, the Bureau of Agricultural Economics, the Extension Service, and the State Planning Commissions some of which are official and some not. They are also the people's organizations, of which many of you are representatives, including the farm bureau, the Parent Teachers' Association, the Farmers' Union, the League of Women Voters, the General Federation of Women's Clubs, labour unions and the Grange, and State-wide committees such as the one in Kentucky and the fact-finding group in Georgia. There are the foundations, such as the Farm Foundation, to which we are indebted for this conference, the Sloan Foundation, the General Education Board, the Kellogg Founda-

tion. Lastly, there are the volunteer agencies, of which there are reputed to be 20,000 in the United States.

How can we mobilize these potential resources for the maximum contribution to the conservation of our human resources ?

First, there must be joint planning on common problems at a regional, State and local level. The importance of planning together cannot be stressed too strongly. Attempts at co-operation too often fail because one person or organization decides on the plan to be followed and then endeavours to get others to follow the plan he has decided upon. There naturally develops apathy toward the plan, for if it succeeds, then the person who made the original plan enjoys the satisfaction of achievement while the one who co-operated merely contributed to the success of the planner and has lost any real feeling of participation.

Joint planning implies a common problem—one in which all co-operating groups have a common interest. All too often individuals or groups have their own problems and are unwilling to set aside their own special interests temporarily to join with other groups on the attainment of an objective of more general interest.

If there is joint planning on common problems, then all are working toward the same end. Where there is independent action there is produced competition, both for the people's attention and for their action, thereby dispersing the available resources in many directions. As a result people do nothing. When, on one side, they are urged to do something about tuberculosis, on another to do something about a hospital, and on still another to do something about nutrition, they are confused and in their wonderment decide to wait until the groups make up their minds on what is best.

Even where there isn't competition, where there are differences in programme, the same type of confusion arises, with the same results. In addition to joint planning and pooling of efforts to tackle problems there are a few other things that are necessary for success. There must be technical leadership. Too often unguided effort of enthusiastic people has ended in unsuccessful or wasteful programmes, and in the field of health it is most important that technical assistance on problems that are in very specialized fields be sought from the technicians. To urge assistance from technical experts who know both the good and the bad points about a procedure and who can give the facts, is not to underrate lay people and the intelligent decisions they can and should make about what to do, provided they have the technical facts upon which to move. In fact, it is a serious

error in health education when the health educator or other public health person thinks he has to tell the people all the answers.

Another essential factor for success is an understanding and appreciation of the special skills and qualifications of the many different types of professional workers contributing to health education. Sometimes, because of their different technical language, it is difficult for the various groups to comprehend what the others are saying. Perhaps one method of bringing about better working relationships is to have personnel who have training in more than one field. This idea has been put into practice in Puerto Rico. There the education department employed people who have had a background in education and trained them in health. The health department did the same. The extension service of agriculture did the same. The labour department did the same. So, in these different organizations there are individuals who know education, who know public health, and who are a part of the organization. He or she can interpret the contributions of his organization to the other groups. In this way the programme can go forward.

4. THE TENNESSEE VALLEY IS PAYING OFF*

The Tennessee Valley Region today is more prosperous, better able to contribute to the welfare of the Nation, and more capable of assuming a greater share of national responsibilities than it was in 1933. The rate of waste and depletion of resources has been retarded. The people are using their basic wealth of waters, soils, forests, and minerals more efficiently. At the same time, they are using these resources more wisely so that their productiveness may be maintained and even increased in future generations.

In many ways Tennessee Valley region has progressed more rapidly since 1933 than the adjoining Southeastern regions and the Nation as a whole. In the past, the region has lagged economically compared to the rest of the country. In fact, 15 years ago, the Tennessee Valley was losing ground as measured by the growing disparity between it and the other regions of the country. But today the gap is being closed. The Valley is gaining economic stature. It is producing a better living for more people. It is adding to the national strength. But much remains to be done before the full benefit of the Valley's natural and human resources will be realized at home and in the Nation's total reckoning.

These results are not accidental. Some of the causes are found in the nationwide policies and in the world events which have brought greater strength to the Nation. But the faster rate of economic growth in the Tennessee Valley has been brought about chiefly by the people's use of a new method of regional development. TVA's construction of dams and other physical facilities beyond the scope of individual states or of private enterprise has enlarged the opportunities for thousands of citizens and other agencies—Federal, State, and local—to carry out their specific responsibilities in the conservation and use of resources. TVA has served in many respects as a prime mover in this drive for an integrated regional development. The responsibility in this regional public corporation for seeing the problems and resources of the Valley as a whole has provided a focal point for co-operation among many people and many agencies.

In the past 15 years, the Tennessee River has been transformed from a destructive stream in flood time to a water system productive

* Annual Report of the Tennessee Valley Authority, for the fiscal year ended 30th June, 1948. pp 3-14.

the year around. Power production has been multiplied 10 times for the benefit of farm, home, and industry. Water-borne commerce has been made possible and is developing in fact between the Valley and other regions of the Nation. Multiple-purpose river development has produced subsidiary benefits in recreation, in multiplying fish and wildlife, and in the control of malaria.

Valley soils, once eroding and dwindling in fertility, are being restored through use of new and improved soil minerals and shifts toward more diverse and stable agricultural pattern. Production of food and fibres is being increased. Forest resources have better protection against fire and other hazards. Modern management methods are beginning to place the forests on a permanent basis of productivity. With greater economic elbow-room, the people of the Valley have greater freedom of choice in charting their economic future.

Better Industrial Balance

A developing industrial economy has provided new jobs, helped relieve the pressure of population on the land, created new wealth and provided new income.

Improvements in Agriculture.

Farm lands were being shifted toward soil-conserving types of agriculture. In the decade up to 1945, cover crops which hold soil and water replaced raw crops on a million acres. A million acres of land were terraced. Pasture increased, live stock increased and milk production went up 22 per cent.

Farm tenancy went down 38 per cent in the Valley between 1935 and 1945. In 1945 the proportion of tenancy was lower in the Valley than in the nation.

At the same time farm productivity was increasing.

Per Capita Income Increases

The extent to which the region is improving its position can be measured by its proportional increase in per capita income, which in 1933 was only 40 per cent of the national average. Today it has risen to 60 per cent of the national average.

Improved Public Services

Greater economic activity and increasing income have enabled the States and local governments to obtain greater revenues, to reduce their public debt, and to improve their public services.

The National Gain

The Nation is profiting in other ways from its investment in the Tennessee Valley Region. The proportion of individual Federal income taxes from the 7 Valley States has steadily increased. Rising incomes have increased the purchasing power of the Valley people for goods made all over the country. Retail sales in the Valley increased, an increase one-third greater than that in the Nation and well ahead of that in the 7 Valley States.

The development of electric power in the Valley, which has resulted in trebling the number of residential power consumers in the region and quadrupling the average use of electricity per customer, has provided an increasing market for electric appliances.

The 140 municipal and co-operative systems which distribute TVA power invested \$43,000,000 of their own funds during the fiscal year to expand and improve service.

TVA funds, from appropriations and power system earnings over the past fifteen years, have contributed to employment and income in every State in the Union, where purchases ranging from a few thousand dollars to millions have been made.

Economics of Multiple-Purpose Projects

The Tennessee was the first large river system to be completely controlled by multiple-purpose dams and reservoirs. The development was a pioneering project designed to provide more economical flood control, more economical navigation, and more economical than could have been obtained by single-purpose developments.

With navigation and flood control being provided at economical cost compared with similar facilities elsewhere, the power investment which represents about 60 per cent of the total investment in navigation, flood control, and power facilities is proving financially sound.

TVA Benefits Extend Beyond Valley.

The multiple-purpose system of 26 dams and reservoirs which controls the Tennessee River extends its benefits beyond the borders of the Valley.

Demonstration in low retail power rates

Power operations in the Valley region have thrown light on important phases of power economics. TVA wholesale generation and transmission operations are reported separately and so are the retail

distribution operations of the municipal and co-operative systems serving 850,000 consumers.

The operations of the municipal and rural electric co-operatives have demonstrated the effect of low rates in stimulating greater use of electricity.

TVA Chemical Research Aids Industry

TVA's plant-scale chemical research at Muscle Shoals has aided industry while serving the needs of the soil, and farmer and the consumer of food and fibre.

TVA Phosphates on Nation's Farms

TVA phosphate fertilizers were being used in test demonstrations at the end of the fiscal year on 2,100 farms in 19 states outside the Valley, revealing to farmers the results produced by the proper use of this key soil mineral and the savings made available by use of high-analysis fertilizers.

Forest Resources Protected

With half its land area covered by forests and woodlands, the Tennessee Valley is one of the large timber and wood-working areas of the country. The Valley produces 10 per cent of all oak and 12 per cent of all popular lumber consumed in the country.

TVA, through co-operation with State and local forestry agencies, has been instrumental in extending protection against forest fires, has provided millions of seedlings to help reforest thousands of acres annually, and has brought about the establishment of several hundred large and small forest management demonstrations of sustained yield on privately owned tracts.

The Method of Development

Not least among the elements of progress in the Tennessee Valley since 1933 is a new approach to the problem of resource development. The new approach begins with the organization and the scope of responsibilities set out in the TVA Act. Geographically, TVA's area of operations is for the most part limited to a natural region, the drainage basin of the Tennessee and its tributaries. Its headquarters are, by the terms of the Act, located in the region rather than in the national capital so that its Board and staff work in close proximity to the problems and the people.

TVA's job is to see the Valley and its problems as a whole; its planning responsibilities extend to all the natural resources in the region in which it operates. In its exercise of these responsibilities, its methods are primarily those of assistance, stimulation, and co-ordination rather than regulation and control. In this framework, it has tried to bring a sense of cohesion and regional direction to the work of other agencies, Federal, State, and local, concerned with the various aspects of resource development. The TVA has encouraged State and local agencies to expand and gain strength and effectiveness in the fields of their specialized interests; the TVA has tried to help them become more fully aware of the way in which their activities are related to activities of other agencies and the opportunities for the economic growth of the region. In this job, TVA has sought to create a climate which gives broader scope and more precise effect to the initiative, intelligence, and ability of the people of the valley.

The effectiveness of this integrated approach to regional development may be illustrated in the control of the Tennessee Rivers System, which, uncontrolled 15 years ago, had great and varied possibilities. It is not difficult to imagine the confusion which might have followed had several sets of engineers, each responsible to a different agency, attempted to develop the river for flood control, navigation, and power. Conflict over dam sites, storage and release of water, and other problems, each to be settled among separate and autonomous agencies, would have caused delay and higher costs at least, failure at most. The subsidiary problems and possibilities such as fish and wildlife development, recreation and parks, and control of malaria, each of them falling into the field of interest of a separate administrative organisation of the Government, would have received less attention, fewer results.

These problems have been met in the Tennessee Valley through the integrated approach to the varied problems of river development as parts of a whole; at the same time, the specialized interests and skills of other agencies have found a broader scope in which to operate. Given the responsibility for the whole job, TVA was able to pool the special talents of the flood control engineer, the power engineer, and the navigation expert to plan, construct, and to operate a system doing justice to all these purposes within the limits set by the engineering facts and the policies laid down in the TVA Act. In the same way, for example, TVA was able to achieve distinctive success in the control of malaria which, on a system of reservoirs like that of TVA, calls for merging of the skills and knowledge of engineers, malariologists, biologists and local public health and educational agencies all working towards the same end.

At the same time, the skills and knowledge of specialised Federal and State agencies have been used to increase advantage of the co-operation of the United States Bureau of Public Health and State Health agencies, and in its fish and wildlife development the co-operation of the United States Fish and Wildlife Service and Departments of conservation of the various States. These in turn benefitted from the TVA integrated development. The Fish and Wildlife Service has increased its facilities through the use of TVA lands and waters in its programme, as have the States. TVA research on the changes in aquatic life in its reservoirs as a result of changing a running stream into a series of lakes provided the scientific data on which State department of conservation were able to decide to open the TVA waters to year round fishing, with no closed seasons, thus increasing the recreational values of the lakes and the quantities of fish taken without detriment to the continued productivity of the fish population.

A whole catalogue of similar examples could be cited in which the people of the region, through their familiar existing agencies subject to local control, are taking more and more responsibility for the conservation and development of their resources along lines of their own choosing, based on increasing knowledge and on new physical developments which have been created. The limited local planning which TVA encouraged in communities effected by its construction and operation of reservoirs has resulted in increasing planning activities by the States and the extension of planning to about 80 local communities not directly affected by the TVA development through the establishment and financing of local planning commissions. One of the most familiar examples of assumption of initiative and responsibility by local people is in the electric power field, where TVA operates the generating and transmitting system but the distribution of power is in the hands of the locally owned and managed systems.

The Continuing Task

Although much has been done in the last decade and a half to bring about a better, more productive relationship between the people of the region and their resources, the task is far from finished—if, indeed, it can ever be considered finished. The conservation and development of resources is a continuing process in which new opportunities arise as fast as old problems are solved and left behind.

Per capita income in the Valley—even after the substantial advances made in the past 15 years—is still only 60 percent of the national average. The people of the region are far from realizing the full development justified by their resources. Although a beginning has been made, the forests and agricultural lands of the Valley are

still not recovered from the ravages of generations of waste and misuse. They are capable of much greater productiveness. The development of industry in the Valley has helped relieve the pressure on the land and has increased the income of Valley people, but it is still less than is justified on the basis of Valley resources or the initiative and skills of its people. Although rural electrification has advanced at a swift pace, nearly half the farms are still without electric service and many of those which have it have not yet taken full advantage of its possibilities in the advancing mechanization of farming. A programme of continuing expansion of power supply will be necessary for several years to assure the valley the electricity its rate of growth will require. Though the progress that has been made in many aspects of resource development is substantial, the job that lies ahead is still great and in many respects more difficult, more complicated.

5. THE WIDENING OF ECONOMIC OPPORTUNITY THROUGH TVA*

At the outset it should be indicated what is meant by the "economic opportunity" which the methods of the TVA will broaden and strengthen. Briefly put, it is the opportunity for a continuous and major expansion in the production and the use of goods and services—in short, a constantly rising standard of living for the whole people. By economic opportunity is meant, further, that these increasing material benefits shall be enjoyed under a democratic regime. Under this conception the average man and woman must not be forced to pay for a rising standard of living by the sacrifice of his civil liberties to the demands of a remote and overcentralized government over which he can exercise little effective control. Neither must he in exchange for a rising standard of living yield up his economic destiny to a concentration of business groups so powerful that the small business man or farmer must submit to the conditions they impose, or perish. And finally, let it be made clear that in discussing the expanding economic opportunity in this country, the writer does not refer to the opportunity for the relatively limited number of already powerful business or governmental institutions to add to their strength; but rather the economic liberty of the average man, of human beings rather than institutions, and particularly of the nine-tenths of our population now insecure, whose economic freedom is threatened by the steadily rising tide of concentration of power.

It is the furthering of economic opportunity in this sense that is conceived to be the most significant thing the TVA is doing, and viewed as a whole, it is this that constitutes the ultimate objective of the TVA undertaking.

The National Function of the TVA

That the TVA carries on almost entirely within a particular region (the exceptions are few but important) does not mean that TVA is not performing a national function. For what has been done in this national proving ground in our efforts to enlarge economic opportunity, and what TVA will do in future, is of value to other regions of the United States to which this experience can be adapted. For in a democracy we learn most by doing.

* Adaptation of an address by David E. Lilienthal, Director, T.V.A., at Columbia University, New York. (January 1940).

The men and women who day after day carry on the TVA are recruited from almost every profession, every technical skill, every trade, and from every section of the country. The work they do covers almost the full sweep of modern industrial and technical activity. These skilled men and women are not only building one of the very largest projects ever undertaken by the people of the United States, and producing electricity for more than a third of a million homes and business, for annual revenues of over \$15,000,000. These men have also invented industrial machinery and processes and worked out remarkable new chemical formulae; they have added to knowledge of the life of the malaria mosquito and devised new techniques of office management; they have advanced the science of mapping and of soil chemistry; they have improved upon existing methods of fish rearing and housing insulation and dam foundation investigation and coal carbonization and co-operation between organized labour and management. Such achievements as these, and scores of others, have had an identical goal—to uncover, develop, and strengthen economic opportunity.

The Necessity for Government Activity to Safeguard Opportunity; Government Versus Free Enterprise a False Issue

The safeguarding and stimulation of economic opportunity has been a constant function of our governmental leadership since the first hours of the Republic.

Time and again government has restricted the freedom of action of one kind of business enterprise in order that the freedom of other businesses might be widened. As we look back today we see that some of these activities were not in the general public interest; others were wise and productive. But invariably, when the government has acted to protect, to promote, to discourage, or restrict business, it has been compelled to justify its action and it has had public support only where the objectives could be shown to be the general good.

Nor is it true, as is often asserted these days, that all our hopes of expansion and increased production depend solely upon private business; that government never produces or adds to wealth. Such talk is sheer nonsense.

The issue of governmental action versus free enterprise is a thoroughly false and mythical issue. To secure and promote economic freedom governmental action has often been appropriate and necessary; only a doctrinaire would assert in the face of facts everywhere about us that private business is the sole and exclusive fountainhead of economic progress.

The real question is, always: Does this particular governmental action promote and protect economic opportunity for the whole people?

In the long run is all enterprise, private and public, promoted by this particular governmental intervention or activity?

Those are the tests that should be applied to the TVA, a modern device through which the Federal Government is attempting to enlarge directly the economic opportunities of citizens in a particular area, and indirectly to promote the welfare of the country as a whole. Though 6 years is a brief time from which to draw conclusions, the Authority has specific progress to report, of which a few examples will be discussed here.

How TVA has Widened Economic Opportunities

TVA's major activities may be summarized by stating that its programme is widening the economic opportunity of the people it serves in the following ways:

First. By rebuilding and fortifying the soil upon which our hopes of a rising standard of living depend, and by methods which stimulate and strengthen the private enterprise of farming.

Second. By technical research resulting in new industrial processes and machinery, and by making available and interpreting the facts concerning the region's resources for use in the initiation and growth of private enterprise.

Third. By establishing and securing adoption of a mass-consumption pricing policy for electricity.

Fourth. By controlling destructive floodwaters and furnishing and improved waterway for the movement of commerce and for public recreation.

Fifth. By the regional integration of agencies, public and private, Federal and State, upon which future economic growth depends.

The Regional Integration of Activities Directed to Wider Economic Opportunities

It is in the integration and the correlation on a regional basis of these various activities under a single, unified management that the Tennessee Valley Authority represents a pioneer undertaking of government. For the first time a President and Congress created an agency which was directed to view the problems of a region as a whole. In its area, TVA was given responsibility to deal with substantially all Federal activities relating to the conservation of land and water. It was created as a public corporation, with autonomy and flexibility

guaranteed by its charter. Its responsibilities cut across the lines of traditional jurisdictions, and TVA has thereby become peculiarly adapted to coordinate in the field the activities of agencies, private and public, State and local, having for their objective the promotion of wider opportunity for enterprise.

The hopefulness of the TVA effort toward integration lies chiefly in this: That TVA's responsibilities are in the field, where the problems of the people occur and where adjustments can be realistically achieved.

The need for integration is plain for all to see. Skilful and imaginative co-ordination into a single working arrangement can add a surplus over and above the sum total of the same activities carried on without this intense concern for their relation one to the other. For example, the two purposes: better plant food and soil preservation should be brought into harmony by such a process of coordination.

Sometimes you may add two and two and get zero. Thus, technical research in the processing of farm raw materials, without regard to the life of the soil from which the raw materials come, may result in an exhaustion of the soil. That may mean the early death of the manufacturing operation which relies upon those farm raw materials. An agency responsible for the general increase of economic well-being in a region is under a duty to see that such two activities as these are carried on so they will not cancel out each other, but will, by integration, add a plus value.

Likewise, an agency, public or private, whose sole responsibility is to supply electricity to farmers, might push as hard as possible for an increase in electric revenues regardless of how the farmer used the power. The TVA, having not only a business responsibility for rural electric revenues but an even greater public responsibility for regional security, is not free to concentrate alone on building up revenues. The pressure on farmers to pay the electric bill for conveniences might mean less funds available for the protection and increased fertility of the soil. Accordingly, the TVA's emphasis in its electric load building has been upon those uses of electricity which will increase the income of the farmer and substitute in the farmer's budget added income from electricity.

Innumerable examples of such activities engaged upon by TVA in its integrated programme might be cited. They illustrate the point that TVA's contribution to expanding economic opportunity is infinitely aided by its character as a regional planning agency and by the kind of administrative practices it encourages.

SECTION III
PROBLEMS OF FARM-INDEBTEDNESS AND
LAND VALUES

46. AGRICULTURAL INDEBTEDNESS AND THE MEANS FOR ITS PREVENTION AND CONTROL*

Dr. G. Costanzo

I. GENERAL SURVEY OF THE QUESTION

Agricultural indebtedness is one of the most disquieting aspects of the world crisis, owing to its universal character and to the effects, not only economic but social, that it produces. The attention bestowed upon it by the Governments and the many measures taken to attenuate its consequences indicate the anxiety which it has aroused by its rapid increase and by its results. As regards the farms, the principal effect of indebtedness is to render their management more difficult or more lax while, as regards the credit institutions, it depletes their financial resources and thereby renders them partially inoperative precisely at the moment when the farmers have most need of being aided. Lastly, as regards the community, it destroys confidence in the credit system. All this obviously depresses the spirit of initiative and creates a sense of uneasiness, which becomes more and more accentuated as proceedings for forced sale become more numerous, causing an artificial transfer of property from one person to another and consequently disturbing the property market and upsetting the normal distribution of wealth between the social classes.

When this point is reached, the problem of indebtedness, which had its origin in relations governed by private law, assumes a public character and becomes a question of general interest, calling for the intervention of the public authorities, who can no longer refrain from interesting themselves in effects that involve a menace to social and political order.

If we study the structure of the indebtedness, we find that the debts that were contracted during the period of high prices weigh heavily, by the amortisation instalments and by the rates of interest, on the farm budget; that a fairly large part of the debts was incurred for purposes of consumption or at any rate, for non-productive purposes; the farms having been worked at a loss, the farmers were often compelled to use the money borrowed for household expenses. In such cases repayment became very problematical.

The co-operative organizations contribute effectively to the struggle against usury. With reference to these organisations, attention

* International Review of Agriculture; Jan. to April 1937 and May 1942.

must be specially drawn to the growing tendency on the part of credit institutions to rely upon such organisations for the distribution of loans. Taking the view that agricultural credit supplied through the medium of co-operative societies most surely reaches its proper destination, the banks endeavour to collaborate more and more closely with such organizations. The number of loans granted through the medium of co-operative societies is, in fact, everywhere increasing.

In regard to the rates of interest, it seems essential to establish a better balance between the interest that the banks receive from the borrowers and the interest that they pay to those who supply them with capital. It frequently happens that the competition between the banks to attract depositors leads to a raising of the interest they pay and this, in turn, makes it necessary to increase the interest charged to borrowers. Certain governments have become alarmed by this tendency and have fixed maximum rates of interest.

Whatever may be the general or specific causes of indebtedness, whatever may have been the mistakes of the debtors who in the period of prosperity have assumed excessive burdens without the consideration, acting as though the tendency of prices to rise would continue indefinitely, whatever mistakes may have been made by the creditors themselves in being at times too ready to grant loans, all are agreed that excessive indebtedness is a common and general evil; it is injurious at the same time to the debtors and the creditors and its effects are felt by the whole community. It does not at the present time, occur merely in isolated instances; it is a widespread phenomenon, affecting large numbers of persons, and one of its most alarming and depressing effects, as we have already noted, is seen in the sales of property by auction; this brings about the collapse of the prices of land causing widespread ruin and disturbance. If we consider the consequences, not only economic but psychological and social, of this fact, and the costs and sacrifices involved in the sudden replacing of entire classes of producers, we shall readily understand the necessity of special measures to deal with this distressing situation.

The cost of the replacements of which we have just spoken cannot, certainly, be estimated merely from the material point of view. It must never be forgotten, in fact, that the farmer is attached to his land and to his vocation by bonds much stronger and more solid than the manufacturer or merchant; that farming is not only an occupation for him, but also a traditional mode of living and that the state of mind of the farmer dispossessed of his land forcibly or by speculative scheming is socially dangerous. A crisis of confidence is thereby brought about. The dispossession on a large scale of landowners risks moreover compromising irreparably the consolidation (1) of that great

movement of agrarian reform which since the war has been the central aim of the policy of many countries and has remodelled their structure and economic life. The policy of the Governments and the legislation on the subject are inspired by this diversity of conditions, but underlying them all there is a common principle—that of calling upon the community to participate in the adjustment of a situation the origins of which must be sought in the upheaval that occurred after the war in the general system of distribution and consumption, the consequences of which cannot be borne exclusively by the rural population but must be shared between all classes of society; it is the principal of collective responsibility that comes into play, a principle which, moreover, has been applied in many different fields in recent years, its application being imposed by a sense of equity.

The regrettable results of this form of direct public interference in relations arising out of private law, however justified it may have been by the force of circumstances, have shown the desirability of having recourse rather to measures that respect contractual obligations and protect the distressed debtors without too greatly sacrificing the creditors, such as the repayment of the debt by instalments over a series of years, contribution by the State towards the payment of interest, etc. And, generally speaking, it seems to be preferable to encourage voluntary arrangements between debtors and creditors, as has been done in several countries, by means, for example, of the supervised working of indebted properties, of the setting up of systems of mediation, conciliation, arbitration, arrangements with creditors, etc.

The formation of special institutions for supplying credit based on the security of movable property has also been contemplated. The aim of these institutions would be to eliminate or to attenuate the very dangerous material and social effects of the sale of lands by auction at disastrously low prices and of the hateful speculations which result.

Turning again to the question of rates of interest, it would seem to be necessary to aim, as far as possible, at reducing the cost of money, in order to meet the new situation brought about by the crisis. There exists, no doubt, great disparity between the conditions in the different countries in this respect, and difficulties of a very different character have to be overcome in attaining the aim above-mentioned. International financial agreements might usefully be considered with a view to lessening the disparity of which we have just spoken. It is certain that even in the interior of a country, very different criteria are often adopted in applying rates of interest to a single branch of production. It ought not to be difficult to ascertain the causes of

these differences and perhaps to eliminate them, particularly those that give rise to usury.

It must not be overlooked, moreover, that the legislation for the adjustment of agricultural debts, though one of the most highly developed parts of the measures taken on behalf of agriculture by the States in recent years, is entirely sporadic and, as such, does not usually possess that organic character which in all legislation is indispensable to ensure that it shall be logical and equitable. It consists of temporary and partial expedients which endeavour to regulate in the same way very different cases and give the impression that the remedy is worse than the disease. It is essential, on the contrary, to go to the root of the evil, which is, in fact, the insufficiently remunerative level of the prices of products. Every system, therefore, calculated to balance these prices seems better to meet the requirements of the case. In answer to this it may be said that this solution is more easy to propose than to carry out and that in carrying out there is risk of falling into that artificiality that has so often been condemned and that would again bring about a precarious situation. Nevertheless we are of the opinion that particularly in perfecting the methods of distributing and transporting products it would be possible to assure to the producers an adequate margin of profit. In intermediary trade there are still possibilities of taking action for the benefit of the farmers.

The solution of the problem of agricultural indebtedness by raising of prices has been effectively supported by the Swiss Peasants' Secretariate. After a careful study of the conditions of Switzerland the Secretariate has asserted that to judge of the question of indebtedness in its entirety it is indispensable to compare the effects of a reduction of the debts—or, which comes to the same thing, of the interest—with the effects of measures taken with a view to raising prices, or, in other words, of enlarging the margin between the costs of production and the gross return. It appears from a grouping of accountancy results by classes of indebtedness carried out by the Secretariate that, taking average for all farms, a total rise of 5 per cent. in the general level of prices, that is, a rise of 1 centime per kilogramme of milk, of 6 centimes per kilogramme live weight for slaughter cattle, and of 7 centimes for pigs, would, of itself, improve the situation more than if the rate of interest remaining the same as it now is, the farmers whose indebtedness amounted on the average to 4,000 francs per hectare, were relieved of the payment of interest on 1,000 francs per hectare. For small farms, moreover, it is noted that it is even only when the indebtedness exceeds 7,000 francs that a reduction of 25 per cent in the rate of interest would give more efficacious relief than a rise in prices of 5 per cent. On the other hand, in the case of large properties this is possible even when the indebtedness is between 2,000 and 3,000 francs.

Thus a general reduction of interest in the proportion of 25 or even 50 per cent would, above all, be in favour of the large estates.

This Swiss Peasants' Secretariate arrives at the conclusion that the removal of indebtedness cannot help agriculture, considered as a whole, if the relation between the cost of all the means of production and the prices of agricultural products is not, at the same time, improved.

The idea that has just been put forward is shared by the Governments of many of the countries that have suffered most from indebtedness and that have rightly endeavoured, as we shall see in the second chapter of this study, to carry out programmes for the general adjustment of the national agricultural economy. Thus, for example, in Romania, a typical country in respect of the difficulties caused by indebtedness, it has been recognised "that with a better organisation of production, agriculture would have been able to dispense with the intervention of the State, thus avoiding the experience of exceptional legislation and that this policy of the relief of indebtedness will be more strongly supported by effective organisation and the improvement of agricultural technique." In the same way, in Yugoslavia the Minister of Agriculture declared recently that the total remission of debts would not be in the interest of the farmers themselves; that what is essential is to raise the prices of agricultural products, which would enable them to pay their debts and to live a less hard life and that if their debts were entirely remitted it would destroy what little credit the peasants still possess.

II. AGRICULTURAL DEBTS AND THEIR ADJUSTMENT

Statistics of agricultural indebtedness either do not exist at all—and this is most frequently the case—or are incomplete or defective. In certain countries special inquiries have been undertaken on the subject of agricultural indebtedness. In other countries little has been done, as a rule, beyond making estimates on the basis of conjectures and indirect indications. It is certain, on the other hand, that the compilation of statistics of agricultural debts that would enable comparisons to be made between the different countries would be of the highest interest. We must not, however, overlook the difficulties of method and other practical difficulties that stand in the way of such an undertaking. It must not be forgotten that while for part of the debts (mortgage debts) there exist sources from which statistics can readily be compiled, this is not true even for debts contracted with banks in the form of bills, whilst it is almost impossible to obtain statistics of debts on note of hand contracted with individuals.

In any case, if such statistics were compiled, they would only be useful if they were specialised and local; aggregate and general studies

would not be satisfactory; moreover, to form a precise idea of the burden of debts and to make comparisons, it is not sufficient to compile statistics of indebtedness in terms of capital, but it is essential to know the importance of the indebtedness in relation to the return from the farms. It is, in fact, notorious that these two factors hardly ever are in proportional relations with one another; least of all in periods of crisis and monetary disturbance.

Farm indebtedness became particularly heavy owing to the agricultural depression which in several countries clearly showed the critical financial situation of many holdings. It will be remembered that during the inflation period which gave the farmers, whose produce commanded high prices, the illusion of prosperity, large credits were granted to producers. The large profits then secured made the very onerous conditions on which these credits were granted seem tolerable. The facility with which they were granted and accepted and the use to which they were put by the borrowers were such that the loans were not always advantageous and profitable. New lands were bought, new buildings were erected and existing ones were enlarged, plants of different kinds, mostly very expensive, were installed. But this situation which is characteristic of war-time economy, could not long outlast the war itself. After the 1920-21 deflation the prices of agricultural products fell rapidly, while many of the principal items of cost of production were not deflated. This was true more especially of fiscal and social costs, wages, interest on debts, etc. Agriculture therefore had to endeavour to adjust costs to price levels. The index-numbers of prices of agricultural products and of the principal means of production showed a wide disparity. During the period from 1924 to 1929 the agricultural situation had improved almost everywhere; and yet, even at the prices ruling during that period, the price-costs ratios in agriculture were unfavourable to the farmers. In Switzerland in 1928 the index number of prices (1914=100) stood at 151, that of the costs of production at 172; in Holland in June 1929 the index number (1910-11 to 1913-14=100) stood at 129 for farm products, 204 for wages, and 163 for all costs; in Sweden in 1927-28 the index numbers (1909-13=100) stood at 143 for farm products, 196 for wages, and 152 for the goods purchased by farmers. Thus even before the beginning of the agricultural depression, the maladjustments in agriculture were alarming. The falling prices which started in 1930 became extremely rapid, while a reduction of costs was exceedingly difficult to achieve. In 1930-31 the International Institute of Agriculture, while studying the price relations for some important agricultural staples in certain countries on the basis of calculations based on farm accountancy data, observed that in many cases prices were below production costs. It is readily understood that, under such conditions, with prices

which, for instance in 1931, had fallen 50 percent, even very moderate charges could represent an excessive burden.

Moreover, it is evident that the cost of mortgage credit under loans arranged during the inflation period, and therefore based on artificially swollen land-values and on abnormal rates of interest, weighed heavily on the farmer. Such loans were no longer in keeping with the conditions. Thus frequently the gross profits of the farm were below the interest charges for the debt, so that their payment became impossible and in the countries most severely affected by the depression the banks had to take steps to avoid wholesale failures. Thus, for instance, in the United States not only the service of the debts but even the taxes were not met, with the result that the number of distraints on farms and of foreclosed mortgages increased greatly. Distraint for taxes or debts, which fell in 1929 to the lowest figure recorded for many years, more than doubled in 1932. The total number of farms distrained on in that country rose from 19.5 per thousand in 1929 to 20.8 in 1930, 26.1 in 1931 and 41.7 in 1932.

The consequences of this state of affairs were felt by the whole community. Governments could not disregard the problem of agricultural indebtedness, and a great effort was made to set it in order. According to the nature of the measures taken for this purpose the countries can roughly be divided into the following three groups:

The first group is that of the Governments which took radical steps for releasing farmers from the burden of indebtedness. The second is that of the Government which, while engaging in direct action in the matter of agricultural debts, have limited their measures to helping the debtors without seriously interfering with the interests of the creditors. The third is that of the Governments which have tried to help indirectly, by a general policy for strengthening and protecting agriculture economically, without infringing the principle of the respect of contractual obligations.

The first type of policy and legislation has been followed in some parts of Central and Eastern Europe; it is characterized by the compulsory conversion of farm debts or by the legal reduction of interest rates, and in some cases of the capital amounts due.

The second type of policy and legislation which in some countries has been combined with the first type, finds its concrete expression in measures for the repayment of loans by instalments, for the suspension of mortgage foreclosures and distraints for debt, for securing by special methods of procedure direct agreements between debtors and creditors, the fixing of minimum prices for properties distrained on, etc.

The third type of policy and legislation is that generally adopted in those countries in which the economic organization is based on spontaneous action. The Governments endeavour to avoid as far as possible all official action for the compulsory modification of private law, contractual relations arising from the financing of farms, the aim being to relieve agriculture from the burden of excessive indebtedness by action taken to assist and improve agricultural economy.

A fundamental study of the matter shows, however, that most of the measures taken to reduce the burden of debt have only been palliatives dealing with effects rather than causes, and have only endangered the future working of credit. Creditors have reacted energetically against legal coercion which altered substantially the relations between debtor and creditor and gave rise to great uncertainty in the matter of agricultural credit. The methods adopted for assisting agriculture have been severely criticized by the lenders, more especially by the banks. The effects to which these methods gave rise were harmful to credit in general, and more especially to the debtors whose real condition was not improved, as at the end of the delay granted them for the repayment of the debt, the creditors recovered their rights and could claim the capital amount, and as the debtors were not, as a rule, able to pay it their situation again became so critical that they were liable to eviction from their farms. Such cases were not rare. As to the banks, the fact that some of their losses were covered was not always sufficient to induce them to convert the loans, as by such action they would have immobilized large sums for a certain time. This was indeed the problem which the conversion of agricultural loans raised for the banks. On the other hand, the partial remission of debts was not in the best interest of the farmers themselves, as it destroyed even the limited credit that they previously enjoyed.

In some cases the shock given to the machinery of credit reacted upon national finance as the measures taken for disencumbering agriculture often involved the Governments into large scale financial operations. We need only mention in this connection the measures taken for disencumbering the Eastern provinces of Germany under the law of 31st March 1931, which allocated 561.7 million RM for disencumbering 41,435 estates. Again, in the United States the Federal Bank and the Land Bank Commissioner in the period 1st May 1933-31st December, 1934, made 575,840 loans for 1,494,454,231 dollars with a view to adjusting the farm mortgage debt to existing conditions.

The unsatisfactory results of the various measures tried, and the fear that similar credit situations as those above referred to, which have done so much harm to agriculture, might again arise, have led to the consideration of the advisability of taking measures to prevent the recurrence of over-indebtedness.

Nature and Chief Forms of Overindebtedness

The concept of overindebtedness is necessarily relative. Given the special conditions of a farm and the personal status of the farmer, indebtedness may, in specific cases, be either normal or excessive. Thus again, a farm which may be normally indebted under the agricultural conditions prevailing in one country, may be overindebted under those prevailing in another. The different cost, price, and income movements in the several countries and the difference in the standards of living are such that a farm may in one case be normally and in another excessively indebted. It is difficult to set up a standard by which to judge when normal indebtedness gives place to overindebtedness. The limits between the two conditions can only be indicated empirically. In some countries estates are considered excessively encumbered when the indebtedness exceeds a certain percentage of the assets per hectare in others a fixed percentage of the price per hectare is laid down or else a percentage of the yield or of the taxable value or of the appraisal value or market value of the land.

As the problem at issue is eminently a practical one, it is not easy to theorize on it; it would however seem advisable to note some of the distinctions drawn by the more recent writers on the subject.

A first fundamental distinction which is usually drawn is that between objective and subjective indebtedness. If considered exclusively from the standpoint of farm economy, indebtedness exists when the service of a loan invested in the undertaking does not exceed the net income which can be secured under the mode of farming practised in the country, with the labour there available, and at a certain rate of prices and costs. The estate is considered to be overindebted from the standpoint of farm economy, i.e., from an objective standpoint, when to meet debts or current or matured repayment quotas, the farmer has to sell at a loss his working equipment and means of production (implements, machinery, livestock etc.) thus endangering the future working of the farm.

Overindebtedness arises from the variable reciprocal action of a whole series of factors, such as the relation between the amount of borrowed capital and interest and amortization costs, on the one hand, and the yields, the prices of the products, the cost of labour, the purchase prices of the means of production, and the standard of living of the farmer, on the other. Obviously, the behaviour and the intensity of the several factors may render overindebtedness more or less heavy, or even liquidate it. Moreover, the action of any one of the said factors may cumulate with the effect produced by the alteration of another factor, or may offset it. This occurs for instance when high

natural yields coincide with low prices for products, moderate rates of interest, and large debts.

There are also other causes the intensity of which may give rise to overindebtedness, causes directly connected with the personal situation of the farmer, the amount of his capital, the standard of living of his family, its composition and the age of its members. In such cases we speak of subjective indebtedness.

Of course subjective causes enter also into the formation of objective overindebtedness. A typical example is afforded by the influence which the personal ability of the farmer may have on the volume of yields and on costs.

Moreover, the effects of objective overindebtedness may be attenuated or intensified by subjective overindebtedness; hence the practical importance of the distinction thus drawn.

In the peasant family type of economy which is prevalent in many countries the management of the family and of the farm forms an indivisible whole. Consequently good receipts obtained from the farm may be absorbed by heavy family liabilities or the losses on the farm may be offset by the lowering of the standard of living of the family. A farm objectively overindebted, which is worked exclusively by members of the family, may be able to hold its own if they live on a modest scale and accordingly have a smaller expenditure of cash than would be required for hired labour. On the other hand, if a farmer whose farm is only moderately encumbered has heavy family expenses, he may find himself in difficulties, although the farm itself is not overindebted.

Absolute overindebtedness is often incurred in the act of the purchase of the holding. This generally occurs in those cases in which the purchaser does not realize the relation existing between the farm incomes and costs, and therefore pays more for the farm than it is worth, without disposing of sufficient means of his own to make the purchase.

The extent of the overindebtedness of the estate as such depends on the excessive purchase price of the land, and of farm buildings, and on the proportion of the purchase price covered by the purchaser's own means. The smaller these are, the heavier will be the indebtedness incurred.

Now, as it takes a long time to recover the capital invested in agriculture and as, therefore, even under favourable conditions, loans can only be extinguished by small instalments, long term indebted-

ness, owing to the impossibility of foreseeing market conditions for the whole duration of the loan, and to the special conditions prevailing on the financial market, represents a heavier risk for the farmer than does short-term indebtedness. This is all the more evident when we consider the extremely dynamic character of modern economy, characterized as it is by sudden and often very heavy falls in the price of products. An unfavourable turn in the prices of farm products may make it impossible even for a farmer who is free from debt to meet out of his receipts the normal requirements and costs of the farm.

A special form of overindebtedness deserving of mention is that incurred to meet the cost of rural buildings. Their cost depends, as is known, on the stage of development in building technique, on the degree of organization attained by the building material industries, and on the degree of organization of the workers in the building trades. The difference between building costs and the price of agricultural products, a difference unfavourable to the farmer, which may exist at the time of construction, has to be met by loans on which interest will have to be paid for generations. Accordingly high building costs are in many cases the real cause of overindebtedness.

Another form of overindebtedness which of late years has often occurred in connection with the agricultural depression, is that due to the change from one form of farming to another. Given the depression of the prices of certain farm products, farmers have often turned their attention to other branches of agricultural activity. This necessitated the investment of large funds and involved, during the period of transition, the absence of receipts.

Finally, a special form of overindebtedness is that caused by the tightness of the money market due to general lack of confidence and to widespread uncertainty as to the advisability of agricultural investments. In such cases farmers have to apply to the banks for the money they require, for which they have to pay very high rates of interest.

The Credit Policy of the Banks

In discussions on agricultural overindebtedness and its causes the question is often raised as to the responsibility for this abnormal situation which in many cases has led to the ruin of agricultural estates. An examination of the many reports on agricultural credit during the depression of 1929-30 shows, *inter alia*, that a great number of banks, departing from their traditions of prudent managements, were too liberal in financing the farmers during the war and the first post-war years. They made loans to persons who were working at more than normal capacity and often in good faith they made risky investments.

Such loans could no longer be described as normal farm financing operations, but were rather in the nature of commercial credits. On the other hand, the habit had grown up over a period of years of borrowing without measure for all sorts of purposes. In the fat years, numbers of people purchased land and started farming it without possessing the qualities of a farmer. Moreover among the farmers who had set up on their own account after the war, there were many who started with quite inadequate financial resources. Worse still, the banks had often encouraged this unhealthy tendency. During the years of prosperity money was freely offered to borrowers. The lenders secured very high rates of interest. New Banks opened everywhere. High prices acted as a stimulus. In the report on the over-indebtedness and disencumberment of Swiss agriculture published by the Swiss Peasants' Secretariate in 1934, the facts we have stated are confirmed. Emphasis is laid on the imprudent way in which credits were granted, the banks being "concerned only with the security given for their investments without regard for their advisability in the interests of national economy. Thus farmers were granted credits to an almost limitless extent, provided they are able to give good security because mortgage investments were considered safe. If more consideration had been given to lending only what the farm could stand from an economic standpoint, a great number of loans would never have been made". Other writers have expressed much the same opinion on the subject of the excessive lending policy of the banks. With reference to what occurred in 1933 in the Canton of Berne, it has been remarked that credits were granted in too mechanical a manner and that too little care was taken to get at the heart of the matter. Thus, when the borrower could offer a sufficient number of sureties, loans were granted without enquiry being made to see whether the charges exceeded the economic possibilities of the farm.

Likewise, in a report on agricultural credit in Hungary in which reference is made to the breaking-up of large estates, it is noted that at that time the financing of purchases of land by small farmers was lacking in organization. The banks made the loans without due investigation and without first assuring themselves that the borrowers were solvable. Urged by the desire to acquire land, the farmers assumed liabilities beyond their capacity to pay. Later on, the banks were compelled to take possession of the land thus purchased. By doing so the losses of the banks were reduced but the public interest suffered by the fact that a very large area of land thus came to be owned by the banks.

Two conclusions may be drawn from these facts and from others which for the sake of brevity we omit to mention. The first of these conclusions is negative i.e. that credits were often granted during the

period under consideration without adequate caution, thus weakening the financial structure of the agricultural credit institutions and undermining confidence. The second conclusion is positive, i.e. that a prudent and discerning policy on the part of the banks acts as a moderating influence in the field of agricultural credit. For this purpose, banks should be exceedingly circumspect in making loans to farmers. They should never lose sight of the fact that the characteristic feature of agriculture is slowness of production and marketing; that it is the industry most exposed to suffer from natural calamities; that its receipts are seasonal and uncertain; that it cannot count on large profits which can enable it to stand high interest charges, and that when the farmer borrows on conditions which are too burdensome, the loan instead of helping him lands him in bankruptcy.

Therefore an agricultural credit policy should above all things aim at increasing the borrower's productive capacity; and this means that the use to which the loans are to be put should be strictly supervised, and that they must be in keeping with the average returns of the farm and with the farmer's ability to repay them.

Fortunately, if some banks have not always taken into account the special conditions of rural economy, and more especially the low return on capital invested in agriculture, others, more especially public utility banks specialised in agricultural credit transactions, act as a rule in conformity with the principles laid down above.

Apart from those countries in which the several forms of agricultural credit have attained a high degree of perfection and development as the result of long experience, we shall mention another group of countries where agriculture is of prime importance, and indicate certain features which characterize the present organization of their agricultural credit.

In Rumania, for instance, the National Agricultural Credit Bank, founded in 1937, is so organised that it can postpone the date at which the peasants must settle the loans granted on farm products so as to avoid the need of underselling their crops. The Bank is also required by its statute to enquire into the use to be made of the loan and its advisability. This is very important, as the precarious condition of some of the banks is ascribed to the absence of all controls on the use of the loans they have made. The result of careful selection of the applicants is that good farmers can go ahead and purchase land from the incompetent farmers who are no longer able to get credit.

In Bulgaria since 1935 the Agricultural and Co-operative Bank has introduced a new method of farm financing, according to which a pre-

liminary study is made of the amounts to be lent. In ascertaining the solvency of applicants for loans the Bank takes into consideration not only the estate, but the nature and yield of the crops. Acting on this system the Bank has reduced the credit to doubtful farms and to those offering certain risks even if they afford adequate material security. The whole policy of the Bank is now directed towards encouraging the gradual increase in the productivity of national agriculture. Thus the Bank is helping not only to raise the productivity of the farms but to consolidate them, thus rendering the loans themselves more liquid. Henceforth loans will be granted to the extent corresponding the real needs of the farmers in such a way as not to endanger their economic and financial position.

The Agricultural Bank of Greece, founded in 1929, acts on similar lines and only makes loans on specially favourable conditions to farmers if they undertake to use the improved methods of cultivation recommended by the Bank or carry out the agricultural plans it has laid down.

To avoid the drawbacks of ill-regulated credit, some countries have encouraged the foundation of special banks placed under Government control. A notable example of this policy is afforded by Hungary where the Government had to solve two closely interrelated problems, namely, that of making part of the large estates available for small holdings (agrarian reform) and that of the provision of agricultural credit facilities. As long experience has shown, it is not wise to leave to the judgment of the small farmers the conditions on which they purchase land and secure the loans required for that purpose, as the desire to acquire land is so strong in Hungary that the farmer, however sensible he may be, easily gets involved into excessive liabilities. Under these conditions the Government has had to interfere to an ever greater extent with the sub-division of estates and the credit transactions to which such sub-division gives rise. If the banks were willing to make loans to purchasers of land, the Government could not allow them to be the sole judges of the satisfactory nature of the conditions on which they made them. These considerations led to the enforcement of strict supervision by the authorities of the sub-division of private estates, so as to control the price of land and the conditions of purchase. Moreover, the Government has given financial support to the land-banks, enabling them to lend on favourable terms for the purchase of land by small farmers. Thus the land-banks and the Government itself make a careful investigation into the economic resources of the borrowers so as to prevent them from undertaking excessively heavy liabilities.

To ensure the application of rational principles to the distribution of agricultural credit in Italy, the banks authorised to engage in this

branch of business have provided themselves with special offices placed under agricultural experts, doctors in agricultural sciences, etc., who study the applications for loans so as to make sure that the capital invested in the land be so used as to secure higher returns by the adoption of suitable methods of farming. Loans are only allowed when a careful study has been made of all the results likely to be secured. The procedure followed in granting land-improvement loans is of special interest. In such cases the borrowers when making their application are required to supply accurate statements accompanied by plans and estimates showing the proposed use to be made of the loans; when the plan is being carried out the payment of the loan is made in several instalments along with the progress of the work, which is followed closely by the banks. Before paying the final instalments, the bank has the right to have final inspections made so as to make sure that there has been no waste of money and that there have been no irregularities or imperfections in the execution of the work. Loans made for the purchase of small holdings are the subject of special precautions; the law requires that the applicants should have some means of their own, so that when they have acquired the holding they may be able to keep it in good working order. Such loans are treated by the law as agricultural improvement loans, and are accordingly entitled to a government grant in part payment of interest charges.

The policies adopted for the distribution of credit by the central agricultural credit banks which have been founded in recent years in several countries are inspired, as we have seen, by the desire to prevent farmers incurring liabilities in excess of their ability to pay. With this end in view, attention must be paid not only to the amount of the debt and to the conditions of repayment, but also to the purpose for which the loan is made. An examination of the reports of the central agricultural banks in the countries of Eastern Europe often shows that prior to the recent reorganization of their credit systems, a large percentage of the loans granted were for purposes of consumption. Now, consumption credit cannot produce the means required for the repayment of the debt. It sometimes represents unavoidable expenditure for meeting the domestic needs of the farm, food, clothing, heating, etc., but these commodities have to be paid for out of the income of the farm which becomes insufficient for needs, and the financial position of the farm is thus compromised. Consumption credit should therefore be refused if overindebtedness is crushing. The first condition for the rational use of agricultural credit is that it be used for productive purposes. In the case considered, the loan is not productive.

We have tried to call attention to the important part the banks are called on to play in the rational distribution of credit, a part which

can really help in avoiding the return of the critical situation described above.

We should also note the opinion expressed by eminent authorities who consider that the best way of avoiding the overindebtedness of farmers is to be found in the development of general credit institutions which would advance the amounts they need to upright and industrious borrowers at moderate rates of interest. Several countries have endeavoured to secure this end by encouraging and facilitating the foundation by parties concerned, of mutual credit societies which afford cheap credit to their members; it is essential that they should follow closely the situation of each farmer so that the credit allowed him be in keeping with his needs and with his real capacity to pay. It would therefore be desirable that these institutions should develop on a still larger scale in all countries, more especially in those where farmers have difficulty in securing credit and can only get it at excessively high rates, with the result that they are crushed by liabilities disproportionate to the receipts obtained from their farms which they are frequently obliged to sell in order to pay off their creditors, thus either becoming agricultural labourers or having to leave the land.

The Intervention of Public Authorities

In the field of Government action, the surest indirect method for acting towards this end consists in adopting a price policy which ensures a fair return to the farmers. The most effective, if not the simplest, means of putting a stop to an abnormal farm credit situation is to support the prices of farm products, thus enabling the farmer to pay his debts, provided that a simultaneous rise in the cost of means of production is avoided, as otherwise the benefit contemplated would be cancelled. Almost all the measures taken by Governments since the last economic depression have indeed aimed at improving, as far as possible, the price situation on their respective markets. They have endeavoured to do so by setting up systems for protecting farmers against foreign competition, by improving the marketing of farm products and more especially by regulating production so as to balance supply and demand, on their respective markets. But the chief purpose should be not so much to assure high prices to the producer as to secure the stability of prices. It was the sudden fall in prices caused by the fundamental disparity between the volume of the goods offered and the volume of goods for which there was a demand, which in 1929-32 led to the unprecedented agricultural breakdown. Stabilised prices, by avoiding those ups and downs so injurious to normal business, enable farmers to work under peaceful and remunerative conditions. It must be admitted that the incomes of the farmers and their purchasing power have really improved as the result of stable and remunera-

rative prices secured by government intervention. The practical value of this policy as a means of reducing indebtedness is, therefore, generally recognized.

Other indirect measures taken by some governments to prevent excessive indebtedness which have proved very effective are those which have taken the form of technical and financial help, more especially on behalf of small farms. One of the most striking examples is that afforded by the Netherlands. As is known, small holdings play an important part in the agriculture of that country. They therefore required protection, and in 1934 it was decided to set up a special service, which started work on 1st November, 1937. Every small farmer receives information and advice from the assistants of the Board of Agricultural Advisors who direct the service. Each assistant has a very small number of farmers placed under his supervision. The small farmers are divided into three groups: (a) those who are regularly employed in the service of others; (b) those who work mainly on their own, but whose farms do not afford them full occupation and who therefore seek intermittently for work on the larger estates; (c) those who have a small farm which takes their whole time but who in periods of depression do not earn enough to live on. Now, on condition that they follow the advice given them by the agricultural advisors, farmers belonging to group (b) receive each week a cash allowance, and those belonging to group (c) receive tickets which entitle them to greatly reduced prices, for, and in some cases to the free distribution of farm requisites. The cash allowance varies inversely with the receipts of the farm and directly with the size of the family. The purchase orders are given after the amount of fertilizer or feeds required has been estimated by the assistant of the Service or when he has ascertained that the farm requires the use of certain machinery or implements.

Of like character is a special form of assistance introduced by Royal Order in Sweden on 7 June, 1940, consisting of relief loans to farmers in economic difficulties. Such loans are only granted if the difficulties arise from the farm, if the farmer has no other means of securing a loan on reasonable terms, and if as a result of the loan he is likely to be able to carry on his work successfully. The amounts loaned may not exceed 800 crowns per hectare, nor 40 percent of the value of the borrower's estate, and may not amount to more than 10,000 crowns. No interest is charged during the first two years; subsequently the borrower pays 4 percent; at the end of the fifty years he is required to repay the loan in instalments of 1/15 per annum.

In Finland, in order to provide credit facilities for small farmers, the Government founded in 1921 a "Bank for the assistance of agricul-

tural production." A law and a decree in its regard promulgated in 1938, laid down detailed instructions for the grant and use of the loans. They may only be made to farmers owning not more than 15 hectares of arable land and whose financial situation is such as to make such a loan strictly necessary. Loans may be made for clearing fields and grass lands, for improving the soil, for erecting or repairing buildings and for the purchase of machinery. The loan may not exceed 60 percent of the estimated cost of the work to be carried out or the machinery to be purchased. No more than 30,000 F. Marks can be allowed to the same borrower. During the five years period 1939-43 the interest charged may not exceed 4 percent. The loans are repayable in 5 to 20 years.

Many who have closely studied the problem of overindebtedness as affecting more especially small holdings are of opinion that in their case the best solution would be to afford opportunities for work rather than to lend money. It would therefore seem highly desirable that ancillary industries should be started to supply additional earnings in districts where small holdings are numerous. The experience acquired by many countries in this matter shows that this view is well-founded.

Besides the two means of avoiding overindebtedness to which we have just referred, there are others whose action is still more immediate. They have been applied on a large scale, for instance in Switzerland, a country of small peasant holdings which is very interesting from this point of view. Several kinds of institutions have been started there for the protection of small farmers. We will refer to them briefly.

The "Financial Surety Bank for agricultural workers and small peasants", founded in 1921 by the Swiss Peasants' Union in Brougg, enables agricultural workers and the sons of small peasants to acquire a farm by replacing individual surety by that afforded by a bank managed and directed with a view to the general utility. When a farm is purchased the bank goes surety for the credit accounts opened in favour of the purchaser. Only applicants who have good references, who seem able to work the farm themselves, and who have been employed uninterruptedly for at least ten years in agriculture, can secure the help of this bank, which can only go surety when it has reason to believe that the farm the applicant wishes to acquire will enable him to earn a livelihood. All applications from candidates who can satisfy these conditions are examined on the spot, and the manager of the bank with the assistance of an expert visits the farm and estimates its production value. The Bank has always made a point of informing intending purchasers of the danger of paying too high a price for land and endeavours to prevent excessive price being paid.

Borrowers must undertake: (a) to repay the capital for which the Bank is surety in conformity with a plan of amortization which takes into account the special conditions of each case; (b) not to give surety for others until the Bank has been fully repaid; (c) not to pledge their cattle without the consent of the Bank; (d) to keep a ledger in which are entered all farm and household receipts and expenditure. Candidates who purchase a farm are generally required to give a lien on the land as security for the amount for which the Bank is security. This institution therefore is auxiliary to the action taken to avoid the payment of excessively high prices for land and the ill-considered purchase of farms which may give rise to overindebtedness. In the period from 1921-22 to 1940-41 the Bank has received 6,860 applications and has approved 715; 603 contracts of surety have been signed for a total of 3,645,026 francs.

While the Financial Surety Bank comes to the assistance of beginners to enable them to make for themselves an independent position on fair conditions, the purpose of the "Relief Fund for small peasants, indebted farmers and agricultural workers" is to save from ruin small farmers who are in debt. Since 1928 the Swiss Confederation has placed 400,000 francs at the disposal of this Fund. Thanks to this grant and to the repayments made by the beneficiaries, the help given amounted on 30th June 1941 to 409,421 francs. The foundation of this Fund in 1923 was the starting point for the assistance given to distressed peasants through the agency of the relief Banks, the need for which became particularly urgent ten years later.

The foundation of the "Relief Banks for Distressed Peasants" was approved by the Federal Order of 30th September, 1932, on temporary financial assistance to agriculturists in difficulties. Under this order and similar orders issued later on, credits were opened by the Federal Council for this purpose. The Cantons are required whenever possible, to make a grant for a like amount to that allowed by the Confederation. Under the order referred to, the assistance given is limited to families deserving of help and on condition that a permanent rehabilitation of their situation is reasonably assured. The grant of relief must be preceded by a thorough enquiry made by qualified persons. Help must be given more especially in the form of advances for interest payments, in loans with or without interest charges, or in cash subsidies. It is subject to certain conditions, the fulfilment of which insures the permanent rehabilitation of the farm. Special mention should be made of the provision under which the owners of the farms may not incur new interest bearing debts without permission. The relief work is assisted by a farm management advisory service. This and similar measures subsequently taken, are carried out by the Cantons who can entrust the work either to new institutions or to existing ones. In

nearly all the Cantons, Relief Banks have been opened for this purpose which act in conformity with the principles stated. Up to 1937 the Confederation and the Cantons had appropriated for this form of financial assistance a sum of nearly 43 million francs. In the 4,400 cases recorded in the statistical returns the relief grants made by the Banks have amounted to 9.5 million francs.

The Agricultural Debt Amortization Bank of the Canton of Fribourg was officially authorised by a decree of the legislative body of the Canton under date of 30th July 1935. It should be noted that several districts of this Canton suffer severely from overindebtedness. The purpose of the Bank is therefore that of economically rehabilitating the overindebted farmers who are deserving of help, but when only the permanent rehabilitation of the farm can be achieved. Among other provisions the decree above mentioned requires that the Council of State issue laws to prevent the further indebtedness of rural property. The Bank is financed by the Cantonal government and by subsidies from the confederation.

The three kinds of institutions we have just described have been very successful; they can therefore serve as examples for countries desirous to create an organisation for consolidating the economic position of the peasant proprietors.

Modern agrarian policy is unanimously of opinion that the encumbrance of farms should be controlled not only by the law on contracts, but also by the inheritance laws. It is indeed well known that financial arrangements in connection with succession to landed property may lead to heavy indebtedness. To avoid this, in countries where the legal or customary system of the undivided transfer of farm property to a single heir prevails, rules have generally been adopted regulating the mode of appraising the farm itself with a view to determining the compensation due to the co-heirs. For this purpose the income value of the farm is generally accepted as the basis of appraisal. This system is in use in Germany, Norway, Switzerland, etc.

We have just described some of the means devised for the indirect prevention of overindebtedness of farms. Such indirect methods are perhaps those best suited to deal with so complex and delicate a situation which has far reaching effects upon the machinery of credit and affects a whole series of interests. Mention however must be made of the fact that some countries have gone much further and have taken direct measures to control the phenomenon with which we are dealing. We refer to Germany, Switzerland, and to some extent Italy.

In Germany the Act of 1st June 1933 regulating the conditions of agricultural indebtedness, introduced a principle of great interest for

the subject we are studying, that of accepting the surety limit of trustee investments, as the maximum allowed for mortgage liabilities incurred, which had, therefore, as a rule, to be reduced to two-thirds of the taxable value of the estate.

Subsequently, with a view to the protection of the peasantry, the Act of 29th September 1933, created a special legal status for the ERBHOF. Consequently hereditary peasant holdings are protected in their entirety and withdrawn from the market. Such holdings cannot be mortgaged; any exceptions to this rule must be approved by the special courts set up under the Act. Peasant holdings cannot therefore be foreclosed or distrained on behalf of creditors. They can only be sold with the consent of the *Anerbengericht*. All this is derived from the new idea of value which prevails in German agriculture, in accordance with which farm land is no longer considered as saleable merchandise but as the basis for the work and livelihood of the farmer.

In Switzerland where, as in many other countries, agriculture is suffering from heavy indebtedness, especially due to mortgage debts, a radical measure has been adopted by placing a limit on liabilities incurred. The matter is regulated by the Order of the Federal Council for preventing speculation on land values and overindebtedness and for the protection of farmers, dated 19th January, 1940 and amended by another Order of the Federal Council dated 7th November 1941. To start with, we should note that the two matters of land speculation and overindebtedness have very properly been considered together. It has long been recognized in Switzerland that one of the chief causes of overindebtedness is to be found in the free market for real estate which has led to the unduly high prices for land and consequently to the indebtedness of the purchasers. Thus one of the preventive measures which is considered most effective consists in the control of transactions in land.

The provision against overindebtedness can be summed up as follows. Real estate used for agriculture or forestry undertaking and covering separately or jointly an area of not less than one hectare, may not, with some exceptions, be encumbered with mortgages or other liabilities secured on them without the consent of an officer appointed by the Canton.

Consent may be refused if the liability to be secured on the land exceeds its appraisal value based on its yield, i.e. on the amount which has on the average been obtained from farming it in conformity with local conditions for a certain period (30 years) preceding the valuation, capitalized at the rate of 4 per cent. This yield value, increased

by not more than 25 per cent., is the appraisal value in the meaning of the Act. The additional 25 percent is justified, as experience shows that some factors must be taken into consideration which are not shown by the yield itself, such for instance as the particularly favourable position of the farm, the condition of the buildings, and the technical features.

As soon as application is made, the authorities responsible enquire whether the encumbrance to be placed on the land is one which requires their consent or not. In the affirmative, they require whether there is danger of overindebtedness and if that danger can be avoided forthwith, he gives his consent at once. If the danger cannot be avoided forthwith, the officer orders a special appraisal of the property, the result of which is entered in the land register. At the end of each five-year period the owner may ask for a revision of the appraisal. Should the value of the property be greatly modified, as for instance by land improvements, buildings, important alterations or lasting depreciation due to natural causes, a new appraisal may be asked for during the interval.

In Italy a maximum for mortgage liabilities has not been introduced as in Switzerland but, as already pointed out, the special agricultural credit banks act with the greatest prudence in the matter of mortgage. Moreover, the new code of civil procedure makes important innovations as regards pledges on farm stock. They are based on the need of protecting the farm as a whole in the interest of production, avoiding as far as possible the removal of anything which is of use in working the farm. The said code provides that the chattels which the owner keeps there for working the farm may only be the subject of separate pledges in the absence of other pledgeable personal property. But the most important innovation consists in the fact that the Court is empowered, at the request of the debtor, and after hearing the creditor, to exclude from the pledge by an unappealable order, chattels considered indispensable for the cultivation of the holding. Thus, in Italy also the law tends to limit the right to pledge rural property.

Conclusions

We were induced to complete the study published in 1937 on agricultural indebtedness by this further study on overindebtedness not only by reasons of a systematic nature, but also by practical considerations, as at the present time the monetary developments and the speculation noted in that previous period are again recurring and might, under certain circumstances, lead to the renewal of a credit situation similar to that which occurred in connection with the economic depression of 1929-32. Such phenomena, closely connected with the

war, are partially of material, and partially of a psychological nature. Both factors combine and act together, thus contributing to give rise on the real estate market to an abnormal situation which may prove very injurious to agriculture. The first group of phenomena noted consist in the exceptional liquidity of the capital market, due to the huge mass of means of payment now in circulation and to the high war profits obtained by certain groups of producers, accompanied by forced limitation of consumption and lending, therefore, to the formation of large masses of savings. The second group of phenomena find their expression in speculation caused by the uncertainties of the moment, which takes the shape of a rush towards investments in real estate as a "sheltered investment" for money. Many indeed try to invest large savings in real estate purchased at prices out of keeping with the income which can be obtained from the property. In most cases the purchasers are manufacturers, traders or other strangers to agriculture, who are willing to buy any land regardless of its location, of the crops grown on it, of conditions under which it can be worked and of the returns obtained. Now it is easy to foresee how, this time as after the last world war, the period of inflation and swollen prices will be followed by deflation with the accompanying phenomena of tight money and limited business activity. It is, therefore, very likely that at a certain moment the credit relations which have arisen during the inflation period of seeming prosperity will become excessively burdensome when prices fall and when it will be difficult to recover debts. The fear of the renewal of such a state of affairs explains the steps already taken by some governments to prevent, *inter alia*, the speculative purchase and sale of land. But if the intention of preventing overindebtedness, which has made itself clearly felt in recent years, can be explained by the need of preventing the serious financial and social consequences to which it gives rise, yet another order of considerations helps to justify the tendency which is making itself felt. Under a system of government planning, agricultural producers work, so to speak, in direct collaboration with the Government in carrying out the new agricultural policies which lead to a planned economic organisation of agriculture. The farmers are urged by diverse means, optional and compulsory, of a more or less comprehensive nature, to conform to the new policies. The ultimate purpose is to adjust the supply of products to the demand, so as to avoid harmful disparities and satisfy adequately the needs of each country both in respect of home consumption and, if need be, of export. The farmers are thus assured prices which cover production costs and leave a fair margin of profit, encouraging at the same time a more equitable distribution of the national income among the several classes which contribute to its production. For this purpose a new form of direct financial assistance to farmers has been devised and has developed on a large scale in

Great Britain, the United States, Italy, the Netherlands, etc. By this means, agricultural producers are compensated for any losses they may incur in carrying out the new agricultural policies which often require them to enlarge or limit the area under certain crops, an action which may involve the farmers into financial losses, which should be compensated. All this is evidently in the general interests and it must therefore be protected not only against the danger of soil deterioration, excessive sub-division of the land, etc., but also against the risk of excessive indebtedness. Otherwise, the productive activities of the farm would, in the long run, be paralysed to the injury of the whole community. This same need has given rise to the many measures taken to assure the indivisibility of the minimum farm units, for the consolidation of sub-divided holdings, etc. Overindebtedness indeed hinders the normal working of the farm, as by absorbing a large part of the returns for the payment of high rates of interest and amortisation, the working capital of the farmer, required for the purchase of fertilisers, sprays, machinery, etc., essential for crop yields, is reduced. If therefore the farm, as the primary instrument of production, is to be protected, a limit must be placed on the farmer's rights to encumber it with debts. We have already seen how both principles are applied. The agricultural and social structure of the several countries will point the best way to follow.

The studies already made for a reform of this description, the measures already taken toward that end, and above all the results so far obtained, show that this new policy is sound and useful for both the individuals and the community. On the other hand, this reform fits in logically with the system of planned economy now so largely introduced and which will probably last for a long time to come. On the other hand, the fear that the legal limitation of indebtedness may limit farm credit would seem to be unjustified, as evidently land which is moderately encumbered affords such better security than land which is overindebted. The former has a better chance of recovery and affords a wider margin of safety, whereas the latter represents a serious risk for the banks, especially in periods when a sudden fall in the price of products is followed by the depreciation of real estate. Loans in this case remain uncovered, by the serious injury of the banks. It would, therefore, seem desirable in their interest also to place a limit on the mortgage indebtedness of farm property. Farmers, when protected against the risk of ruin, will be all the better able to discharge their functions in the national interest.

In the countries where an organized mortgage credit market exists, it is mostly in the hands of public law corporations which act in conformity with traditional principles, only granting loans on first mortgages and as a rule for amounts not exceeding 50 per cent of the

appraised value of the estate, these loans being repayable by annual quotas, and at moderate rates of interest. A well-known typical example for agricultural land credit corporations which are well organised and successful in their work is afforded by the German *Landschaften*. Similar institutions in other countries have been modelled on them, among which is the Federal Land Banks of the United States. By applying to such corporations, the farmers can avoid excessive indebtedness. But it should not be forgotten that in countries where such organisations do not exist, the bulk of mortgage business is transacted by private persons through the agency of notaries; it therefore escapes public control, and may give rise to serious abuses to the injury of the farmers. It is in such cases that it would be desirable to place a maximum legal limit on mortgage loans.

This requirement, while it may seem logical for farms in general, is all the more so in the case of small holdings, which form the great majority of farms and whose existence should, therefore, be safeguarded as of essential importance to the health of the social body. It seems strange that while in many countries the formation of small holdings has been encouraged by credit facilities, the supply at reduced prices of the means of production, the promotion of various forms of agricultural co-operation, with few exceptions nothing has been done to preserve the integrity and stabilize and perpetuate the working of such holdings. The measures for limiting farm indebtedness above described have precisely this end in view.

7. FARM DEBT ADJUSTMENT*

The farm debt adjustment programme is one of numerous governmental activities started in 1932 and 1933 to relieve the serious agricultural credit situation. It was a development parallel with the Reconstruction Finance Corporation, the Emergency Farm Mortgage Act, and the Farm Credit Administration. The general purpose of this programme was to provide a means of bringing distressed farm debtors and their creditors together to discuss their mutual problems and arrive at adjustments that would prevent foreclosure, bankruptcies, and destitution. From October 1, 1933, when the programme was instituted at the request of the President of the United States until August 31, 1945, at which time it was transferred to Re-settlement Administration, the work was carried on under the general supervision of the Farm Credit Administration.

Organization of Farm Debt Adjustment Work

Under the FCA the work was largely carried on through the influence, advice, and assistance of voluntary State and county farm debt adjustment committees appointed by the Governors of the various States. The county committees usually were comprised of three members—farmers and businessmen who represented creditor and debtor interest. In many States the State Emergency Relief Administration co-operated by supplying full time supervisory personnel to assist the committees and by providing funds to cover committee expenses.

When the work was transferred to the Resettlement Administration the voluntary committee set up was continued. Members of these committees were not employees of the Administration nor responsible to it. They did work closely with the county rehabilitation supervisors. Committee members served without pay but some provision was made for the expenses incurred. This same general set up continued under the FSA until 1943 with the exception that committee members were appointed by FSA. In 1943, the separate committees for debt adjustment were abolished and the functions transferred to the single county FSA committee appointed by FSA.

The RA had established a farm-debt adjustment section within the Rural Rehabilitation Division in the national office and provided for debt adjustment specialists in each of its regional, in most of the State, and in many of the district offices. At the county level, debt adjustment work has been carried on by the rural rehabilitation supervisor as a

* "Ten Years of Rehabilitation in United States" (U.S.D.A.), pp. 253-267.

part of his regular programme. In many cases the supervisor is able to make an adjustment without calling upon the committee.

Types of debt adjustment. By definition, debt adjustment is "any agreement, compromise, or settlement between a farm debtor and his creditors which gives the debtor a reasonable opportunity to meet his debts and continue farming." Outright reduction of a debt has been one of the methods most frequently used but other methods include interest rate reduction, extension of maturity of an obligation, securing a refinancing of the loan for the debtor, transfers of equity and new rental and contractual agreements, such as providing for lease of property to the debtor after foreclosure with an option to repurchase under terms giving a reasonable chance to recover the property.

Although debt reduction is probably the most dramatic and drastic of the adjustment techniques, the trend was toward a decreasing use of this method until a marked reversal came in 1942-43. Approximately 2 out of every 3 of the cases adjusted through June 30, 1939 involved reduction compared with one-half the cases from July 1, 1940 through June 30, 1942 (Table below). Perhaps the increase to three-fourths during 1942-43 reflects the bad situation of the comparatively few cases, serviced that year.

Percent cases with debt reduction.

Year.				
1935-36	..	..	..	60
1936-37	..	..	..	58
1937-38	..	..	..	67
1938-39	..	..	..	67
1939-40	..	..	..	57
1940-41	..	..	..	51
1941-42	..	..	..	50
1942-43	..	..	..	75

This may also explain the higher-than-average percentage reduction of debt for that year. The lessened use of debt reduction came during a period of rising prices for farm land and produce. Farmers apparently felt less need for cutting down their debt load, and creditors were less inclined to make such adjustments as general economic conditions improved. Not only were better times accompanied by a decrease in the debt-reduction technique but the entire debt adjustment-programme tended to taper off, and FSA shifted emphasis to tenure improvement as being the activity most needed during the war.

The basic questions with respect to farm-debt adjustment activity in relation to a rural rehabilitation programme are largely the same questions to be asked about any programme for the adjustment of farm debts. What is the proper scope of such a programme? Should it embrace only a rearranging of the terms of outstanding loans so that a farmer will have a better chance to repay his full debt at the agreed interest rate or should it be regarded as including also a reduction in the total amount payable? The programme used has followed the latter philosophy. As any reduction in the amount payable involves a loss to a creditor, the question as to whether or not the public owns any responsibility to the creditor must be raised. As the programme has operated, the creditor has borne the full cost of any reduction although it is recognized that changes in the purchasing power of the dollar may have been such that no real loss was sustained in some instances.

Debt adjustment is one of the numerous programmes that may be used to direct agricultural policy and promote a variety of agricultural objectives. As the programme has functioned the objective has been to assist farmers to remain in agriculture and prevent foreclosure which might drive them out or reduce their tenure status. One influence of debt adjustment may be to maintain the *status quo* in the face of the forces that are making for desirable long-run changes in the agriculture of an entire area. This problem must always be faced when farm families are assisted in dealing with their debts, for burdensome debts may be merely a consequence of longer run pressure making for necessary economic adjustments. A weakness of the individual case approach to debt adjustment, which nevertheless has many other decided advantages, is the danger that too little attention may be given to area-wide considerations that are often responsible for the debt difficulties of an individual farmer.

The extent to which standardized procedures may be used in the debt-adjustment technique is a legitimate question but special circumstances explain why different farmers have widely different debt experiences. The severity of the depression of the 1930's and the degree of recovery varied by areas and by types of farming. Bad weather and changes in market demand made it difficult for even reasonably competent farmers to meet their obligations. Human misfortune and bad judgment must be recognized as contributing to a bad debt situation. The variety of causes for debt adjustment indicates that such a programme does not lend itself to a high degree of standardization either through legislation or administrative edict. Primary reliance apparently must be placed on the individual case method of approach—the method that has been followed.

The problem of administrative organization and procedure must always be faced. As debt adjustment involves the need of a third party to act as a mediator the use of local committees has several advantages one of which is to relieve the pressure upon the Federal Government to solve the problem that can be settled locally. Once an adjustment has been made according to the recommendations of a local group, the farmer whose debts have been adjusted is more likely to look to this same group for financial advice in the future. This provides a basis for a measure of continuing informal supervision by local people.

It is evident that a debt adjustment programme has limitations as a tool for implementing rehabilitation. It cannot be used to benefit a large number or a large proportion of low-income farmers. It cannot be carried too far without the danger of creating attitudes among debtors which would be destructive of real advantages of the credit system, all of which would make creditors insist upon some form of public subsidy to spread the cost. It is not a substitute for good farm organization, adequate resources, and good management. In some cases debt adjustment might merely postpone the time when foreclosure would be necessary. Debt adjustment, by its nature, is likely to emphasize alleviating an already bad debt situation rather than preventing the development of such a situation. It normally can be brought into operation only after the farm family's situation has deteriorated so much that rehabilitation is made more difficult. In the continuing rehabilitation programme, it should be regarded as a tool to be used when preventive measures either are not available or are not adequate to deal with depression conditions.

It appears that to reap the full benefit of a programme like this it must be carried on in co-operation with other measures that will assist in the rehabilitation of a farmer and his family. The guides for sound debt adjustment policy should be derived from those for the rehabilitation programme as a whole. Debt adjustment implements rehabilitation when it is used with discretion and within its limitations. The extent of its use will vary from place to place and from time to time.

Tenure Improvement

About two out of every three standard loan borrowers have been tenants and owners have often had inadequate units or too heavy a debt load, or both. These facts have forced the consideration of improving the tenure security of both tenants and owners as another means of achieving rehabilitation objectives.

The general social situation of the 1930's was favourable to efforts directed at improving farm tenure. The growing loss of land

ownership by operating farmers, the fact that tenants moved more from farm to farm than the owners did, and the comparatively disadvantaged situation of many tenants with respect to levels of living and social participation in their communities were revealed by census reports and special studies which were the background for the recommendations of the President's Committee on Farm Tenancy, early in 1937. Initiation of the Tenant Purchase (later called Farm Ownership) Programme was a symbol of national support for owner-operated family farms and security for operators.

Debt adjustment, together with the review of purchase contracts and mortgages, and the special real estate and farm and home improvement programme (later merged with tenant purchase activities as a farm enlargement and development programme) represented efforts by the rehabilitation agency to improve the tenure of standard borrowers who are owners. The land leasing associations and the improving of rental tenure through promotion of (1) the use of written leases, (2) longer-term leases, and (3) better lease provisions, were efforts to improve the tenure arrangements of borrowers who were tenants.

In terms of development within FSA, and the increased emphasis given at the beginning of the war, tenure improvement has been closely associated with the farm-debt adjustment programme.

Under FERA.—Tenure improvement was not a recognized part of the original rehabilitation programme begun in 1934 through the State corporations operating with funds granted by the Federal Emergency Relief Administration.

Even so, the early programme did grapple with the problem of insecure tenure and did accomplish a great deal in the way of helping clients maintain possession of their farms and in aiding other clients who were landless in finding farms on which they could be rehabilitated. The policies used by the State corporations of some of the Southern States in securing a hold on a piece of land for clients constituted an early awareness on part of farm relief officials of the basic need for tenure improvement.

Under the State corporations a larger number of destitute farmers were given help who were further down the tenure ladder than in later years. Many labourers and sharecroppers were selected for rehabilitation loans and grants by the corporations.

Under RA:—When the rehabilitation programme was transferred to the Resettlement Administration, it was continued without material change so far as tenure improvement was concerned. Tenure improvement was not made a conscious part of the programme under

the Resettlement Administration at least for the first year. Some labourers and sharecroppers were still selected for rehabilitation aid with the result that they obtained tenant status on farms. The improvement of tenure status for these clients, however, was only incidental to the main job as then conceived on furnishing credit, working out farm plans, and providing supervision in the execution of farm plans. None of the official policies or procedure statements carried anything in regard to the problem of tenure for rehabilitation clients. Unquestionably the tenure problem did come up with field workers and it is probable that in some areas positive steps were taken to aid clients in improving their tenure relationships. Although tenure improvement did not become a definite part of the rehabilitation programme until FSA took over, the experience which these prior agencies had in obtaining land for clients and in helping them to hang on to the land they had laid the basis for the more tangible endeavour undertaken in this respect under FSA. During these early years, the rehabilitation organisation was becoming aware that security of tenure was necessary for successful farm rehabilitation.

Under FSA.—Beginning about July 1, 1937, just before the establishment of FSA, plans were made for a Washington staff to devote full-time attention to problems of tenure among RR borrowers. Many RR officials, especially regional personnel, were convinced of the need for increasing the effectiveness of the work directed toward the improvement and tenure status of borrowers. The first official statement of this new staff appeared in Administration Order 130, dated December 18, 1937 dealing with the organization of the Washington RR Division. This order established a Tenure Improvement Section, which was delegated specific functions in carrying out tenure improvement for rehabilitation cases. One corollary organization was set up at the regional level. The Washington Tenure Improvement Section carried on its work through the regional farm management specialists who were technically responsible to the Washington Farm Plan and Loan Section of the RR Division. This Organization for tenure-improvement work continued until July 1, 1939.

On July 1, 1939 the Tenure Improvement Section was abolished and both the Washington and field activities with respect to tenure were carried out under the Farm and Loan Section. This section continued to direct the work until June 1941, at which time tenure improvement was attached to the Farm Debt Adjustment Section, and a new section called Farm Debt Adjustment and Tenure Improvement was organized. This consolidation was effected because tenure improvement was considered more closely allied to farm debt adjustment than to farm planning for several reasons: (1) Techniques for accomplishing tenure improvement are similar to those used in accom-

plishing debt adjustments—this was of administrative importance in training of personnel; (2) FSA personnel qualified to negotiate or arbitrate debt adjustments were also generally qualified to negotiate or arbitrate tenure adjustments; (3) in the matter of reporting accomplishments, certain accomplishments might be reported in either activity, for example, changing a 10 year real estate contract agreement to a 20 year agreement within the debtor's ability to repay would be a debt adjustment by "extension" as well as a definite improvement in the debtor's tenure; (4) a high percentage of cases needing debt adjustment assistance were those that also needed tenure-improvement assistance and vice-versa; (5) established farm debt adjustment committees that were experienced in negotiating differences between debtors and creditors could assume the added tenure-improvement duties without necessitating the appointment of another group of committeemen; (6) debt adjustments and tenure improvements complement each other. Where both are necessary neither will stand without the other. Another reason for the change was to provide personnel for tenure improvement who would have more time to devote to it. Farm-debt adjustment work was declining rapidly at this time as a result of improved income to farmers and the additional activities in tenure improvement could be absorbed.

More stress than ever was put on tenure improvement in 1941. Then the wartime emphasis on food production focussed attention on faulty landlord-tenant relations as an obstacle to achieving national production goals and gave added impetus to such measures.

The tenure improvement work was carried forward in an effective way until June 30, 1943. At that time, the general reduction of all FSA activities and the placing of special emphasis on war production loans under the RR programme resulted in the virtual abandonment of a staff organization that had been devoting full time attention to tenure improvement.

As implied, the same county committees that were responsible for the debt-adjustment programme were charged with aiding the tenure improvement work.

8. DEBT RELIEF SCHEMES*

The economic depression of the 'thirties with its fall in prices of agricultural commodities is a matter of history. Relief schemes to overcome the effects of the disparity between commitments and revenue then became the order of the day and they increased in intensity and scope as the realization grew that prices were not likely to return to the high levels to which they had risen before the depression. Credit now became as stringent as it had previously been liberal. Creditors who had over-reached themselves became hesitant about further advances and debt-burdened farmers began to experience difficulty in obtaining credit to finance their current operations. Out of this state of affairs grew schemes for granting advances to carry on. The fear of foreclosures produced moratoria which were later followed by schemes of debt adjustment and reconstruction. The methods adopted were so numerous and varied that it would be impracticable to discuss them all fully, but the Commission feels it desirable broadly to review the principles of some of them so that from a consideration of their advantages and disadvantages it may be possible to obtain some guidance.

Forbearance and Postponement of Obligations

This, of course, is a normal procedure with farm credit to meet circumstances where the debtor receives a temporary setback and is unable to meet commitments as they fall due. Its advantage lies in the fact that it assists the credit flexibility which is so necessary for farming. The important point, however, is that the person vested with the authority to grant forbearance must be sufficiently informed of the facts to be able properly to assess merit and prospect of recovery, having regard to the capacity of the debtor and his farm.

With the onset of the depression, this method of relieving the embarrassment of farmers became widely used. Postponement even went so far as the capitalization of arrears of principal and interest, thus giving the farmer a fresh start as far as repayment obligations were concerned. For a time the prevailing thought was that the depression was only a temporary slump and that prices would return to 1928 levels. It was far more pleasant for creditors to encourage themselves with this thought than to listen to the carefully considered opinions of men who were trained to interpret trends, and who warned against the assumption that recovery would take prices back to the

*Fourth Report of the Rural Reconstruction Commission: Financial and Economic Reconstruction of Farms (1944)—Commonwealth of Australia.

high levels reached in pre-depression days. Trained observers, when estimating long-term prospects avoid placing any reliance on the extremes of a series of data whether they be peaks or troughs. They are guided by long-range averages. The Governments themselves were, through their various departments, very large creditors of farmers. They had burnt their fingers by financing settlement on inflated indications; their departments were as reluctant as other creditors to face the facts and they indulged in a policy of wholesale forbearance, apparently on the assumption that boom conditions would return and be maintained.

Our conclusions from the study of the practice of forbearance and postponement in respect of farmers' obligations, particularly by government departments and institutions, are that it has frequently been badly abused by its extension to cases where merit and necessity were lacking or to other cases where a consideration of the facts would have indicated that the ability to recover did not exist owing to an unsatisfactory long-term revenue outlook.

The most damaging features of the abuses were that unfit and uneconomic cases were sheltered, the application of desirable remedies to deserving cases was frustrated, while the morale of those who would have tried hard to meet their obligations was sapped by their knowledge that very undeserving cases were getting more consideration than their own. The Commission's recommendations made in its Third Report as to the future policy in respect of finance for settlement promotion would, in its opinion, greatly assist in avoiding these abuses; but in addition the Commission recommends that, in general, government policy relating to forbearance in respect of obligations should in future conform to the following principles:—

- (a) Both merit and necessity must be demonstrated by the farmer.
- (b) Forbearance should only be granted where it is clear that the farmer would have a reasonable prospect of carrying on successfully, and eventually meeting his obligations if granted the forbearance.
- (c) Where this is not clear or where unduly prolonged forbearance is sought, the farmer should be required to submit his affairs for detailed investigation and consideration by a reconstruction authority.
- (d) There should be a regular independent examination of cases which are in arrears so that a check is kept on the extent to which a policy of forbearance is being followed. This examination should be made on behalf of, but not necessarily by, the Treasury.

Short Term Credit for Necessitous Farmers

The use of public funds for this type of relief commenced with attempts to meet circumstances of emergency caused by calamities

such as widespread drought. The following quotation from the evidence of the Victorian Treasury illustrated the objective which inspired Governments to go in for this type of credit as a relief measure:—

“These advances were made to farmers who, because they had suffered from drought conditions, did not have the necessary funds or any security on which they could obtain assistance from financial institutions, and advances were made by the Department so that they could continue farming.”

Its use gradually spread, and in New South Wales and Western Australia in particular, what were virtually specialized sources for assisting necessitous farmers by short term credit for seasonal requirements were established, and these were not necessarily restricted to cases where the difficulties were the result of some calamity.

Evidence has shown that except when they are fortunate enough to strike a rising trend of prices, very few farmers whose position is so bad that they do “not have the necessary funds or any security on which they could obtain assistance from financial institutions” can get out of their difficulties by increasing their commitments. If, on the other hand, the intention is merely a short-term one, to meet the evil of the day, we suggest it is unwise except where it is a necessary prelude to, or part of, a general adjustment. Too frequently it only staves off the day when the fundamental faults must be dealt with, and, further, it involves the Government in heavy losses without the satisfaction of having achieved a lasting result. We are of the opinion that this type of relief for necessitous farmers has been subject to similar abuses to those referred to earlier in connexion with forbearance and postponement.

As suggested by the definition, “necessity” was indicated by the absence of credit worthiness in the eyes of financial institutions. Such a position can arise, even if the farmer’s personal equation is satisfactory—

(a) if financial institutions adopt an extremely harsh policy in a period of crisis and restrict credit at an unreasonably low level in relation to the assets and long-term revenue outlook. This may be due to timidity on the part of the institution itself or to a failure of those in charge of National Credit policy to support the financial institutions which deal with advances to farmers; or

(b) if the farmer’s finances drift into a position where his debts are beyond the reasonable limit at which he can maintain efficient production.

The first type of difficulty can be overcome by developing a nationally supported institution for agricultural credit backed by sound

agricultural advice. Such an institution would provide reasonable credit facilities for all the capital requirements of individual farmers whose long term prospects are satisfactory. It would also give the lead to commercial institutions affording agricultural credit and would act as a buffer against unnecessary restrictions in difficult times. Its competition with established financial organizations, however, should be fair and not made unreasonable by the use of government advantages in obtaining money to give special concessions in terms to borrowers. Any social advantages which a government institution may have can be well used to dispense relief where relief is necessary.

The second type of necessitous case referred to above is one on which short-term relief credit is usually wasted; its real requirement is a fundamental adjustment aimed at raising productivity and reducing relative commitments instead of increasing them.

One further point is worth mentioning. Governments have gradually made short-term credit particularly attractive, especially in respect of interest rates. So attractive has it become that there is a growing inclination amongst some farmers who are not really necessitous to attempt to take advantage of it, whenever it is available, as a source of cheap credit. The Commission recommends that whereas the advantages of short-term credit from public funds as a means of relieving necessitous farmers can be few and the abuses many, future government policy should be—

- (a) to retire gradually from the use of public moneys for this form of activity, and
- (b) to concentrate in lieu on the maintenance with sufficient financial resources of:—
 - (1) a national agricultural credit service for normal agricultural credit; and,
 - (2) general adjustment machinery to deal with necessitous cases which are shown to be outside the scope of the general credit service.

Moratoria

The history of the uses of moratoria after 1929 and of the struggle which followed is most informative as to the course of events when normal financial relations are upset. Moratoria of two types were available to the farming industries in the depression years and subsequently: general moratoria applying to most sections of the community, and specialised moratoria applying to farmers. They differed in provisions in different States and not all the States adopted a

specialised moratorium. The general moratoria were introduced first and operated as a legislative stay on action for recovery of certain secured debts, except under certain conditions. It was soon apparent that the effectiveness of a general moratorium as a means of assisting the necessitous farmer was strictly limited. It was of little use to a farmer to have protection which prevented the means of production being taken from him for the satisfaction of accrued debt if he could not earn enough on the farm to maintain the assets and to buy necessities of living. One of the lessons learnt was that, although a general moratorium which merely stays proceedings to recover debt against the security may be all right for the home buyer whose livelihood is not dependent upon the use of the home for business purposes, some more comprehensive measure is needed where the security forms a substantial part of the assets used in the production of income. Such a measure must overcome the inevitable freezing of credit and must also avoid abuses in the distribution of income by regulating the rights of the farmers and the creditors 'inter se' to share in the distribution.

Intermediate and short-term creditors, who had control of stock or products by legal securities taken thereover, obtained distinct advantages, for a time, over land mortgages. Under some provisions, interest had to be in arrears two years before there was a right to sue. In these circumstances, stock firms were particularly well placed as they had what amounted to an opportunity to get rent-free use of land for a period for the running of stock mortgaged to them; during such a period they obtained almost a monopoly on the income from the stock to their great advantage in reducing accrued debt. Under these circumstances, land mortgagees, for their own protection, then proceeded to get collateral securities over stock and products wherever they could do so. Whoever got control of the income usually had the greatest advantage. The remarkable thing was that creditors individually were prepared to admit that, subject to the farmer being deserving, their best interests were served by avoiding liquidation and maintaining the productive capacity of the farm even if it meant for the time being taking less than their dues. In many instances those who had control of income were not prepared to make sufficient provision out of the income to maintain the essential assets. The result was that the farmer who expected to find the moratorium giving him the advantage of being able to carry on until better times returned, began to see a gradual whittling away of his means of production.

Some attempts were then made to view the protection of farmers in a different light, and legislative attempts at providing for specialised moratoria began to appear. Probably the most comprehensive of these was that contained in the Farmer's Relief Act of New South Wales, 1933. The legislation provided for:—

- (a) individual application and consideration.
- (b) a general stay of proceeding applying to all creditors of the farmers.
- (c) finance from the State to enable the farmer's business to be kept in operation and also, where necessary, to build up depleted equipment and stock that full production could be maintained.
- (d) the control of the assets and of the receipt and distribution of income;
- (e) the regulation of the rights of the farmer and of the creditors to share in the distribution of income; and
- (f) the power to refuse protection to the unfit and uneconomic.

Figures have been supplied to us by the New South Wales Rural reconstruction Board showing financial results in respect of government funds advanced to assist necessitous farmers who were brought under this specialized moratorium. From 1933 to 1943, £3,432,912 was advanced, of which £224,187 was written off as irrecoverable and £133,662 was still outstanding. The question immediately arises as to why, seeing that a general stay of proceedings operated against creditors, and that the Government through the scheme had control of income, substantial losses should still have been made on advances. The reasons were, first, that the advances were put on a short-term basis and, secondly, in the early stages of the Act, many unfit and uneconomic cases were taken under the Act and the process of their elimination was extended over a period. Wherever advances are on a short-term basis—and in this case the period was an annual season—they must, to the extent that income sufficient to repay them is not earned over the term, fall back on the general assets; in most cases, however, the general assets were already charged for repayment of debts owing to creditors, and therefore the Administration was left with little recourse for recovery of advances not repaid from the season's income. Such a disadvantage is inevitable in making short-term advances whenever the general assets are already overloaded with debt.

The Act, like others of its kind, had some advantages, of which not the least was its indirect benefit. In a time of great difficulty it operated as a buffer against wholesale repossession and wholesale restriction of credit, not only for those who took advantage of it, but for many more who were able to use it as a basis of bargaining with creditors. It thereby assisted in keeping up production and avoiding

a national disaster. It also succeeded in bringing about a gradual elimination of the unfit farmers and the uneconomic farms. A suggestion was made to the Commission that there is little danger of wholesale repossessions and wholesale restriction of credit in a time of crisis as creditors are alive to the danger of such courses and, for their own protection, tend to keep industry going. The Commission agrees that the main body of creditor institutions is alive to the necessity of avoiding precipitate action in respect of farm debts in a time of crisis, but it points out for future guidance under such circumstances that even where that general spirit prevails it only needs one or two creditors to move and all the rest are compelled to take steps to protect themselves. In such circumstances a moratorium becomes necessary to guard against the actions of the few rather than against the spirit of the majority.

The expressed purpose of the Act was to give embarrassed farmers breathing space during which they might, with the assistance of government advances, carry on their businesses and gradually make a recovery. In general, the Act achieved its purposes in respect of those farmers who came under its provisions, with the exception of the particular purpose expressed in the last four words. The reason for this failure was that those who came under its provisions could not effect a recovery by simply obtaining an extension of time to meet their obligations; unfortunately, their long-term outlook being insecure, they needed fundamental adjustments in order to deal with their lack of long-term financial stability. The Act did, however, by the indirect persuasion resulting therefrom, enable many farmers whose long-term prospects were good to obtain reasonable treatment from their creditors without the necessity of having recourse to the Act. The experience of South Australia and Western Australia with regard to the effect of their specialized moratoria were the same as those of New South Wales.

The Commission's conclusions with regard to the operations of various moratoria for the protection of embarrassed farmers are—

(a) General moratoria which merely stayed proceedings by creditors were open to abuse as they protected good, bad and indifferent alike without any investigation of the merit and necessity of the individual case; further, they made no provision to regulate the dealings of the debtor who enjoyed their privileges, or for equitable treatment as between creditors or for ensuring that the farmers' businesses would be kept in a sufficient state of production to justify the protection.

(b) Specialized moratoria were far more equitable and had considerable indirect advantages in avoiding any unjust precipitate action by encouraging the continuance of credit, and by regulating the pace

at which necessary eliminations of the unfit and the uneconomic could proceed. Direct benefits for those who actually came under them were, except for the time gained, almost negligible in the absence of provisions for assistance to make fundamental adjustments which would restore long-term financial stability.

(c) In individual cases, hardships were inflicted on creditors by prolonging specialized moratorium protection whilst Governments sought a way out. In this regard it seems as if administrations showed a tendency to compromise to some extent with normal ideas of justice so as to avoid embarrassment to Governments.

A consideration of the difficulties created by moratoria leads one to remember the old Chinese proverb: "He who rides on the back of the tiger can never get off." With this in mind the Commission recommends as a basis for future policy:—

(a) That there should be recognition of the fact that the greatest value of a moratorium lies in its indirect effects, but only if it insists on individual application and on an unbiased consideration of merit and necessity and, in return for the privileges granted, imposes reasonable obligations on those who bestow the privileges (the Governments) and those who benefit by them (the debtors).

(b) That there should be recognition of the fact that, where direct use is made of a moratorium, the process is, except in a few instances, only a first step to providing a means to an end, and not an end in itself.

(c) That efforts should be directed towards establishing a form of procedure which in any given circumstances will provide an end in itself. This will succeed in putting the direct use of moratorium in its proper place as a first step towards an end. The extent of its direct use will then be conditioned by the numbers to be dealt with in relation to the facilities available, and the time necessary to put the corrective form of treatment into operation.

Debt Adjustments

The growing realization that extensions of time by moratoria or other means would not permit all necessitous farmers to overcome their difficulties forced attention to the consideration of ways and means of removing the disabilities. At the end of 1934 the Commonwealth Government called the States into conference and, as a result of some days' deliberations, it was decided that as excess debt was preventing a great number of farmers from carrying on successfully, a plan to be financed by the Commonwealth should be implemented.

Under the plan farmers would be advanced money to enable them to effect composition arrangements with their creditors. That plan was embodied in the decisions of the conference and as it will be discussed later, both in relation to its original conception and subsequent implementation, the Commission deems it advisable to set it out in full. The plan was as follows:—

“ (1) The Commonwealth Government to agree—

(a) To provide funds up to £12,000,000 over a period of years to the States free of interest to permit the States making payments on behalf of, or advances to, farmers for the purpose of enabling them to make payments to their creditors in satisfaction of their liabilities on a composition basis.

(b) That such funds shall not be repaid to the Commonwealth by the States, but may on repayment by the farmers be re-advanced by the States for further composition adjustments, or by agreement with the Commonwealth for such other purposes as the States consider necessary to assist farmers generally.

(c) That the Commonwealth make available a first instalment of £1,500,000 upto the 30th June, 1935.

The amount of £1,500,000 estimated to be required up to 30th June, 1935, will be allocated to the States on the following basis:—

New South Wales	..	..	..	..	£ 400,000
Victoria	..	..	..	..	£ 375,000
Queensland	..	..	..	..	£ 185,000
South Australia	..	..	..	..	£ 225,000
Western Australia	..	..	..	..	£ 225,000
Tasmania	..	..	..	..	£ 90,000

The method adopted for allocation of funds available to 30th June, 1935, should not be regarded as a precedent for future allocation. Sums made available to each State to 30th June, 1935, are to be regarded as advances on account only, and are to be taken into account for adjustment when a final allocation of the total amount made available by the Commonwealth is decided upon.

The State and Commonwealth Statisticians are to be asked to recommend a final basis for allocation of the full amount made available having regard to the rural debt situation in each State.

If any one State should not require the whole of the amount allocated to it for the period to 30th June, 1935, any excess so available may be allocated to another State, should the need arise.

(d) That, owing to the different circumstances existing in each State, each State be allowed to devise its own scheme for distribution and administration of the fund, and that the details of the scheme and legislation to give effect to such scheme be submitted to the Commonwealth Government for approval.

(e) To provide legislative protection against proceedings under the federal bankruptcy law for any composition or scheme or arrangement effected under State legislation approved by the Commonwealth.

(f) To provide that the Commonwealth Treasurer shall open a special deposits account, styled "Federal Rural Rehabilitation Account", into which shall be deposited all moneys made available by the Commonwealth Government for the purpose.

(g) To provide that each State Treasurer shall open a special deposits account, styled "Federal Aid Rehabilitation Advances Account", into which the Commonwealth Treasurer may deposit advances from time to time to be operated upon by the State authorities for the purpose of meeting the immediate requirements in respect of advances to farmers, and that such advance account may be recouped from time to time on furnishing by the State authority of a certified statement of all advances made from the account.

2. Each State to agree—

(a) To provide legislative machinery whereby a farmer may effect a composition with his creditors in satisfaction of the whole or part of his debts, and that the State may advance him money on terms approved by the appropriate State authority or pay money on his behalf to enable him to make the payments to the creditors provided for under the composition, such legislation to include provision for a stay of proceedings where necessary pending preliminary investigation and negotiation.

(b) To constitute an authority to administer such legislation and to provide funds for the purpose of meeting administrative expenses and short-term advances to farmers for sustenance and carrying on requirements during the operation of a stay of proceedings.

(c) To empower the authority to act on behalf of the Crown and to agree on behalf of the Crown under conditions set out in the State legislation to any writing down or postponement of any debts due to the Crown and to agree on behalf of the Crown to the postponement of the Crown's right to priority for any debt due to the Crown.

(d) That advances will only be made available to farmers where, as the result of the composition, they will have a reasonable prospect of ultimately rehabilitating their financial position.

(e) That advances and/or payments will only be made available to effect composition payments in respect of liabilities which it is necessary to compound to ensure the farmer remaining in production and give him a reasonable prospect of carrying on successfully.

(f) That no payment under a composition scheme shall be made in respect of any debts due to the State.

(g) That three trustees of the fund be appointed to each State, one of them to be nominated by the Governor-General in Council.

A study of the provisions of this plan reveals some definite weaknesses. It repeats the old error of tackling only part of the reconstruction problem. Earlier in this report it has been pointed out that reconstruction involves dealing not only with the debt position to restore adequate financial solvency, but also with the production prospects of the farmer's business so as to assure its revenue stability. Debt insolvency is frequently accompanied by further difficulty in the depletion of the assets essential for the maintenance of efficient production. The restoration of solvency is useless without a restoration of productive capacity, so that on a strict interpretation of the plan all those farmers who were not in a position to maintain efficient production were excluded from rehabilitation. The States had to find a way to overcome this difficulty. There were three possible ways: one was to provide a supplementary State fund (which could be used concurrently with the debt adjustment fund), for the purpose of assisting in the restoration or building up of productive capacity. Another was to trust to the farmer being able to arrange credit after his debts had been adjusted; the third was to compound more of the debts with the Commonwealth fund than would otherwise have been necessary, so as to permit the farmer to improve the equipment of his farm. New South Wales, South Australia and Tasmania made provision for the use of supplementary State Funds for this purpose; the other States did not.

No provision was made in the plan for the Commonwealth to supervise the use of money it advanced. The obvious intention was that the fund should become a permanent revolving fund, which could be used over again by the process of advance, repayment, advance, &c., subject only to such inevitable losses as were natural to such a scheme. Such an intention was consistent with a proper view of debt composition. That is to say, if the composition were appropriate both as to the amount paid to creditors and the assessment of the farmer's capacity to carry on successfully as a result thereof, the farmer would repay the advance. Yet two States, South Australia and Tasmania, made specific assignments out of the fund which were not repayable. Up to 30th September, 1943, South Australia's grants, as distinct from

loans, amounted to £660,083 out of a total of £1,214,373 used; to the same date, Tasmania's grants amounted to £99,400 out of a total of £261,638 used.

The plan made no provision to ensure that the funds would not be used to bolster up farms which were economically deficient mainly because they were too small. Clause 2(e) of the plan may have been intended to be restrictive, but in the absence of a specific limit, it was possible to compound all the debt with the interest-free money, thereby giving the farmer on an uneconomic farm a reasonable prospect of carrying on successfully.

The granting of money to the States was a distinct weakness. The sense of responsibility tends to be less when gift money is being disbursed than in the case of money which has to be repaid. The plan did not go far enough in laying down basic principles to be applied in carrying out the intentions. It was left to each State to devise its own scheme because of what were stated to be "different circumstances existing in each State." It is difficult to see how the circumstances of the debt problem could differ in each State perhaps except in degree of intensity. The problem was a common one which justified a common approach under the best conceived methods. The subsequent legislation of the States indicates the existence of the wide variations in the methods adopted. The Conference might have done better if it had met again and discussed the various ideas with a view to the general adoption of the most advantageous principles.

The success of the scheme cannot be measured either by the number of cases dealt with, or by the amount of money advanced or by the amount of debt compounded. The only real indicators are the proportion of the number dealt with who prove to be successfully rehabilitated and the proportion of the amount expended which is ultimately recovered for further use.

General Conclusions on Debt Adjustment Schemes

The Commission's general conclusions with regard to the debt adjustment schemes as a whole are—

(a) That measured by the proportion of the number of farmers adjusted who will prove to have been successfully rehabilitated, and by the proportion of public funds used which will be lost, the schemes cannot be regarded as having achieved a sufficient satisfactory measure of success, although the degree of that success will be greater in some States than in others.

(b) That a much greater measure of success might have been achieved if—

(1) more attention had been paid to the establishment of principles in the original plan;

(2) the Commonwealth had taken a more active part in scrutinizing the State's legislation to ensure that the principles agreed to were incorporated in their schemes and that there was general uniformity in approach;

(3) the Commonwealth had actively policed the various administrations to ensure that funds were being applied in accordance with the principles, and in such a way as reasonably to ensure the rehabilitation of those assisted and the ultimate recovery of the funds for further use; and

(4) a commonwealth liaison officer had been available to assist and advise the States' Administrations and to endeavour to promote the adoption in all States of the best points of the various schemes.

(c) that it was a mistake to provide a Debt Adjustment Scheme apart from other general requirements for settlement reconstruction, and that, in future, any such scheme should be part of a general reconstruction measure which requires, and provides for, reorganisation of farms on a basis of their productive capacity, and also for the reconstruction or elimination of uneconomic farms as a condition precedent to the granting of finance for debt adjustment;

(d) that all States did not display the same degree of discrimination in the application of funds and, in some instances, the following unsatisfactory features were evident:

(1) partial adjustments were made which, in themselves, were insufficient and only resulted in dissipating the funds and benefiting creditors;

(2) adjustments were made in debts without sufficient assurances that the farmers were in a position to carry on successfully following adjustment; and

(3) disabilities which should have been met by farm reconstruction were got over by a greater use of debt adjustment funds than was warranted.

(e) That in some instances there was too great an inclination to condition treatment in each case according to the amount of money available in relation to the number of cases to be dealt with, and not in relation to the essential requirements of each case. In effect, it

was a choice between partly treating the whole number or fully treating a part of the number;

(f) That too great or too long a reliance on voluntary adjustments hampered the obtaining of satisfactory results, caused vexatious delays and resulted in unfair discrimination against some farmers and against some creditors in favour of others.

(g) That insufficient attention was paid to the reduction of mortgage debts on land itself in relation to other kinds of indebtedness;

(h) That in some instances there was no attempt to impose restrictions on subsequent transactions to avoid profits being made from the transfer of concessions.

General Comments on Relief and Adjustment Schemes

The brief review the Commission has given in this chapter of some of the relief and adjustment schemes warrants some general observations—

(a) As already mentioned, mistakes in settlement due to unsatisfactory assessments of climate, soils and market prospects have involved the nation in tremendous capital losses.

(b) Usually no constructive attack on the settlement problems thus created took place until the accumulating difficulties had become large enough to raise a major issue.

(c) The nation would gain considerably if a constant watch were maintained on the welfare of settlers and if individual problems were dealt with as they arose.

(d) The absence of a comprehensive reconstruction policy and the delays referred to caused additional large losses of money to the States.

(e) Many of the relief schemes were piecemeal attacks on the problems and the movement to a co-ordinated whole has been extremely slow and hardly yet fully accomplished.

(f) Financial relations with settlers have, in the past, seldom been supported by an efficient agricultural advisory service, nor have such relations always been maintained in sufficiently close contact with the settlers and their problems.

(g) In all relief schemes strong emphasis has been placed on debt reduction and insufficient stress on farm reconstruction and on the promotion of more efficient agricultural practices.

9. THE AGRICULTURAL LAND MARKET AND ITS CONTROL*

G. Costanzo

Government intervention in the field of production, with a view to protecting the revenue of the agricultural population, has generally been made to bear upon one of the following points: the price, the supply and the demand of agricultural products. As regards the first of these points, the usual procedure adopted has been that of fixing, as the case might be, the maximum or minimum prices of products. Under the strictest forms of control, "fixed prices" have been established, namely prices from which no deviation was permitted; in the less strict forms of control, on the other hand, "normal prices" have been adopted, the price in this case being allowed to fluctuate between fixed limits, thus adjusting itself to a certain extent to market conditions. In some cases, moreover, when it appeared impossible to fix prices, direct action has been taken bearing on the cost of production by reducing the fixed burdens of the farm, by granting special subsidies or else, by decreasing the price of the means of production. This control of prices, however, directed among other things towards improving the economic situation of farmers in relation to that of the other producing classes, can not be completely successful unless it is extended also to the constituent elements of the real property of the farm and first to all to the land.

The necessity for controlling the land market has also a practical aspect since it is often influenced by speculation, while at the same time the price of land affects the production costs of a farm over a long series of years. Anyone who knows the average value of land in his own country and is also aware of the actual revenues obtainable from agriculture, will have no difficulty in admitting that when the price of land exceeds a given limit, every prospect of obtaining a remunerative revenue disappears completely or becomes at least problematical, even with the most profitable crops and the prices of the products are above normal. In other words, if too high a price is paid for the land the farmers' return on the capital invested is more or less seriously reduced. In these cases the investment clearly becomes economically unsound.

Nor should it be forgotten that one of the outstanding facts in the modern evolution of agriculture consists in a large number of countries.

* International Review of Agriculture, May 1941.

in the gradual rise of the peasants to ownership of the land; this rise has received ample support from the Governments, as proved by the numerous measures adopted to facilitate the creation and consolidation of small holdings. Now, an essential condition for the encouragement of this tendency towards the improvement of the peasant's social position is the keeping of land prices on a reasonable level, while under such conditions they are frequently made economically prohibitive by competition between would-be purchasers and by speculation.

Forms of Government Action for the Control of Land Market

In the following pages we will give a brief outline of the direct or indirect forms of control of the land market already existing in some countries.

Germany

The control of the land market was introduced in Germany by the decree dated January 26, 1937, concerning trade in farm and forest land. The starting point of this measure is to be found in the changed concept of *grund und boden* in its relation to the national community. In the light of this concept, every form of enjoyment of the land is subordinate to general interest. The right of the owner to the use of his property, as well as his right to its disposal, is dominated by his duties towards the national community of which he forms a part. The result is that the transfer of a piece of land is no longer considered as a simple transfer of property from the seller to the purchaser but rather as an act which interests the community and with regard to which the State and rural classes may advance certain claims, so that the change of ownership may not adversely affect the established order in agriculture. Any such transfer must rather contribute towards the consolidation of the order.

The decree referred to above consequently submits to State authorization every contract contemplating the purchase, usufruct, donation or exchange of land in the case of farm or forest land with an area exceeding 2 hectares. The competent authority decides in this respect on the basis of the opinion expressed by the head of the peasants' organization in the circumscription. The initial price offer made in case of the sale by auction of a property must also be authorized. Authorization may also be made subject to certain conditions. In some cases such authorization is not required, as for instance, in the case of a legal act coming within the scope of interest colonization, or of the establishment of small gardens or dwellings by a public institution or by the public utility concern.

Authorization may be refused only in the case when the legal act in question runs counter to some important public interest; this might occur especially:

(1) if the execution of the act were to compromise the regular exploitation of the property to the detriment of national food supplies;

(2) if a farming property were to be transferred into the hands of a person whose chief occupation was other than farming.

(3) if the act were to involve an anti-economic parcelling of the land in question, or if it were to lead to such parcelling.

(4) if the execution of the act were to constitute a threat to the economic independence of a farm as the result of its incorporation with another farm;

(5) if the price were considerably out of proportion to the value of property in question.

Moreover, the sale or the removal of live or dead stock, may also be prohibited if this might compromise the regular operation of the holding to the detriment of national food supplies.

Fines and imprisonment for terms up to one year are contemplated in the case of those who fail to comply with the provisions of the decree.

In substance, the control of trade in land is described above has for the State three essential objectives, all closely interrelated: in the first place, given the character of public interest now attached to agriculture, it is desired to prevent holdings from passing by various legal transactions into the hands of speculators or of non-farmers. It has been remarked with justice that the principle of supply and demand in purchase and sale is replaced by the idea that the land must not come into the hands of the highest bidder, but into those of the person capable of increasing the yield; in other words, in the first place into the hands of the peasant, who possess the well-known juridical characteristics offering a guarantee that results useful to the nation will be attained in full.

Another objective aimed at by this measure is that of ensuring the national food supply, by means of the efficient exploitation of the property, by prohibiting its anti-economic parcelling and also by prohibition of its incorporation with another estate, should this involve the loss of its economic independence.

Lastly, the third basic objective in view is that of controlling the prices of holdings. Given the agricultural policy adopted by the State, intended to guarantee the nation's food requirements and to protect the peasant class, it was no longer logically possible to leave

the land market free, it was no longer admissible that the price might be influenced by artificial causes. The new system of prices has gradually been moulded on the basis of these criteria. The disproportion between value and price forms the motive, as we have seen, of the refusal to authorise the sale of a holding when said disproportion is considerable.

In order to put the four year plan concerning the formation of prices into execution, the Government of the Reich has created a "Reich's Commissioner for the formation of prices," giving him special powers under the law of October 29, 1936. The prices of farm properties have also been protected against speculative rises. The Commissioner has therefore been called upon to intervene to a great extent in this very delicate field. But he does not confine his work merely to fixing maximum prices for given properties and services and to controlling them; he has also the task of determining whether the price proposed for the purchase of a property is economically and socially justified or whether it is dictated by personal and selfish considerations. In this case, as the Trustee for the execution of the four year plan has said, "steps will be taken regardless of persons." The price justifiable from the economic and social standpoint is the one which is not formed exclusively according to the criteria of private economy. In other words, there is a tendency to free prices from the influence of the general business trend and to give to land transfers a direction corresponding to the objects of the State's agricultural policy. The concept of the owner's absolute liberty to use and exploit the land at his own pleasure has done away with in the practice of positive German law.

In line with the task assigned to the Commissioner of the Reich for the formation of prices, the decisions taken by him are given particular force. They compromise: (1) the possibility of subjecting to revision all juridical procedure in connection with the formation of prices and taking all the necessary steps for their effective control; (2) the exclusive competence of the Commissioner in the juridical sphere of price formation, with the highly important consequence from the practical point of view that the decrees issued on the basis of the law of October 29, 1936 are binding on the courts and administrative authorities, i.e. that they are not subject to either revision or alteration.

Switzerland

The decree issued by the Swiss Federal Council on January 19, 1940, is inspired by the same principles. This decree contains provisions directed against speculation in land and against over-indebtedness, as well as for the protection of farmers. After declaring that the validity of any contract involving the transfer of ownership of real

property is subject to rectification by the competent authority, the decree contemplates three groups of cases, i.e. those in which the ratification may be refused and those in which it may be granted.

The first group comprises the cases in which: (1) the sale price agreed upon for real property exceeds the return established for an economic period of a certain length, increased if necessary by a maximum of 30 per cent; this price is determined after due account has been taken, as the case may be, of accessory services, such as housing accommodation, supply of products and others; (2) the transfer adversely affects the country's food supply; (3) the price indicated in the deed of transfer is below that really paid.

The second group is represented by the case in which there is reason to fear that the operation constitutes a transfer of property economically injurious, especially when: (1) the purchase leads to the parcelling of the land or to the merging of independent farms; (2) the alienation of allotments or of parts of the property would compromise the vitality of the farm by reducing it to the parcels remaining after the transfer; (3) the purchaser is not a farmer and the purchase does not serve to maintain and consolidate the existence of a peasant family.

The third group includes the two following cases: (1) when the person alienating the property has acquired it by forced sale and sells it at a sum not exceeding the purchase price; (2) if the transfer takes place because the owner has contracted a disease which renders him obviously incapable of carrying on the operation of the farm.

In connection with the problem which is being studied in this article, mention may also be made, because of their practical interest of the restrictions embodied in the same decree concerning the exercise of the profession of real estate agents. Only persons licensed by the authority appointed by the canton may exercise the activity of paid agent for the negotiation of contracts involving the transfer of real estate. The granting of this concession is subordinated in each case to the condition that the applicant has a good reputation and supplies a suitable surety. The concession must be refused if certain facts lead to the presumption that the activities of the applicant might result in harm to country's economic interests. The cantonal governments may even establish a form of contract for dealings in real estate, compulsory to both parties.

The Netherlands

In this country the General Secretaries of the three Departments of Agriculture and fisheries, finance and justice, promulgated a decree

of November 27, 1940, according to which it will be necessary, in each case of alienation of farm land, to produce a declaration from the competent Bureau of Leases attesting that there is no objection to the price asked, to the conditions of the sale and to the person of the purchaser, and also that the general or particular agricultural interests are in no way prejudiced. The price may not exceed that obtained in 1939 for similar land in the same district. The said Bureaux must also see that the sale price is not considerably higher than the return value; in other words, that it is not much in excess of the capital value of a reasonable rental. Transfer must be refused if the purchaser is not in a position to give adequate guarantees that he will manage the farm himself and without intermediaries and also that he possesses the necessary technical, financial, and moral and other qualifications for its management. Lastly, the transfer of allotments and parts of farms may only take place if this does not lead to an uneconomic breaking up of an existing farm. In the case of public sales, the Bureau of Leases will fix the maximum sale price in advance; this must automatically restrict the number of sales in which prices were driven to excessively high figures.

Italy

The three instances cited above represent forms of direct State intervention on the land market. An instance of indirect intervention is furnished by Italy where, in order to prevent speculation in land, a special measure has been promulgated (decree-law No. 743, 14 June, 1940, converted, with amendments, into Law 1511 on October 21, 1940). This measure is justified by the need to check the growing tendency towards the investment of capital in the purchase of real estate, whose price, due to increased demand, was showing an excessive increase which disturbed the normal course of business. This tendency, which was increasingly accompanied by speculation, constituted, among other things, an incentive to inflation. In order to eliminate or check this movement, the registration tax on deeds of transfer of real estate against compensation between living persons was altered as follows: the amount of the tax itself was maintained unaltered at 6 percent of the value of the real estate transferred as of January 1st, 1939, at which time the tendency described above had scarcely become manifest; on the other hand, a surtax of 60 per cent was added for the amount by which the value of the property had increased from the above date until the date of transfer, such increase being attributed for the most part to the abnormal causes described above. In the case of real estate transferred affected after the date when the measure came into force, two distinct appraisals of the value of the real estate concerned on the open market must be made, one referring to January 1st, 1939, and the other to the day of transfer. A special tax of 60 per cent was to be

paid on the difference between the two appraisals. Failing specific agreement to the contrary, this tax must be paid by the purchaser. In the interest of the regular course of transactions in real estate, in accordance with normal economic and social requirements, however, numerous mitigations of the strict application of the law have been admitted. Among these, exemption from the new tax is allowed for transfers for which the market value, at the time of the transaction, is below 50,000 liras, while exemption up to that figure is granted for transfers exceeding this figure as long as their duly ascertained value is not above 300,000 liras.

This exemption is obviously intended to encourage the creation of small holdings. Instructions have also been given to the fiscal authorities to ascertain whether the increased value may not be partially attributed to improvements made to the property after January 1st, 1939. In this case the value to be attributed to the improvements must be added to the value fixed for the real estate as of January 1st, 1939, only the remainder of the difference being attributed to extraordinary causes and subject to the payment of the 60 per cent. surtax.

Conclusion

From what has been said above it may be seen that in some countries both students of agrarian economy and statesmen are increasingly beginning to realise that trade in land is of outstanding social interest and, therefore, cannot be left entirely uncontrolled without grave risk to the community. Of course there is no question of interfering with the normal transfer of property which makes it possible for property to pass from those who are incapable of efficiently exploiting their land into the hands of those better qualified for the work. The idea is rather to prevent purely speculative transfers and to adopt a system permitting the elimination of the causes which lead to artificial changes in the price of land, bringing it back to its natural basis. Indeed, it is possible to distinguish three kinds of causes of the variation in the value of real estate: (1) variations in the purchasing power of money; (2) ordinary variations in the return on a property, which are capitalized and (3) variations of an extra-economic character, among which the most important are the wartime rush to invest savings in real estate even at an abnormally low rate of interest, speculation, etc. Now a system for the control of the land market should precisely tend towards the prevention of the last mentioned causes of variation in land values; the measures adopted in some countries show the general lines of the policy followed in this respect.

The need to set a limit, in the interest of the country, to absolute freedom of enjoyment and disposal of land was asserted recently too,

by L. C. Gray, Assistant Chief of the Bureau of Agricultural Economics in the United States who maintains unequivocally that the most serious form of speculation in land is due in the United States to unbounded liberty of disposal, thus allowing farms and farm land to be purchased, sold and mortgaged on the open market without any control whatsoever over such transactions. He adds that this freedom of transfer has been one of the most important factors which have involved for American agriculture the risk of fluctuation in the value of farm real estate, which in the United States represents some 5/6 of agricultural investment. To avoid a new wave of speculation in land such as the one which occurred during the world war, strict measures are needed to prevent credit from becoming once more the stimulus and the weapon of speculation in land; it is moreover suggested that heavy taxation should be imposed, for a certain period, on the profits accruing from re-sales, and that the stamp duty on legal deeds of transfer of real estate should be increased.

This definite stand in connection with the point of view taken in countries whose economic policies are based on principles so fundamentally different, shows how the time is now ripe for a study of the problem in the light of the new trends of agricultural policy, and perhaps even for its practical solution.

10. A REACTION TO LAND VALUE CONTROL PROPOSALS*

C. H. Hammar.

The superficial objectives of land value controls are to prevent an inflationary rise in values during the war or the control period with the auxiliary purpose of preventing a bitter aftermath of post-war foreclosures and bankruptcies. The real objective, however, must be to protect someone from someone else or some group from some other groups since rising or falling land values are hardly a major calamity as such.

The matter of who is being protected from whom, assuming a programme of land value controls to be effective, is, therefore, of major importance.

In the literature of land value controls there is often the implication that farmers are to be protected from other groups in the economy. However, controls can hardly work in so simple a manner. Farmers are sellers as well as buyers of land and sellers would hardly welcome having to accept lower prices because of controls. There are no available comprehensive data showing what individuals or groups hold the bulk of the titles to land. Probably the great bulk of titles are, however, in the hands of operating or retired farmers and among the farmers the older farmer is much the most likely to be the owner. Younger farmers are chiefly buyers and the older farmers sellers.

If farmers are the chief holders of land titles, controls that hold down land values are not going to protect them from other groups so the objective becomes one of protecting either other groups from farmers or protecting farmers from themselves or perhaps of protecting buyers from sellers. Since buyers are chiefly the younger men and sellers the older, the major objective precipitates rather thinly down to the protection of younger men from the older. At least this will be a major effect of the controls.

In brief then land value controls will not protect farmers from others. The gains and losses about offset one another if farmers are merely protected from one another, for what one farmer loses another gains. If there is to be any net gain it must be (aside from possible repercussions on the volume or cost of farm production) from the protection of the buyers from the sellers.

* Journal of Farm Economics, November, 1943.

Any gains from this source are certainly a dubious foundation for so ambitious a project as the control of land values. The protection provided would probably have its greatest effect in the period immediately after the cessation of hostilities when a great number of farmers' sons will be returning home from the war. It was in an analogous period after World War I, that is, in 1918, 1919 and 1920 that the great volume of land transfers took place and a similar post-war development is surely imminent.

If land values are held down by controls these returning soldiers and war workers will be able to buy their farms at prices more satisfactory to them. However, what buyers gain sellers lose and it is worthwhile to ask who the bulk of these sellers are likely to be. They will be, of course, the older farmers who are the great sellers of land. Many and perhaps the bulk of these older farmers will have farmed and perhaps have paid for their farms during one of the most trying periods in the economic history of American agriculture; that is, during the two decades from 1920 to 1940. The likelihood that the purchasers of the immediate post-war period will be subject to equally trying circumstances is remote. There is, therefore, the great probability that controls even in this case will work more injustice than justice.

Perhaps also it is worth noting that with these considerations of what the controls accomplish in mind, farmers themselves are probably going to be lukewarm in their support of controls. Politically the drive for controls is likely, therefore, to be very weak which in itself may be fatal to the hopes of control advocates.

Unwanted Effects of Controls

The control of land values can be accomplished if the country wishes, since the means of establishing control may fairly readily be made sufficiently powerful to achieve the result. The methods proposed have been of three major types including, as has been outlined by others, (1) credit control, involving farm mortgage debt ceilings; (2) heavy taxes (a) on capital gains from resale of farms and (b) on transfers of farms; and (3) land price ceilings and direct restriction of purchase privilege by means of a permit system.

If the analysis above has been correct the net gains from the establishment of controls will not be great in any event. The use of any one of the above methods of control will, however, have certain unavoidable subsidiary effects that are in a sense the costs of controls.

Credit controls with drastic debt ceilings cannot, for instance, be put into effect without some unwanted repercussions. The men which the nation perhaps most wishes to see take the first steps toward

farm ownership are the younger men in a fairly early stage of their operating careers. They have energy, enthusiasm and drive for heavy job of farm production that older men often lack. These younger farmers do not, however, have large savings as a rule and are often the ones who need to borrow a maximum if they are to purchase.

The tenant farmers of the 'thirties are the men who are now about ready to make their farm purchases. They farmed through a miserable decade during which their savings accumulations were meagre. They are going to need to borrow heavily if they purchase and, therefore are going to be irked by credit control and debt ceilings.

On the other hand, debt ceilings are going to be welcomed by wealthier urban people and wealthy farmers as well. To the extent that debt ceilings are effective, they will dampen the demand for land which will have the double effect of reducing the price of land and increasing the rates of return that buyers may anticipate on their investments. Lands will, in other words, be a particularly good buy for people who have large savings available for investment and who, therefore, will not be troubled by debt ceilings. The effect on the tenure pattern of these debt ceilings will be counted undesirable by those who favour owner operatorship.

The unwanted effects of heavy taxes on capital gains and on transfers are quite different in nature. To begin with, such taxes tend to put an end to transfers. If the sellers must pay all the tax they must in effect part with their property at a price so low that they can hardly hope to find alternative investments that will provide them as satisfactory a rate of return as they can get by refusing to sell. If buyers must shoulder all the tax they must in effect pay a price so high that the investment loses its attractiveness. If the tax is shared between them there is just a lesser reaction on each but the total effect is the same.

Now after the low level of voluntary and high level of distress transfers all during the 'twenties and 'thirties there should be much to be gained by a large rather than a sharply reduced volume of voluntary transfers. The effect of the troubled years of the 'thirties was unquestionably to lead many to delay purchases that would otherwise have been made. If owners are more conservative users of land than tenants, as has often been claimed, there is a gain to be had by seeing that the normal movement up the agricultural ladder is facilitated and not obstructed.

By the same token something would probably be gained by permitting a normal retirement of superannuated operators and their replacement by younger men. The 'thirties slowed the accumulation of

wealth on the part of farm owners and many of them must have delayed their retirement beyond a normal period. Effective controls will largely prevent their selling and there may be some loss involved. The loss of efficiency in this case will be small, however, because leases can so easily be substituted for sales.

More important will be the potential unevenness of the tax because of the uneven recovery of land values in the various parts of the country since 1933. The states centering around Kentucky have seen the greatest gains in values since 1933 while in the Great West North Central Geographic Division values have gained very much less. Yet during the last world war the value gains in these West North Central States were among the greatest in the country. There is the great possibility, therefore, that for a time values in these states will gain much more rapidly than elsewhere. If controls were established immediately, therefore, and a heavy capital gains tax levied, it would apply with great unevenness. This unevenness might easily turn into political dynamite in such states as Iowa, Missouri, Minnesota and particularly in the states from North Dakota to Kansas where the recovery in land values has been woefully weak so far.

One of the weakest aspects of the land value control proposals however, resides in the fact that so little can be expected from them in the mopping up of the excess purchasing power that is the real mischief maker. Effective controls are likely to stop transfers but not to stop the accumulation of investment funds potentially available in the land market. These funds can move in many directions to create about as much mischief as they would have created in the land market. They can go to farm sales and bid up the prices of livestock and farm equipment to fantastic heights. They can get into the stock market or the urban real estate market with equally disturbing effects. They can be deflected into overcrowded consumption channels and make the problem of rationing and price control more difficult. In this connection also, therefore, there is not much if any net gain in prospect from the establishment of land value controls.

Finally, there is the matter of the unwanted effects of the most drastic of all proposals made in connection with land values controls. This is the proposal to allow land to be transferred by permit only; the permits to be issued locally and under laws of the individual states. There has been some attempt to gain some prestige for this proposal by drawing an analogy between a system of transfer permits and the use of rural zoning as carried out in a number of states with some putative success. Just now permits correlate with zoning is left very vogue, however, and should not hide the possible vicious effects that such a drastic requirement for transfer privileges may involve.

Those advocating permits put it in its best light as giving local farmers a right to determine who shall buy land in their community. The proposal has, therefore, the appearance of establishing democracy in the determination of the land tenure pattern but actually it takes no penetration to see how easily such a device could and would be used to perpetuate existing ownership systems. In the south the programme would quickly be brought under the control of existing plantation owners and the ownership aspiration of poor whites and coloured neatly thwarted under the protection of the law. The permit system would be made to order device for those who would like to thwart the efforts of the Farm Security Administration, not only in the South but everywhere.

In general the permit system would act most often as an obstacle on the path to agricultural efficiency. Its tendency would be to put the system of ownership and, to an important degree, use into a straight jacket nearly everywhere and effort would immediately need to be instituted to burst the jacket. The nation, as I have tried to point out in an earlier study, thinks well of the ideal of owner operatorship of farms but not sufficiently well to sacrifice efficiency in agricultural production for the sake of that ideal. The land ownership pattern needs to be dynamic and a system of permits would by no means increase its flexibility.

Despite the fact that the prospect of land value inflation has been overworked by those advocating controls there is nothing to be gained by denying its definite possibility. The farming community that supplies most of the funds to the land market is on the receiving end of a balance of trade as favourable as it was in the 1914 to 1920 period. Farms incomes have improved greatly and the memory of the hard times of the 'thirties is going to be a strong force stimulating an unusual degree of thrift among farmers. Furthermore, land values are rising and the prospects for further rises are so inviting that a decline in capitalization rates may yet occur.

Means to insure a continued judiciousness in land investment particularly on the part of farmers would, therefore, be a fine thing and, were it not for the dubiousness of current land value control proposals, there would be much to recommend the idea. Perhaps the mischief arises chiefly because of Dr. Black's early separation of the problems of inflation control into two categories of the control of commodity prices and of land values. Actually there is need only for control of excess purchasing power and the assumption of the additional need to control land values is the assumption that the excess of purchasing power has not been put under control.

When the matter is put in this light there is no room for a control of land values independent of the control of excess purchasing power. There is no reason, however, why the attempt to reduce the volume of purchasing power should not make use of the fact that some of this excess finds a natural outlet in the land market particularly if such control also exerted a healthy effect on land values. A programme of reducing excess purchasing power in the land market would not, however, be land value control and should not be labelled as such.

The best method, known to the author, of using the land market to mop up excess purchasing power would be to require of each seller that he accept a portion of the purchase price say, 10 or 20 per cent of the total, in war bonds of the federal government. These bonds would be nonredeemable and nontransferrable until some predetermined date after the war's close when, presumably, the pressure of excess purchasing power would be at least much less. Indeed there could be at the later date some real need for additional purchasing power.

The rule of nonredeemability would need to be softened at times in order to avoid visiting hardship on the occasional seller whose circumstances for one reason or another genuinely required that he be permitted to use the proceeds of the bonds. Suspension of the rule in such instances would easily be accomplished by setting up local boards (almost certainly rationing boards could do a satisfactory job) to abrogate or modify them upon application. The appeal to patriotism could be used to reduce the number of such appeals to the minimum and local boards would know local circumstances so that there could be a reasonable expectation that abuses would be held to a minimum.

There are likely to be certain legal complications connected with any method of direct or indirect control but aside from these the method outlined above would have a number of advantages. In the first place it is not at all punitive as the other and more drastic proposals would surely be considered. It does not select for taxation a particular class of citizens who are acting in a (to them) perfectly normal manner. It has the great advantage of administrative simplicity and its application, by the use of these appeal boards, can be made to have the needed degree of flexibility. The unevenness of application because of the likelihood that land values will rise much faster in certain areas than others would be a lesser matter since the tax features are eliminated and the penalty involved is no more than a reasonable postponement of the use of purchasing power. The objective is the reduction of the volume of purchasing power and

not the direct control of land values and such an objective is much more likely to be counted a legitimate one.

Finally, with a minimum of interference with normal and legitimate transfers, the requirement to accept bonds with the purchase price would actually drain off excess funds that under other programmes outlined above would tend to remain in the hands of investors to be used for inflation mischief in areas other than in the land market. The method would be, therefore, a genuine supplement to other methods of inflation control by the reduction of purchasing power and not a mere method of deflecting that purchasing power elsewhere.

11. PROBLEMS OF LAND VALUE*

Of all problems associated with agriculture none is more elusive and complex than that of the price of the land on which farming is practised. The Commission is compelled to give some attention to the problem of price in conjunction with the subject of land tenure, because the price of land is really the price of the tenure of land, and because in recent years much attention has been focussed on this question. It has been found desirable in this Report to distinguish between "value" and "price" in the sense of "market price." The latter is not calculable and, although it is primarily generated by the resultant of the various forms of value, it is often further enlarged by additional intangible factors such as speculation and competition.

Productive Value

The chief satisfaction which individuals may obtain from the possession of agricultural land is the income which can be obtained from the sale of products which result from its cultivation or use. This power of satisfaction which the land possess is generally referred to as its productive capacity and the capitalized value thereof is generally referred to as its productive value. This value is capable of independent estimation, that is to say, it can be determined from physical output and is, to that extent tangible.

In a competitive market for land a number of estimates of productivity will be made and they will be capitalized so as to determine the prices which interested people would be prepared to pay to obtain possession of the land. It is inevitable that the most optimistic estimate will frequently be an over-estimate because there are always land seekers who, through ignorance or through foolishness in taking risks and by failure to provide a reasonable labour income, will continually over-estimate the productive capacity of land. The most optimistic individual will usually prevail in the market, so that the market prices of land generally tend to be influenced by over-optimistic estimates of productivity.

This tendency for the market to over-estimate productive value is further encouraged by the fluctuations which take place in agricultural prices. Land is a long term investment but buyers of agricultural land frequently have short memories. When agricultural prices rise above the long term average a wave of optimism affects the mar-

* Rural Land Tenure and Valuation: Ninth Report of the Rural Reconstruction Commission, (Commonwealth of Australia) June 1946 (pp. 24-34).

ket for land; the experience of the past, with its recurring periods of lower prices, is largely forgotten and buyers bid for the land at figures which anticipate a continuance of such prices for produce, forgetting that they are unlikely to be sustained over a long period. The fact that the quantity of satisfactory land for any purpose is limited assists this tendency. It enables the majority of sellers to hold off the land market when indications are not favourable for prices of products, thus creating a discontinuous market in which the greatest activity takes place when prices of products are above the average.

It is very important to note that the productive value of land per acre can vary according to size of the unit in which it is held and used. For instance, a particular class of land may give its most profitable results when used in the area of 1,000 acres, and have a real production value of £8,000 or £8 per acre, but if held in an area of only 500 acres may have a productive value of only £2,000 or £4 per acre. A reverse position with similar consequences can be observed in other cases where holdings are too large and the productive value of the land, as held, is again less than the optimum value of the land. There is thus a distinction between the optimum productive value of the land and the productive value of the land as held.

Unless there are legal restrictions on title which prevent a landholding's being added to or used as an addition to some other building, small holdings offered for sale will often attract buyers who, because they already hold land within the district, are able to disregard any limitations of value due to size. As a result the general tendency is for the market to establish its per acre price for a holding on a basis which, in effect, disregards the actual size of the holding and assumes an optimum productive value for the land. For instance, the productive value of the 500-acre holding mentioned above is only £4 per acre, but it will in the market tend to command a price approaching to £8 per acre, the same price per acre as the 1,000 acre block, which has a productive value of £8 per acre. Many a small holder searching for reasons for his difficulties, finds them in the difference between the price at which he bought his holding and its productive value. He frequently fails to realize that if the size of his holding were increased this difference would be considerably reduced. The failure to recognize the distinction between optimum productive value of the land and the productive value of actual holdings is one of the defects of those Crown leasehold systems in which area of holding is arbitrarily fixed by the Crown, but the rent charged by the Crown is deduced from the open market price of the land.

Non-Productive Components of Land Value

If production from the land were the only satisfaction which those who seek agricultural land see in its possession, the problem of land value would narrow down to a single issue. But many other attractions enter into the minds of seekers and have an influence in determining the prices of land in the market. They are mainly social attractions which, whilst they command a money price, are not enjoyable in terms of money. Some of them are as follows:—

(a) Land investment as a security for capital has a particularly strong attraction for many people. Agricultural land does not escape their attention. This prejudice is rooted in the feeling that when all else fails the land is still there, and capital sunk in land will eventually be recoverable. Because of this sense of security which possession of land seems to give, buyers will often be prepared to accept a lower return on the money necessary to obtain possession of it than they would be for a similar amount of money invested in a commercial undertaking. In times of national crises, such as a state of war, when there is a danger of inflation, the prejudice is particularly strong; at such times land will even become a "funkhole" for capital.

(b) From the time of the squatters there has always been an ingrained belief in the minds of many people that possession of a land holding is the way to prestige in the eyes of the community, that ownership or any other form of secure possession of a landed estate confers superiority over others not so situated. Whilst this attitude probably offends the true democratic spirit it nevertheless prevails; the more favourably situated the district the more it is apparent. It brings to the free market for agricultural land an influence which is beyond consideration of the productive value of the land.

(c) Possession of farm provides a place of steady employment and, usually, a home. Both of these are sought after. The employment has the added attraction of apparent independence. Ideas of self-sufficiency in providing food requirements in a time of national disaster also enter into calculations. Many buyers see a value in these satisfaction and are prepared to pay a premium on productive value to obtain them. Some farmers regard payment of a premium as a good outlay if it is paid for a farm on which they can place a son.

(d) Some farms have improvements which have no utility to the land as a factor in production but which are valued as amenities. Payment for these will raise market price above productive value.

(e) As between farms there are advantages in situation which influence costs and therefore productive value. But there are also

advantages in situation which are mainly amenity values, such as proximity to a school, or to townships and the social life thereof, convenience of personal transport, or location against a river or on a site with a particularly good view. These amenities will cause a farm to command a price in excess of its productive value. Sometimes, however, from an amenity point of view situation is a disadvantage which entails a discount rather than a premium on productive value.

Other illustrations could, perhaps, be given, but sufficient has been said to show that, in the eyes of many purchasers, an amenity, or non-productive value, as well as the productive value, enters into the price of agricultural land. Unlike productive value, amenity value is largely made up of intangibles. Whereas the former is capable of estimation without regard to the land market, there are no physical or economic data to guide an assessment of the latter. It is a personal value which can only find expression in a market. This is one of the difficulties facing those who consider that prices for farm holdings should always be fixed by a tribunal and transfers controlled accordingly.

"Prospective Value"

The third element which enters into the market determination of agricultural land prices is "prospective" value. Land which has increments of value in prospect immediately acquires an additional present value. Land in the path of suburban development, for instance, can be expected gradually to increase in value, and these increases of value when anticipated, give the land a prospective value. Prospective value may also be created by expectations of increases in productive value. Prospects of extension of irrigation or of increased returns consequent on new scientific discoveries are notable illustrations of such expectations. To what extent prospective value enters into the determination of market prices is impossible to judge. It is certain that anticipation of increments becomes very prevalent in periods of rising commodity prices. Generally however, the major influence in creating prospective value is anticipation of a change in the use of the land. This is sometimes referred to as "ripening" value, that is the progressive added value which the market will attribute to the land as the time approaches when it can be put to a higher use.

With so many intangible non-productive elements present in the prices paid for agricultural lands, it is impossible to ascertain beyond reasonable doubt the extent to which the price paid by a purchaser for any particular holding is too high. Assertions may be made, and a good deal of support for them may be got from comparing sales of comparable lands over a period and by assessing the productivity of the land, but they cannot be proved, since the non-productive satis-

factions which the purchaser obtains from the land are capable of assessment by him alone. All that can be established is that the price paid for a holding exceeds the productive value of the holding as determined by a particular assessment. The difference may be accounted for by

(a) over-estimate of net productivity, caused mainly by over-assessment of yields and insufficient allowance for operating costs, depreciation and labour income; this is probably the most prolific cause in a long term view;

(b) insufficient farm size—also a prolific cause;

(c) non-productive satisfactions;

(d) prospective incremental value.

The Commission's observations and inquiries lead it to believe that this difference appears fairly generally. However, it is variable. It is more pronounced in some holdings than in others and tends to disappear in some districts; it is more pronounced in periods of rising agricultural prices than in other periods.

Consideration of Control of Land Prices

The fact that in the possession of farms men see, beyond the net return from output, other satisfactions from the land, and are prepared to put a value on those satisfactions and pay for them accordingly, is not necessarily prejudicial to the efficiency of agricultural production and the welfare of agricultural producer. The payment of a price for agricultural land above its productive value is common. However, the producer who possess the requisite capital is neither inevitably forced to adopt inefficient farming methods nor to suffer hardships because he pays that price. He will, undoubtedly have to forgo interest in some part of his purchase price (assuming commercial rate is sought from production) but that is the price he pays for non-productive attractions for which no return in terms of money can be expected.

The unfortunate aspect, however, is that many buyers enter the market and buy farms at prices in excess of their true productive values lacking adequate capital to indulge themselves, without fear of financial embarrassment, in purchasing non-productive benefits from land, or in asserting their own ideas; however, inflated of productive values. Many of these are ignorant of the errors they are committing because they are not properly aware of the true productive values. Some are irresponsible gamblers—with other people's money; whilst a third element is made up of those who, in order to

obtain land and achieve proprietorship and independence, are deliberately prepared to submit their families to very austere living standards. It is in such cases as these that difficulties occur. They do not necessarily occur because land prices are high or contain non-productive elements. The problem is excessive borrowing rather than excessive prices. Loan limits are normally based on land prices as measured in the market. The capacity to pay interest on debt, however is limited by productive income. The danger is therefore that the non-productive elements in land value, and excessive prices generally, may lead to the creation of debt which is too high in relation to productive capacity.

Problems Associated with Direct Control of Rural Land Prices

It has been suggested to the Commission that Agricultural land should never be allowed to attract a price above its productive value and to this end all sales should be controlled. The people who make the suggestion apparently believe that such a control would remove the main cause contributing to failure of farmers to realise a satisfactory labour income since, with farm prices limited to real productive value, the capacity to over-commit through borrowings would be similarly limited.

On first impression this suggestion has some appeal but the more it is examined the less inclination there is to recommend it as a long term policy. In this connection the following are some of the considerations which must be taken into account:

(a) Would it be right to disregard entirely what are non-productive but nevertheless real elements of value? If so, where there are two holdings of equal productive value after allowing differences in situation affecting net return, who gets the holding with the best attractions in situation from a residential point of view? Who gets the holding with the best prospects of an increase in productive value due to future developments? Will these decisions be made by arbitrary allotment—another control—with consequent jealousy, or will they be decided by drawing chits from the hat?

(b) Would prices be fixed on the basis of the optimum productive value of the land or on the basis of the productive value of the holding? If the former, are we any further advanced if the productive value of the holding, owing to its size, is less than the optimum value of the land? If the latter, whose responsibility would it be to see that the holding is built up to efficient size; or would anything be done about the matter in the interest of agricultural efficiency? In other words, if the price of the 500 acre farm referred to in paragraph above were fixed at £4 per acre, would we rest content and not

take steps to increase its size in order to make more efficient use of the land?

(c) In the interest of agricultural efficiency, what are we going to substitute for the natural control by which the market price of land functions to force land into its best use?

Objections to Direct Control of Land Prices

The Commission believes that a permanent policy of arbitrarily controlling agricultural land prices is not justified for the following reasons:—

(a) There are elements of value which can only be satisfactorily determined by a land market.

(b) The benefit of the open market price as an economic directive influencing the organization of farms into efficient size might be lost.

(c) Freedom of the individual to contract for the sale or purchase of land would disappear or "black-markets" become a permanent feature of our land economy.

(d) With the disappearance of freedom to contract, the freedom of the individual to seek and compete for the location he desires, or for a change of location, would be lost. It is even possible that individuals may become pegged to the holding of their original choice with no opportunity to shift to another location.

(e) The method of acquiring land by open market dealings is admittedly subject to certain abuses but the Commission believes that it is possible to overcome or modify these abuses by measures which do not involve the abolition of the system.

Need for an Official Advisory Service in Relation to Land Values

The fact that the Commission does not recommend a long-term policy in arbitrarily fixing prices for agricultural land does not by any means dispose of the question of high land prices, for there are features associated with land prices which in the Commission's opinion call for consideration by Governments.

As has been pointed out earlier in this Report the most important cause of "inflated" agricultural land prices is the general tendency of the market to over-estimate the productive value of the land. To some extent this is influenced by conceit of purchasers, many of whom attribute to themselves capacity as farmers beyond the ordi-

nary. To some extent the venturesome character of the Australian agricultural land seeker causes him to be careless in his judgment, and to disregard or dismiss lightly disadvantages which a more cautious character would weigh carefully. In this respect he has been encouraged by Governments which have been too ready to come to his rescue if he gets into trouble.

The urge to weigh up prospects carefully before entering into contract to acquire an agricultural holding is far less where there is a beneficent Government to fall back on, than where the individual must suffer the penalty of his own bad judgment. Unfortunately, at the present time many agricultural land-seekers believe that to get possession of a farm is worth any risk because sympathetic Government will ensure that they are kept on their holdings once they get possession. In such an atmosphere it cannot be expected that farm buyers will always exercise careful judgment. Each state can probably quote hundreds of instances where land-holders have been propped up by Government assistance within a very short time after acquiring their holdings.

But by far the most important influence responsible for buyers' over-estimating the productive value of agricultural land is lack of knowledge. Too many men enter into negotiations for the purchase of farms, inadequately equipped with knowledge to protect them from exploitation. Frequently the only information upon which they act is that supplied by the vendor or his agent.

The fluctuating nature of seasons and prices makes it easy to err in the description of a farm's capacity without being liable for misrepresentation. The vendor's, "I've taken ten bags off this country," or "I've carried as many as 3,000 sheep on this holding," probably could not be challenged on the score of veracity, but, because they represent peak performances, they can be very misleading statements of the true long-term capacity of the holding. It is often difficult for intending purchasers to get reliable information about the real capacity of a holding because there is no unbiased authority to consult, and often only the vendor has any intimate knowledge of the nature, behaviour and yield capacity of the soils on the holding.

This lack of knowledge with consequent inability to assess productive value is an indictment of our agricultural and educational extension services. In all these services a lot of time and money has been spent in spreading information which assists farmers in cultural practices, stock husbandry and all the other technical aspects of farming; but such subjects as climatology, soil, classification, land economics and the economics of agricultural production have been

badly neglected. It is in these latter subjects that knowledge is necessary for reliable estimates of the productive capacity of agricultural holdings.

We might well ask ourselves what proportion of the hundreds of persons who profess to make valuations of farm lands for various purposes have sufficient knowledge of these subjects to make reliable valuations on a productive basis. Most of them have been brought up under the system of deducing valuations from sales of comparable lands and many of them have not the technical knowledge of soils nor the knowledge of production economics to properly qualify them to make commercial valuation.

The Commission, therefore, sees as the first essential step on combating inflated land prices a considerable development in the dissemination through agricultural extension services of knowledge on climatology, soil classification, and the economics of farming. In this way the general level of capacity to "read" holdings and assess their productive capacity will be raised. It is well recognized that in a system of free enterprise it is impossible to "save fools from their folly," but what often can be done is to provide so much authentic information that individuals can have little reasonable excuse for committing errors in land transactions.

The Commission believes that the nation can make a marked contribution to stabilizing agricultural land prices and keeping them in reasonable relationship to production values by providing a national service under which authoritative advice on soil classification, productive capacity and productive value is available in respect of every farm holding, and by making it a compulsory provision that any description of a holding for purposes of sale includes an up-to-date official assessment of productive value. A service such as this will take a lot of building up because there is an appalling lack of authentic information as to soil characteristics and productive capacities of farm holdings in Australia. Nevertheless, the Commission believes that it is a service which in the long run will amply, although indirectly, reward the nation. The service can easily be allied with the general valuation service which the Commission has already recommended in its Third Report.

The service will have many advantages. It will provide intending purchasers of farms with reliable information which they now have difficulty in getting; it will exert a marked controlling influence on farm prices without the objections of a direct control; it will provide a reliable guide to credit institutions and thus help to control over-borrowing; and it will provide governments with reliable information

which will be of great value in assessing the merits of farmers' demands for price guarantees and subsidies or in guiding production controls.

Temporary Pegging of Land Prices

The objections which the Commission has put forward against any permanent system of fixing land prices do not dismiss the possibility that, under certain circumstances, the nation may be justified in pegging land prices so as to hold them to levels existing at a specified date. It must be recognized that such a system is entirely unsatisfactory for permanently stabilizing land prices because it can easily ignore real increments, or decrements, which often accrue to values. **It is only valuable in extreme emergencies, when it may be used as a temporary measure to avoid speculation and increases in price such as may be brought about by exceptional circumstances which will not persist.**

The Commission cites two circumstances in which resort to pegging may be justifiable procedure. The first is where, in a state of national crisis, such as war, the nation is compelled to depart from orthodox financial and economic policies in such a way that, without control, commodity prices rise and land prices move in sympathy with them. Pegging in these circumstances would be conditioned by, and be part of, a general control system aimed at maintaining some form of general economic stability. The second circumstance is where the Government undertakes a major development scheme which ultimately may increase substantially the use of value of existing farm holdings. Probably the most outstanding examples of such development are large scale irrigation schemes. Experience has shown that the initiation of schemes of this nature will, without control encourage speculation in farm lands and their exchange at prices which cannot subsequently be sustained. Pegging in these circumstances would be designed to prevent speculations and to hold prices until the results of development were more apparent and reliable judgments could be formed of the real increment accruing to the value of the land as a result of the development.

The disadvantage of pegging are in the first instance administrative; under such a system close supervision must be maintained over all sales, which would ideally be subject to official valuation. In connection with the present war-time pegging system it has been found in practice that, to ensure uniformity and to preserve an outlook appropriate to conditions of February, 1942, on which prices are based, very considerable supervision is required. The limiting factors have been the shortage of trained personnel and the absence

of data in relation to the magnitude of the task which has had to be faced.

From the experience gained of the war time pegging system it is clear that if there had been in existence a proper uniform valuation service along the lines suggested by the Commission, the task would have been much more easily and satisfactorily carried out. The war time pegging control must not, therefore, be condemned because of its administrative difficulties. Those difficulties have at least drawn attention to the disadvantages suffered through lack of an efficient official valuation service, and they show how much easier the task could be on any future occasion if a proper service existed.

Another extremely important disadvantage of a policy of pegging land prices is that it tends to congeal the market and hinder transfers of land. This is particularly the case with land which is under-valued as a result of the control. Where productive value has risen above the pegged price, the holder is faced with the choice of retaining possession or of selling at a price which will yield him a relatively lower income in an alternative type of investment. By holding the land he can at least prevent his income from diminishing, and can hope that the control will ultimately be lifted so that he may also gain capital profit. The result is that under a system of pegging particularly during a period of prosperity, land does not come freely on the market and the exchange of properties is impeded.

The Commission is of the opinion that, in view of the irritation and inconvenience caused by the operation of a pegging control, of its administrative difficulties, and of the effects which it has in congealing the market for land, it should be used only as a temporary measure and then only in special circumstances such as have been mentioned.

In an earlier report the Commission drew attention to the dangers of a run-away inflation of land prices if the present system of control were not continued for a period after the war. The Commission has suggested a period of control of five years from the termination of the war, first, with a view to preventing undue speculation and inflation, and secondly, to help the orderly acquisition of land for the settlement of servicemen.

One aspect of pegging control needs very careful consideration. Pegging gains its justification from a need both to exercise control during a period when economic conditions are disturbed, and also to hold a stable position until there are some clear indications as to what are likely to be settled economic conditions when the causes of

disturbance begin to wane. All indications seem to point to the fact that strong efforts will eventually be made to stabilize the economy on a price level above that of 1939. In any sustained control, adjustments to the pegged price for land should be made from time to time as indications suggest that the increase in value is likely to be permanent. If this were done, much of the present dissatisfaction with the pegging control would disappear and the market would move more freely and naturally. Furthermore, the transition from the economic levels of 1939 to any higher level at which the economy may eventually be stabilized would be effected gradually, and any big disturbance which would be likely to take place if the controls were suddenly lifted at a later date would be avoided.

SECTION IV

AGRARIAN REFORM



12. JAPANESE PROGRAMME OF LAND REDISTRIBUTION *

Abolition of the pernicious land tenure system which has long blighted Japanese agriculture and impaired development of a peaceful national economy has been a basic objective of the occupation. Accomplishment of this objective is essential to the economic and political well-being of Japan.

Having an area of 142,270 square miles, Japan is smaller than the State of California. Only 16 percent of the total area is arable. Approximately 47 percent of the total population of about 81,600,000 depends on agriculture for all or part of its income. Before the surrender, about 70 percent of the farmers rented all or part of the land they cultivated. Only 9 percent of farm household cultivated more than 4.9 acres of land, and 67 percent cultivated less than 2.4 acres. This overcrowding had led to a highly inequitable land tenure system with rents ranging from 50 to 70 percent of the annual crop and had resulted in widespread economic instability and social strife. Repulsed in their demands for remedial legislation, farmers, during the decade preceding World War II, consciously and unconsciously gave strong support to the military group which held out the promise of new lands and prosperity to be won through aggressive war. This course was thwarted by defeat and surrender. The tenant class in occupied Japan, with demands for relief from their intolerable situation still foremost in their minds, remained a fertile field for any other extremist ideology promising a solution to their problems.

The elimination of this malignancy was recognized as vital to the promotion of maximum production of staple foods and requisite social and economic stability. On 9 December 1945, the Supreme Commander for the Allied Powers issued a directive to the Japanese Government "to take measures to insure that those who till the soil of Japan shall have a more equal opportunity to enjoy the fruits of their labour."

Japanese land reform is based on legislation enacted by the Diet and promulgated on 21 October 1946. It has two main objectives: (1) transfer of land ownership to farmers who actually till the soil, and (2) improvement of farm tenancy practices for those who continue as tenants. The programme has emphasized private rather than state, and individual rather than collective ownership of the land.

* General Headquarters, Supreme Commander for The Allied Powers: National Resources Section, 15th April 1949.

The programme in each village is administered by a local agricultural land commission, elected by and from the farmers. The ratio of tenants, owner-cultivators, and owners on each commission is established by law at 5, 2, and 3 respectively.† Each category elects its own representatives to the commission. Elected prefectural agricultural land commissions coordinate and supervise the work of local commissions under the general supervision of the Central Agricultural Land Commission (National), of which the Minister of Agriculture and Forestry is chairman.

Agricultural lands subject to purchase have been: (1) lands owned by absentee landlords; (2) tenant-operated lands in excess of specified retention rates; (3) owner-operated lands in excess of retention rates fixed by law, except those that can be reasonably operated by the farmer and his immediate family; (4) corporation-owned lands that do not relate directly to the principal objective of the corporation, and (5) lands capable of reclamation for agricultural use.

Lands subject to transfer have been purchased by the government (through the agency of the land commission) for resale to eligible buyers. Tenants on the land as of 23 November 1945, other tenants, and other persons who wish to cultivate the land have had priority to purchase in that order.

The purchase price of land, established by law, is subject to variation within legal limits at the discretion of the land commission. Sellers of land receive payment in Y1,000 bonds bearing 3.65 percent interest and redeemable in 24 equal annual instalments. Any amount less than a unit of Y1,000 is paid in cash. Tenants may pay for all or any part of the land at the time of purchase and the remainder in 24 annual instalments with interest at 3.2 percent. Tenant payments for the land, plus other expenses coincident with landownership, in any year cannot exceed one-third of the gross income from the land in that year. In case of crop failure or low farm prices, the government will reduce, defer or cancel the annual payment.

Agricultural lands purchased under the programme may not be sold or used as collateral for loans during the 24 years amortization period without specific approval of the government. Tenant purchasers desiring to discontinue their purchase contract during the 24-year amortization period must sell their lands back to the Government on terms similar to those of the original contract. All future land transactions are subject to approval by the agricultural land commission.

† The area cultivated by tenants is reduced to 12% of the total as the Land Transfer Reform is completed. Due to the new Law, "Owner cultivation will predominate and other interests will balance each other."

Through the land reform programme, the Japanese Government had acquired 4,581,073 acres of cultivated land by 2 March 1949, of which 4,389,344 acres had been sold by 31 March 1949. Disposal of the remaining 191,729 acres together with small additional amounts of land still to be acquired, will be virtually complete by 30 June 1949. The cultivated land area operated by tenants will have thus been reduced from an estimated 6,300,000 acres (46 percent) to approximately 1,670,000 acres (12 percent). As of the same dates 540,134 acres of pasture land had been acquired, of which 233,149 acres had been sold. An estimated additional 375,000 acres of pasture land awaiting purchase, together with the 306,985 acres on land will be largely sold, to cultivating farmers by 30 June 1949. In addition to cultivated and pasture land, 2,402,544 acres of land has been acquired for by reclamation for sale, to owner-farmers as part of a long-range programme for increasing the total cultivated area of the country. Of this amount 100,167 acres had been reclaimed and sold to individuals, or sold to individuals for private reclamation by 1 February 1949.

Although the land reform programme is dedicated primarily to creating owner-farmers, total elimination of farm tenancy is not considered feasible. A small reservoir of land subject to tenancy is considered essential to a programme of maximum food production. Flexibility in the land tenure pattern must be preserved to prevent withdrawal of land from cultivation in cases where the owner becomes temporarily unable to cultivate for himself, or where no applicant to purchase land is available. The land reform programme therefore also includes provisions to insure fair tenancy practices for those who remain as tenants. The most important of these provisions are: (1) a written farm lease with all principal elements clearly stated; (2) cash payment of rent; (3) ceiling of 25 percent of the production from paddy and 15 percent from upland fields; and (4) rent contract cancellation or alteration subject to approval by the land commission. A model lease contract form to be used by tenants and landlords as a guide in drawing up their own contracts has been widely distributed.

The total cost to the Japanese Government of administering the reform programme was Y5,929,648,750 for the period 1 September 1946 through 31 December 1948. Of this amount Y4,874,923,093 was spent for the support of the 11,322 local land commissions. Principal responsibility and credit for the success of this programme involving transfer of title to about 30,000,000 individual parcels of land, accrues to these local land commissions. The average cost of operating an individual local land commission has been approximately \$1,450 (computed at an assumed rate of Y300 to \$1) for the period September 1946 to 31 January 1948, or about \$ 50 per month per commission.

13. RE-DISTRIBUTION OF LAND AND AGRARIAN REFORM IN POLAND*

A. Jalowiecki

The first Law on Agrarian Reform was adopted by the Polish Parliament on July 15, 1920. It remained in force without serious modifications up to December 28, 1935, on which date a new agrarian reform law was passed by Parliament. Various additions and amendments have been made to the original text of the law nearly every year since its introduction; the text as it stands at present will be examined here.

The object of the law is to reduce agricultural unemployment, to enlarge very small holdings, and to redistribute land so as to employ as much labour as possible while obtaining the maximum economic return per hectare.

Provision is made in the law for the compulsory partition of large holdings, in particular those belonging to the State or to corporate bodies, mortmain lands and private estates of an area exceeding 60 hectares near towns or 19 hectares in country districts.

The aggregate of the areas of these various categories of holdings forms the area to which the agrarian reform law is applicable. Excluded are: estates of an area less than 180ha. (60 if near a town); with forests, building land, gardens and pools enclosed in estates of over 180 ha. In certain circumstances, the maximum of 180 ha. may be raised for the purpose of a special period of crop or for the exercise of an agricultural industry.

A plan for the partition of lands in the current year is prepared every year. Lands voluntarily partitioned by private owners and lands belonging to the State or to corporate bodies are deducted from the figures of area as shown in the annual plan. Lands to be partitioned are compulsorily purchased by the State from the private owners and divided out among: (1) the peasants working on the lands so partitioned; (2) dwarf holdings in the neighbourhood; (3) other persons.

Compulsory State purchase takes place if, in the course of the year, the area voluntarily partitioned by the owners of arm holdings of an area exceeding the maximum, does not attain the total area prescribed in the scheme.

* International Review of Agriculture, August 1938

If necessary, a list of the lands to be partitioned is drawn up by the Minister of Agriculture and Agrarian Reform; the lands enumerated on this list are subjected to compulsory purchase at prices fixed by the law.

The holdings formed by the partitioning may not exceed an area of 20 ha. except in the Northern Provinces and in mountainous regions where they may be as much as 35 hectares.

The Minister of Agriculture and Agrarian Reform decides, within the limits prescribed by the law, what shall be the area of holdings thus newly formed. The law of December, 1935, 28th day, prescribes an order of preference of persons wishing to benefit by the new holdings.

Peasants working on the estate come first: in the event of the partitioned area not being sufficient to enlarge the dwarf holding of the neighbourhood, the peasants may receive lands from another partitioned estate. Preference is given to small holdings of 1 to 5 hectares, which for their small area cannot be cultivated profitably. Only after local needs are satisfied may other persons benefit by a partition.

In districts where the population is less dense, the lands are divided among peasants coming from districts where the density is specially high. For example, the estates partitioned in Pomorze have been in a large measure distributed to the peasants of the Southern Province.

Advantage is taken of partition to carry out improvement of the whole land system of the neighbourhood; e.g. abolition of servitudes if chargeable on the estate partitioned, consolidation of holdings, partitioning of the woods and grazing lands belonging to the communities, more especially in the provinces of the East and South.

The extent of the partitioning effected in application of the agrarian reform is illustrated by the following figures :—

Annual Average Partitioning 1920-37.

YEAR	Farm holdings formed in thousands	Area partitioned in thousand Hectares
1920 — 1925	36.9	187.4
1926 — 1930	60.9	195.6
1931 — 1935	27.8	79.8
1936	28.5	96.5
1937	37.7	113.1
1920 — 1937	694.3	2,523.8

The partitioning of lands as between the groups of provinces and the beneficiaries is illustrated by table given below :—

Division of lands 1919-1938: Farm holdings formed by Partitioning
(No. of farms in thousands).

CLASSIFICATION	POLAND	PROVINCES OF THE			
		Centre	East	South	North
New Holdings.	145.6	56.2	47.0	26.0	16.4
Enlargement of former holdings	476.4	124.9	146.5	175.0	30.0
Special colonies.	3.6	1.6	0.5	0.8	0.7
Workers' Plots, etc.	70.8	36.9	6.0	8.7	19.2
Total.	694.4	219.6	200.5	210.5	66.3
Area in thousands of ha.					
New Holdings.	1,366.9	467.8	575.5	124.6	198.8
Enlargement of former holdings.	958.5	285.6	367.0	224.3	81.6
Special Colonies.	55.0	26.9	4.6	5.6	17.9
Workers' plots etc.	68.9	22.0	16.1	11.7	19.1
Total.	2,535.6	827.9	977.8	382.6	347.3

Comparing the total area of land under cultivation (not including forests and grazing land), in all 25,589,000 ha., with the partitioned area, it will be seen that in recent years much has been accomplished for the improved distribution of landed property.

What is the future of the Agrarian Reform ?

The areas not partitioned, but liable to be so in application of the law, amount at present to 826,300 ha., that is, one third of the area already partitioned during the last twenty years. These lands are distributed among the provinces as shown in Table given below :— (Table No. XII).

TABLE XII.— Total Area of Lands liable to Partitioning.

(In hectares).

Southern Province.	...	...	141,400
Eastern Province.	...	...	63,400
Central Province.	...	...	256,400
Western Province.	...	...	371,100
Total.	...	...	832,300

Such measures will palliate the evil, indeed altogether eliminate it for a great part of the rural population. But the general problem of the rural over-population can only be definitely resolved by a very rapid industrialisation of Poland. That movement, interrupted by the economic crisis, is at present the central point of the Government's economic policy. Industrialization has been rendered easier of accomplishment by the Agrarian Reform and it may yet resolve the problem of over-population which in Poland is more acute than in any other European country.

14. PROBLEMS OF THE CONSOLIDATION OF AGRICULTURAL HOLDINGS IN EUROPE*

M. Tcherkinsky

The phenomenon of fragmentation in the strict sense of the word, may occur in two different forms, either by the subdivision of a farming area into a number of excessively small holdings or farms, or by the division of farms into a great number of small scattered parcels of land. Statistics of landed property and of farms supply direct data on the first form of subdivision, but only indirect and very approximate data on the extent and importance of the second form. Thus, for instance, in France, the statistics for landed property would show that in the Department of the Ardennes, where the average size of the holding amounts to 3 hectares, landed property is less broken up than in the Sarthe, where the average size is under 1 hectare. But these statistics do not tell us that the area given for the Ardennes is made up of thirty to forty scattered lots of land, whereas that of the Sarthe generally consists of one single lot.

Either of these forms of fragmentation with its own characteristic features may occur independently of the other. It may also, at the present time, entail no special problem, as in the case in some countries, as for instance in England, where large and medium-sized agricultural holdings are the rule; in Norway, where the small farm is very common and where also the inheritance laws for rural property do not allow of excessive subdivision. Elsewhere, as in Switzerland, for instance, where small and medium-sized holdings predominate, in some parts of the country the fragmentation of the land in the farms is very marked. Generally speaking, these two forms of fragmentation go often together.

Each of these forms of fragmentation must be judged by their social and economic results. Thus the breaking up of the agricultural area into a great number of small holdings assures a more equal division of the national wealth. But while the spread of small landed property, as long as it is not excessive, has many advantages from the social standpoint, it has great disadvantages if the fragmentation goes too far.

The second kind of subdivision, with which we deal here, may occur with estates of all sizes, but its harmful effects are most severely felt in the case of small peasant holdings.

* International Review of Agriculture, March 1942.

The Juridical Basis of the Consolidation of Holdings

In practical rural life the voluntary association formed by unanimous consent of the parties concerned for carrying out the consolidation of holdings is often almost impossible to secure. As Prof. Ricol remarks: "By the voluntary exchange of parcels of land a landowner may reconstruct his property, but such means are only available in special cases, and cannot afford a real remedy for the evils of fragmentation. The only radical remedy, when once the fragmentation has occurred, are compulsory exchanges, subject to certain conditions, of the parcels contained within certain boundaries."

Most European countries have now enacted special legislation, dating back partly to the beginning of the XIXth Century and sometimes even earlier, for regulating the consolidation of holdings. Further on we shall deal in detail with the laws enacted in some countries and we shall then see to what extent they have contributed to relieving agriculture from the harmful consequences of the excessive fragmentation of holdings.

We have noted that in some countries—as, for instance, in England, Denmark, and Norway—the scattered parcels have already been consolidated and at the present time the problem of restriping no longer exists.

As far back as the middle-ages in England steps were taken to secure the consolidation of large estates at the time of the enclosures. The enclosure of the commons at the end of the XVIIIth century also led to the restriping of lands whenever such a measure secured the approval of two thirds of the owners. Consolidation became more and more frequent, and by the end of the first half of the XIXth century the agricultural holdings had been almost all consolidated. On the other hand, the inheritance laws of England, which favour the undivided transmission of estates, maintain the consolidated estates intact. Nearly all the estates are all in one piece.

In Denmark the amalgamation of landed property began with the enclosure of the commons carried out under the Royal decree on 1769, subsequently completed by the acts of 1781 and 1792, so that in 1835 only 1 per cent of the total number of peasant holdings had not been consolidated.

In some other countries, as far instance, in Germany and Switzerland, much has already been done for the consolidation of holdings, but much still remains to be done.

In other countries, as in France, Italy, and some parts of Central Europe, the consolidation of holdings is still in its initial stage,

although energetic efforts have already been made to control excessive fragmentation. This has been the case more especially in the countries of Eastern Europe at the time of the agrarian reforms which took place at the end of the first world war.

The Consolidation of Holdings in Practice

The importance of the consolidation of holdings as a means for eliminating enclaves (portions of a holding entirely surrounded by lands belonging to other owners and therefore difficult to access) is thus generally recognised and in some countries restriping has already secured tangible results. If the number of these countries is limited, still fewer are those which can supply us with information on the subject. If however, the material available is used merely for illustrating what has been done under the different conditions, it may prove sufficient and may perhaps induce other countries, where this form of land improvement is still in its initial stages, to take steps to promote the consolidation of holdings.

Germany.

As the total agricultural area of Greater Germany amounts to 31 million hectares, the 7 million in need of restriping account for nearly one quarter of the whole. The pace at which restriping has been taking place in Germany in the last few years is illustrated by the following data: from 1933 to 1940 inclusive, 778,300 hectares have been restriped, and during the last four years, since the publication of the order on consolidation, the figures have been as follows:— 105,100 hectares in 1937, 125,331 hectares in 1938, 106,000 hectares in 1939, 72,300 hectares in 1940. As to the thoroughness of the work of consolidation, the ratio between the number of holdings within the boundaries of the consolidated areas before and after restriping fluctuated for the Reich as a whole during the last four years between 2.3:1 (1937) and 2.5:1 (1940); in 1940 the number of parcels of land fell after the consolidation had been carried out from 272,000 to 107,000 or by 61%. As compared to the average for the whole Reich, which stood in 1940 at 2.5 : 1, the degree of intensity was highest in the Rhine-land, where the ration of the number of lots before and after consolidation stood at 3.8:1. Pomerania followed with a ratio of 3.2:1 and Wurtemberg again came last with a ratio of 1.3:1. The very low ratio is accounted for by the fact that in Wurtemberg consolidation was aimed primarily at securing paths for excess to the holdings in the districts under vineyards and orchards.

France

A beginning was made in France with the consolidation of holding towards the end of the XVIIth century in the Duchy of Burgundy,

at Rouvres-en-Plaine. Towards the end of the XVII century consolidations were carried out in Lorraine, at Roville (Meurthe). At the beginning of the XIXth century, although no laws made it compulsory in the public interest, the consolidation of holdings began to spread not only in the east, as previously, but elsewhere also. The operations betook however, more of the character of personal exchanges of parcels of land than of restriping properly speaking.

Since the war of 1914-18, after the first law enacted in 1918 and apart from the 200,000 hectares restriped in the war devastated districts, some 100,000 hectares of land have been restriped in France at the request of the owners, and personal exchanges of parcels of land have been carried out on 367,000 hectares, affecting an area of 300,000 hectares. But the area in need of consolidation is estimated in France at 9 million hectares.

The results secured by the Act of 1919 are undoubtedly considerable in the devastated areas of the North and East, where a great work of improvement in the conditions of agricultural holdings, fully paid for by the state, would be carried out. Yet, the effort so far made to assure the consolidation of holdings is inadequate when compared to the work which still remains to be done, especially if the purpose is to exercise an adequately rapid action for the increase of agricultural production.

Taken as a whole, the consolidation has led to the exchange of 5 former parcels of land against one new.

As 76,620 hectares were restriped, the cost of consolidation stood in round figure at 64 francs per hectare.

If the gains accruing from consolidation are placed as low as 200 francs per hectare the annual benefit arising from the restriping of 76,621 hectares amounts to some 15 million francs obtained at an outlay made once and for all of 4,898,400 francs.

Italy.

In Italy the work of consolidation of holdings is still in its initial stage. So far there are but few examples of the consolidation of holdings in the land reclamation districts. Nevertheless, a few interesting instances can be noted in the great land reclamation district of Lower Friuli.

A recent ministerial decree approves a plan for the rearrangement of scattered holdings in the neighbourhood of the former lake of Arsa and in the land reclamation district of Istaria in the Province of Pola. Restriping is being carried out there on 2,000 hectares belonging to

eight districts. This area was broken up into 1,354 parcels of land belonging to 1,184 owners. As a result of the restriping now approved, the number of parcels will be reduced to 534 and the number of owners to 504. In this way, scattered parcels of land belonging to one owner will be brought together into profitable holdings, and so will those belonging to several members of a same family. At the same time, a great number of tiny holdings will disappear, generally with the consent of the owners, as in view of their excessively small size and of the distance from the dwelling of their owners it would have been practically impossible to carry out the land reclamation work. The cost to the owners of the restriping is trifling, as the Government meets 92 per cent of the outlay.

Switzerland.

The agricultural census of 1929 shows that in Switzerland there are 236,000 farms occupying a total cultivated area of 1,446,447 hectares; they consist of 2,508,602 parcels of land, with an average of a little over 10 parcels per farm. The average size of these parcels is less than 60 acres. The holdings have, therefore, been very considerably broken up.

In 1929 Switzerland had 39,328 farms all in one piece, i.e. 16.5 per cent of the total number; 27,656 farms consisted of two parcels of land only, i.e. 11.7 per cent of the total number; 55,947 (22.8 %) consisted of 3 and 5 parcels, 47,073 (19.9 percent) consisted of 6 to 10 parcels, and 68,871 (29.1 per cent) consisted of more than 11 parcels of land. But in some cases farms are composed of as many as 50, 100, and 150 parcels of land. The largest number of holdings all of one piece is found in the Canton of Berne; but the largest relative number (i.e. in relation to the total number of farms) is found in the Cantons of Appenzell and Lucerne. The fragmentation of holdings has been carried to the greatest extreme in the Canton Ticino, and the average size of the parcels shows that the holdings which have been most broken up are the small ones.

Heretofore land improvements have consisted chiefly in the provision of irrigation ditches and drainage works, and in the opening of farm roads and paths. In the first twenty years the consolidation of farm holdings and vineyards occupies an important place by the side of these improvements.

Bulgaria.

In Eastern Europe the consolidation of holdings and restriping have been carried out to a large extent in connection with the agrarian reform, but accurate data on the matter are not now available. We

will limit ourselves to a few words on what has been done in this respect in Bulgaria. Consolidation schemes are carried out under the direction of the Government or of the communes. During a period of 12 years, from 1926 to 1938, restriping has been completed for the lands of 55 villages occupying an area of 202,000 hectares, being 5 % of the total area under cultivation. Including the villages where restriping is being carried out at the present time, the area stands at 360,000 hectares, i.e. 8.3 % of the total cultivated area.

Consolidation work was continued in 1938-39, when larger appropriations were made for that purpose in the budget of the Ministry of Agriculture and Lands. During that year the preparatory work for restriping the lands belong to 65 villages occupying an area of 204,656 hectares was completed. The actual work is now being carried out.

Various Difficulties in the Way of the Consolidation of Holdings

Although the excessive fragmentation of holdings makes farming more difficult and reduces the yields, a radical solution of the problem generally meets with many difficulties. The chief difficulty would seem to be the individualistic mentality of the peasantry and their attachment to the bit of land which has belonged to their family for several generations; indeed it would be more correct to speak of their love for that bit of land. It is interesting to consider in this connection what Prof. Brizzi had to say on the attitude of the peasants of the Campania, to which reference was made in the report prepared by the International Institute of Agriculture for the European Conference on Rural Life on the Land Tenure Systems in Europe.¹

"Merely for the purpose of our investigations," he writes, "we have from time to time asked peasant proprietors their opinion as to the possibility of consolidation. It would not be correct to say that they were against such a thing. It would be more true to say that they did not even regard it as a possibility. So powerful and unshakable in the peasant mind are the conceptions of *meum* and *tuum*, particularly in connection with land. But this particular obstacle should not be overrated. A properly conducted experiment on a large scale might well convince the peasant, who is very intelligent and always ready to discuss and to learn."²

(1) *Documentation for the European Conference on Rural Life, 1939.* International Institute of Agriculture, Rome, 1939, P. 91.

(2) *Inchiesta sulla piccola proprieta coltivatrice nel dopoguerra, Vol. IX.* Campania, Istituto Nazionale di Economia Agraria, Rome, 1933, p. 16.

Among the arguments brought forward against the consolidation of holdings the question of expenses plays an important part. It should however be remembered that the Government generally meets a considerable part of the cost and makes grants and loans to cover that part which is met by the parties concerned. The outlay is afterwards made good in the course of a few years by the larger returns which the owners secure from the consolidated holdings.

Another objection raised to restriping is that its effects are not permanent. It eliminates the drawbacks of excessive fragmentation for a time, but does not prevent subdivision from recurring, especially in connection with the division of farms among the heirs. After two or three generations the holdings will again require restriping. The most recent enquiries show that the fear so often expressed that a further fragmentation of the property might follow the consolidation, is groundless. It would seem that the reason for this is that the consolidated holdings can be framed more rationally and that parcels of land which became available are purchased by the neighbours.

In the opinion of the Technical Agricultural Committee of the Reich a holding which has once been consolidated continues so even should a division be made, and a period of 150 years elapses before the former conditions can recur. And even should subsequent restriping be needed, the difficulties will never be as serious as they were on the first occasion, as the system of roads and ditches which were made at the time of the consolidation remains.

In the Rhineland, for instance, thorough enquiries have been made to ascertain whether, after the consolidation has been carried out, the number of parcels of land has increased or decreased, and results show that the number of parcels which existed after restriping has decreased. This is due to the fact that the peasant endeavours to reunite by purchases, marriages, or other means, holdings which have been broken up as the result of division among heirs.

Other objections have been made to consolidation to the effect that it would lead to the expropriation of lands and would interfere with private property rights.

Consolidation does indeed imply a marked interference with private property, but an interference justified by a right understanding of the best interests of private property itself.

"If the system of compulsory consolidation," writes Prof. Tassinari, "apparently runs counter to the right of an owner to dispose of his property as he sees fit, it should be remembered that such a right runs counter to a superior interest which councils consolidation. The right of the individual to dispose of his property cannot in

modern society be absolute as it was in the Roman conception of property, and there are cases when it is essential to place restrictions on that right if the general interest is at stake . . . It, therefore, seems to us that just as all principles must bend to the exigencies of social life, so the consolidations of holdings must be carried out regardless of whether they have the unanimous consent of all concerned, and in spite of the opposition of a minority."

The Economic Importance of the Consolidation of Holdings

When the holdings are consolidated compulsory rotation makes way to a freely chosen rotation of crops which enables each owner to organise his farm as he sees fit without being restricted by the regard he must have for his neighbours. The many boundary disputes and the lawsuits to which they give rise, cease as the new boundaries of the holdings are clear.

Consolidation as a rule increases the crop area as it does away with the hedges and landmarks which occupy an unproductive area, and the length of the boundary ride is considerably reduced.

On consolidated holdings it is possible to use agricultural machinery suited to the requirements of small and medium-sized peasant farms. The present scarcity of agricultural labour gives great importance to such possibilities of labour-saving.

The enquiry into land consolidation published by the Chamber of Agriculture of Meurthe-et-Moselle (Nancy 1933) which deals with conditions in 78 communes restriped in the *department* of Lorraine, show that most of the farmers who were questioned considered that they had saved one quarter of the time formerly required for the cultivation of their holdings. The annual saving of 50 to 300 francs per hectare is generally secured after the consolidation has been carried out. As this saving is made at the time when expenses are heaviest, when the crops are being sown and harvested, its importance for the farm greatly exceeds that which can be expressed by mere figures.

The labour costs for men and animals expressed in units of man-work per annum and in units of animal-work per annum for each 100 hectares of cultivated land decrease progressively in inverse ratio to the size of the areas cultivated. For farms consisting of parcels of more than 5 hectares yielding a good return the cost of man-work is on the whole 45 per cent less than for holdings broken up into minute lots of less than 0.25 hectares. In the case of farms yielding medium returns it is 65 per cent less, and in the case of farms with low returns the labour cost for consolidated holdings is only 41 per cent of that for those which are broken up in small parcels.

The increased yields obtained as a result of consolidation can be estimated on an average at 25%. The area requiring restriping in Greater Germany is not less than 7 million hectares. If restriping will secure an increase of 5 quintals of wheat per hectare, an increased yield of some 35 million quintals of wheat may be expected as the result of the consolidation of holdings, an addition almost equal to the total amount production of wheat in Germany.*

In France it is estimated that the restriping of rural property might increase crop yields by one half. The annual farm income might thus be raised from 20,000 million francs (pre-war value) to 30,000 millions.†

Interesting enquiries also show the increase of gross returns and the reduction of labour costs, secured by land improvements, inclusive of restriping, throughout Switzerland. The data used in making these enquiries are generally those supplied by farmers and based on estimates; on the other hand, the figures showing the influence of consolidation on the results obtained on the farms have been calculated by M. E. Naf, with the assistance of the Swiss Peasants Secretariat.

Annual increase of gross return due to land improvements throughout Switzerland

1. Drainage	81,000 ha.	to 450 frs. per ha. and per year;	36.4 mill. frs.
2. Consolidation	91,000 "	60 " " " "	5.4 " "
3. Vineyard Improvements	800 "	2,000 " " " "	1.6 " "
4. Other Improvements			5 " "

Total Increase of Gross Income .. 48.4 mill. frs. per year.

The annual increase of gross agricultural return secured in Switzerland by the restriping of 91,000 hectares thus amounts to some 5.4 million francs, or one ninth of the total increase of the gross annual agricultural return secured by the land improvements so far carried out, many of which have only been made possible by restriping.

Judging by the results so far obtained, the carrying out of all these land improvements will further increase the gross Swiss farm return by some 70 million francs per annum. At the same time, the consolidations which still have to be made will reduce farm labour costs by some 23 million francs per annum. The saving in labour will amount to some 12,500 labourers.

The economic importance of the consolidation of landed property is clearly shown by the enquiries made under different economic conditions of agriculture. By consolidating their holdings, owners

* Wiener landwirtschaftliche Zeitung, No. 28, 1938.

† *Geographie Universelle Quillet*, Tome II, quoted by Cretien. *Le partage en nature et les heritages ruraux*, Lyon 1937, p. 81.

can secure a higher income and the national economy can secure the advantages consequent on the more prosperous condition of agriculture. It is therefore in the interest of the nation to encourage the consolidation of holdings as a means for promoting a sound distribution of landed property by forming economically rational farms.

Conclusion

The consolidation of holdings may be considered as one of the most efficient instruments of agrarian policy aiming at the conservation and consolidation of small agricultural property.

The cost of restriping is certainly an important, but not a decisive factor, as the cost incurred is amply repaid by the increased yield and higher value of the land. Unfortunately, the work of consolidation is still carried out on too limited a scale.

To induce the rural population to consent more willingly to restriping, legislation on the subject is required suited to the special conditions prevailing in each country. For now, when it is of the greatest importance to strengthen and consolidate the peasantry so as to conserve the strength of the nations and enable them to live on the produce of their own soil, the consolidation of holdings, considered as an essential prerequisite for general land improvements, is not only a matter of economic significance but of great social and demographic importance. The latest legislation on the consolidation of holdings considers such work as of public utility, the initiative for which can be taken by the authorities, and a majority of the landowners may compel the minority to accept, for the benefit of all, the decision taken in favour of the work. This gives full force to the words of John Stuart who wrote: "the reasons which form the justification of private property in land are valid in so far as the proprietor of the land is its improver."

The objection raised to the consolidation of holdings based on the ground that such operations amount to expropriation, and that therefore they violate property rights, cannot well be sustained. As has often been noted, the right to own property is a social institution which is the expression of economic conditions subject to change. It is precisely with a view to remedying the consequences of the inevitable changes caused in the long run by the distribution of the land, and with a view to doing so on a systematic plan, that Society has reserved to itself the right of expropriation.

All classes of landowners can benefit by the consolidation of holdings, but more especially the owners of small holdings which suffer more than any others from the drawbacks of excessive fragmentation and the scattering of the parcels of land. Consolidation is therefore of very great social importance as a means for improving the return of small holdings and their general conditions.

15. RE-GROUPING OF HOLDINGS IN FRANCE*

J. C. Abbott.

It is especially interesting to note how the problems of farm planning are being approached in France where most of the land is still cultivated in small strips. In northern France especially, where the economies of mechanical cultivation have become more evident as the labour supply had diminished, land reform is now very popular. But it is commencing at a stage the existence of which most English farmers would find difficult to credit. Indeed, as De Lisle says, 'a thirteenth century peasant would visit many of our farms today without much astonishment.'

Much of the more extreme morcellement, as it is called, is a consequence of the traditional law of succession. Though a low birth-rate has restricted their numbers, farmers' sons have preferred to receive their inheritance in land rather than money, and have divided each individual plot so as to ensure equality of shares. As a result, plots have been subjected to such excessive fragmentation that they have become very difficult to work. Many hours are wasted and implements damaged in travelling between fields on bad farm roads. Access to land may be impeded by neighbours' crops. Disputes are frequent. Modern machinery can rarely be used. Production is low and costly, and many inconvenient holdings are left uncultivated.

Legislative Measures: After the adoption of successive Laws, mainly of a permissive nature the Act of 1941 took up the problem very seriously.

Further legislation was promoted in 1941 by the professional land ingenieurs of Genie Rural,² a department of the Ministry of Agriculture, which gave them the right to initiate reform where they thought it desirable. They had the power to recommend that Commissions should be appointed in villages to examine the agricultural situation there, and to put forward concrete proposals for bringing

* The Farm Economist, Oxford, No. 3 of 1949.

1. The early acts insisted that a majority of two-thirds of the occupiers in commune must be in favour of remembrement before any measures could be taken. In 1919 a bare majority became sufficient. By the 1941 Act, previous support by a majority was no longer required.

2. It is difficult to translate Genie Rural. Bureau of rural affairs might perhaps describe a department which is engaged in improving agricultural and living conditions in the country by raising the general level of efficiency, by supplying electricity and water and by building roads, houses, and farm buildings.

about improvements. Limited time was to be allowed for lodging objections and amendments.

A Commission for each department would hear all disputes and the prefect had the power to order that a plan should be put into effect. Most important of all, farmers under the stress of war-time shortages greeted the system with enthusiasm rather than suspicion.

The state, through Genie Rural, exercises far more control than ever before. Its officer acting as secretary has immense influence over the work in detail and, because he has usually performed this function for previous commissions, he has all the weight of his experience behind him. In the event of dispute he can at every stage call in the assistance of the Ministry.

Chapter II of the 1941 Act introduces some important innovations into the existing body of land law. Even where consolidation of holdings is not considered indispensable a communal commission may be employed to ensure that the land in its territory is being put to best use.

The main features of the Act of 1941 may be summarized as follows :

1. Land lying derelict. In each commune it is incumbent on the Mayor to make an inventory of the strips which have been abandoned or left uncultivated for two consecutive years. These parcels may be expropriated from their former owners and added to holdings which are too small to provide an adequate living for a family, or they may be thrown together into one new farm. New buildings may be erected at government expense in a convenient place in the centre of the new property or if the land is sold, a subsidy, amounting to 50 per cent, of the cost, may be paid to a purchaser who proposes to carry out the work himself. Alternatively, if the soil is too poor to repay cultivation it may be put back to forest on the same terms.

2. Farm roads. The prefect may instruct those landowners whose property will benefit to form an association for laying out and maintaining farm roads. He may then appoint a representative body to carry out the work and defray from 50 to 66 per cent. of the cost by an acreage levy. The remaining charges are met by a state subsidy.

3. Compulsory exchanges : A communal commission may prescribe exchanges of land, recommend individuals to consolidate their holdings, and suppress enclaves to which the occupier has reasonable access.

The Actual Work of Regrouping Holdings:

The actual work of regrouping holdings and dealing with the various issues which this raises has become the special province of a department in Genie Rural (Le Commissariat a la Re-organisation Fonciere et au Remembrement). Branches in each department keep it in touch with the agricultural requirements of every commune.

Specific periods of time are allowed at each stage in the procedure for lodging protests and hearing claims. To reduce the number of holdings to a minimum, each owner is given a unified block, in each type of soil and zone of distance from the village centre, of the same productive value as the land he had there before. Adjacent to each set of farm buildings there should be an acreage of pasture, or land suitable for laying down to grass.

The total cost of regrouping a whole parish was said to average 2,000 francs a hectare in 1947. Of this, 8 per cent. was met by a government subsidy and the remainder by a levy based on acreage. The road construction and drainage schemes which frequently accompanied remembrement received a similar subvention of up to 50 per cent. of the total cost.

In the past it has been difficult under peasant farming conditions to preserve the improvements which have been affected. Many communes which experienced some measure of re-organization thirty or forty years ago have since fallen back into their old state of morcellement. An Act of 1908 provided that holdings of a value not exceeding the equivalent of £ 320 might be registered as inalienable and indivisible. This protected only the very small units. But the 1941 measure forbids the subdivision, without the express authority of the Commission of the department, of any holding which has been regrouped under government auspices.

Since this Act came into force the process of remembrement has continued apace. Holdings have been regrouped in from 400 to 500 villages.

Their average size has risen from 0.64 acre to 3.56 acres and cultivated enclaves have disappeared altogether.

Only where large farms are customary, and their owners relatively enlightened in the economics of farm management, have participants in a remembrement been prepared to accept allocations based entirely on productive values and not on soil-type equivalents. It is hoped that further consolidation by exchange of or purchase may follow in a few years' time when farmers have had opportunities to appreciate the cumulative advantages it would bring. In this way, the 1941 legislation and the work of Genie Rural have made

a beginning in the process by which progressive agriculturists, freed from the drag of backward neighbours, may set an example of increased output which others will follow.

The preamble to the 1941 Act emphasized the intention to maintain the existing balance of population on the land, and that, far from reducing the number of peasant family farms, new ones should be created. Among the more significant clauses, therefore, are those authorizing Communal Commissions to consolidate abandoned strips into new family holdings on the outskirts of villages, and to erect new buildings on them. So long as a large number of cultivators remain concentrated in village centres it seems inevitable that some of their fields must lie at considerable distances. On the other hand, where the soil is only moderately fertile and there are no special factors favouring intensive production on small holdings, it has been found more economical to work the land in larger blocks. Such enterprises are most easily administered from an office and machinery depot in the village itself, and they profit from the absence of hedges and so on in the country round about. Thus, though the intermingling of properties is conducive to frequent disputes, the continued existence of the open field, by facilitating large-scale cultivation by machinery in co-operative ownership, may help to solve some of the difficulties which beset a country of peasant farmers.

16. THE RE-PLANNING OF HOLDINGS IN THE NETHERLANDS*

A. Rienks.

In 1924 schemes for the re-planning of holdings became enforceable, provided a majority of those concerned in a scheme voted in favour of it. The majority had to be a double one, that is, firstly a majority of all the owners, and secondly of owners representing the greater part of the area. A minority, consisting of owners owning more than half of the area, could hold up re-planning as could also a majority of small owners owning less than half the land. Under this law, twenty-nine areas, totalling about 27,000 acres, were re-planned, though it soon appeared that there was still little encouragement for any large-scale change. In 1938 a new law was passed which differed from the law of 1924 in the following respects:

1. It was made easier for interested parties to apply for the re-planning of holdings;
2. It was no longer necessary to have a double majority before a decision could become effective;
3. The cost of re-planning was reduced.

As a result, the speed of re-planning increased considerably. It was soon arrested, however, by the Second World War, which brought practical difficulties in the way of shortage of materials and of workers. After the liberation, work was resumed again as quickly as possible, although the country was completely disorganized.

With the passage of time it has been not only the legal basis that has changed but also the character of land redistribution schemes. They have assumed more and more the character of land improvement. Not only have they provided for the re-planning of properties, but necessary roads and waterways have been constructed. All kinds of works, such as pumps for draining and water supplies, dams, irrigation, and so forth have been installed according to the needs of the land in question. Schemes have made provision for improved road access, and for the co-ordination of the general road system. Wherever necessary and possible, farm-houses have been moved and rebuilt. Plans for the land have been linked up with general town and country planning.

* The Farm Economist, Oxford, Nos. 1 & 2 of 1948.

Finally, measures have been taken so that each new holding could be exploited to the full, as far as reclamation, levelling, drainage, &c., were concerned, so that the capital investment can return a full rent.

The re-planning of land, therefore, has developed into a complete planning measure, linked up in its wider aspects with the layout of the landscape, scientific, and defence requirements.

All this has been done within the framework of the law of 1938, modified in some respects in 1941.

Statutory arrangements for re-planning measures :

The general responsibility for this is put on a Central Commission constituted of official and non-official representatives. The responsibility for the execution of each scheme is put upon a local commission appointed by the provincial administration on the advice of the Central Commission.

The minister of agriculture on the advice of the Central Commission, may sanction, in public interest, a scheme of replanning, having failed to receive the stipulated majority support of land-owners.

After the decision to re-plan holdings has been taken, a local commission is appointed as quickly as possible, and the work of improvement begun. Roads, water course, and bridges may be built, and the land drained, levelled, and cultivated. Boundaries may be changed, buildings taken down, removed, or built as the scheme may dictate. The owners' claims for compensation are brought before a referee appointed by the court.

After the Local Commission has determined the rights of land-owners, the work of valuation of fixed capital is taken up. After that, the local commission starts with redistribution of the rights of each owner within the prescribed framework according to the following statutory provisions :—

(a) The value of the land required for new roads and water courses is deducted from the total value of the land of the entire area. Of the remaining new value each owner receives back his proportionate share. This may not differ more than 5 per cent. unless the owner concerned agrees. Differences of less than 5 per cent. are adjusted in money.

(b) Subject to the provisions above, each owner has the right to receive back as much land of the same kind as he originally brought into the scheme.

(c) There must be access to each plot by a public way and also access to main drains.

(d) Rights to equipment and leases have to be adjusted or given up, the necessary changes being made in money.

(e) Mortgages, &c., are taken over by the new owner. Plots may be allocated to the state against monetary compensation.

(f) Wherever necessary, particular plots may be entirely or partially freed from financial burdens.

Provision Regarding the Cost :

With regard to costs, the law provides that the State bears the cost of the Central Commission (submission of plans, &c.) the land register, the cost of meetings, publications, and the like. All other costs are advanced by the state, and after the scheme has been carried out, they are apportioned among the holdings according to their sizes. The amounts debited to the plots are repayable over a period of thirty years at 5 per cent. and are levied through the land-tax. This so-called 're-planning rent' can be converted according to definite rules.

Execution and Organisation :

The actual work of re-planning is done by a 'Land Service,' which is subject to the control of the Minister of Agriculture. In addition to its Head Office it has local offices whose task is to popularize particular schemes and to inspect holdings afterwards.

The Land Service is concerned with the finance and execution of schemes, and it has power to give state subsidies to owners.

Whereas the state is responsible for all this work, capital improvement is the responsibility of private people. But if they wish, and if they are ready to pay for it, they can have the work done by the state.

The Physical Aspects of Re-planning :

The water problem must be dealt with for a whole area.

The commission carries out land reclamation schemes, levelling and the like, if it deems fit, being guided by considerations of the interests of the area as a whole and without interference by the individual owners. That is in the case of large schemes. Where only a small area is affected the procedure is different. There the owners have a good deal of say in making a plan.

The aim throughout is greater productivity, and on average, 20 per cent. increase in yields is considered possible.

The Financial aspects of Re-planning :

In principle owners must contribute to the cost. But the costs are often so high that without state aid the work could not be done. It is the task of the Land Service to determine in each case the state contribution. This is done as follows. A list is made of all works that need to be done. Then an estimate is made of betterment value, making it possible to balance private gains against the expenditure required. Generally, betterment gains amount to from 25 to 40 per cent. of the total cost, leaving from 60 to 75 per cent. to be met by subsidy. If this should seem high it may be said that the social and economic value of re-distribution may be put at from three to four times the private gain.

It goes without saying that any part of the cost which is not met by subsidies is charged to the particular holding and added to the other costs of re-planning.

17. SMALL HOLDINGS*

General Objectives of Small Holdings Policy and Duties of Small Holdings Authorities:

Land Settlement, in various forms, has had a long history in this country. It has been used to satisfy land hunger among the landless; to settle ex-service men on the land; as a measure of social policy to provide work for the unemployed; and to give those in agriculture an opportunity for advancement by obtaining a holding of their own.

Our task has fallen into certain well-defined sections which may be summarised as follows:

The creation and management of smallholdings.

The principles for the selection of tenants.

The administration of loans for working capital.

These matters are dealt with in separate chapters in the following report, but we feel that we should first call attention to the general policy of Part IV of the Agriculture Act, 1947, and some of its important effects on the policy and practice adopted by Smallholdings Authorities.

The White Paper containing the Explanatory Memorandum on the Agriculture Bill (Cmd. 6996) which was issued by the Government in December, 1946, states that in future "the provision of smallholdings should be determined primarily by agricultural considerations rather than, as in the past, by social considerations." It adds: "The new policy aims at providing smallholdings for letting to people with previous agricultural experience, so that they shall have an opportunity to become farmers on their own account. There are not enough opportunities in agriculture at present for the skilled worker to advance in his occupation at a reasonably early age, and the Government believe that the agricultural industry will never provide a sufficiently attractive career unless further openings are made available to capable men when they have acquired the necessary experience."

In implementation of this Policy, Part IV of the Act provides that:

- (a) smallholdings must be let to persons with adequate agricultural experience;

* First Report of the Small-Holdings Advisory Council: Published for the Ministry of Agriculture and Fisheries by His Majesty's Stationery Office, 1949.

- (b) preference must be given to agricultural workers; and
- (c) loans up to 75 per cent of the estimated working capital required for a holding may be advanced by the Government to smallholders. The Government's aim is, therefore, to provide, through the medium of publicly-owned and efficiently managed smallholdings, a means whereby special facilities are given to the promising agricultural worker, who so desires, to advance in his chosen career.

Smallholdings Authorities are placed under a duty to provide smallholdings for this purpose. As Section 47 of the Act provides: "For the purpose of affording to persons with agricultural experience an opportunity of becoming farmers on their own account, it shall be the duty of every Smallholdings Authority to provide smallholdings for letting to such persons as aforesaid to the extent to which a demand therefor is indicated by applications received by the Authority if suitable land can be obtained for the purpose and the smallholdings can be provided without detriment to the general interests of agriculture."

The first point to which we would wish to draw the attention of Smallholdings Authorities is that the duty placed upon them is to carry out a national Smallholdings Policy. This means that publicly-owned smallholdings must be made an integral part of British agriculture. They must be regarded, not as sometimes has happened in the past, as something artificially grafted on to the industry, but as fully economic units with their own particular problems and requirements arising from their size and the special function they are intended to perform. It means, moreover, that Smallholdings Authorities who have adequate areas of suitable land available have a duty to provide smallholdings not only for suitable applicants from within their own county, but also for applicants from other counties which may be less fortunately placed. The duty to provide smallholdings is limited by the extent to which suitable land is available. We think that it would be most undesirable for inferior land to be used, since the suitability of land for smallholdings is, in our view, one of the most important factors in ensuring that a smallholder has the opportunity to make a success of his work, and this is indeed stressed by the Act itself. The land must be of good quality and properly equipped, and we deal in more detail later in our report with this and other points referred to in this paragraph.

It will also be noted that the duty of Smallholdings Authorities is limited by the extent to which smallholdings can be provided without detriment to the general interests of agriculture. The quota-

tion from the White Paper in paragraph 3 of our report indicates that the provision of further opportunities of advancement for workers on the land is in itself desirable in the general agricultural interest. The creation of smallholdings for the purposes of this policy will, however, necessarily involve the acquisition and sub-division of larger farms, particularly in order to reap the benefits of grouping smallholdings. Development on these lines will tend to alter the present balance between larger and smaller holdings. It will be remembered that out of 24 million acres of agricultural land in England and Wales (excluding rough grazing) over 3 million acres are devoted to holdings below the 50 acres size. These account for 40 per cent. of all the holdings in the country, so that holdings over this size, comprising 60 per cent of the total, account for about 21 million acres. Both the larger and smaller farms have their parts to play in the agricultural economy and we suggest that a substantial reduction in the number of larger units might well prove harmful on balance to the general interests of agriculture. In our view, therefore, Part IV of the Act should not be operated in such a manner as to bring about a radical change in the general structure of the industry. The acquisition and conversion into smallholdings of suitably sized small farms in private ownership would not give rise to the same difficulty, and we suggest that Smallholdings Authorities should give some thought to this alternative means of providing workers on the land with the opportunities they need. In some cases, the formation of a smallholdings estate in this way out of a number of small farms might well lead to very desirable improvements in estate management. On the other hand, it might involve disturbing almost as many small farmers as the number of smallholders who would replace them and great caution should, therefore, be exercised when proposals of this sort are being formulated.

In planning new estates, Authorities must take into account a number of important and in some cases conflicting considerations, with which we deal in more detail later, as for example:

- (a) Estates should in general be compactly grouped to provide easy and economical management.
- (b) At the same time estates must, if suitable good quality land is available, cater for the different parts of the county.
- (c) Different types of smallholdings should be provided, if suitable land can be found.
- (d) A judicious mixture of smallholdings into an area of bigger farms may be of benefit to both.

It is inevitable that any plan which gives proper weight to these and other considerations will mean disturbing existing owning and occupying interests, and in some cases dispossessing efficient farmers. If Smallholdings Authorities were to wait until farms came on the market with vacant possession, as some Councils have done in the past, the result in many cases could only be the acquisition of land not altogether suitable for smallholdings and a fortuitous instead of a planned arrangement of smallholdings estates. On the other hand, as in all matters of public policy, the effect of acquisition on other interests must be carefully weighed. The dispossession of efficient farmers, if carried too far, or so to cause unnecessary disturbance and injury would on balance be against the general interests of agriculture.

The fundamental change in the objective of smallholdings policy and its integration with agricultural policy, will necessitate considerable alterations in the administration of smallholdings, and in particular in the selection of tenants. Having regard to the availability of suitable land, and the general interests of agriculture, it may not be possible to provide smallholdings for all workers who possess the necessary qualifications. On the other hand, it should be possible to establish an avenue of advancement which will cater for a steady flow of agricultural workers into the ranks of those farming on their own account. We deal later with the principles which should govern the selection of tenants.

Many of the tenants of smallholdings will no doubt aim at saving money and moving on to another holding. This will in many cases not be easy, since the number of farms available with vacant possession is at present very limited. We think, however, that when a man desires to move on to another holding, the Smallholdings Authority should give him every encouragement to do so. This will not only help the man to achieve his ambition, but also, if successful, free the statutory smallholding to satisfy the aspirations of some other worker.

We also consider that Smallholdings Authorities should do everything possible to help their tenants not only to overcome the difficulties of their early years when they are learning the business of managing their own farming enterprise but also to maintain a high standard of farming efficiency. By arranging lectures, demonstrations and short courses of instruction in co-operation with the National Agricultural Advisory Service, much could be done to assist the smallholder in overcoming his practical difficulties. We think, too, that the happiness and efficiency of tenants and their families could be greatly increased if smallholdings Authorities would colla-

borate with Education Authorities in satisfying the social and educational needs of all those on their estates.

We would like also at the outset to draw the attention of Smallholdings Authorities to one other matter. The small producer often cannot reap the same advantages as his bigger colleague, particularly at a time when the mechanisation of agriculture is advancing so rapidly. Some at any rate of his difficulties might be caused by the organisation of co-operative methods, as for example, machinery pools, and Part IV of the Act confers upon Smallholdings Authorities full powers to promote and foster such methods among their tenants as well as to provide centralised services for them for the purpose of increasing efficiency in the conduct of smallholdings. The practice of co-operation has greatly developed in recent years in this country, and is being energetically promoted by the National Farmers' Union, the Agricultural Co-operative Association and other agencies. There is, in addition, the experience of the Land Settlement Association and the Welsh Land Settlement Society in the field of centralised services related largely to market-garden holdings. The values of the co-operative principle is now widely recognised, particularly for the small producer, and we earnestly hope that Smallholdings Authorities will take advantage of the opportunity presented by the establishment of new smallholdings schemes in particular to promote such forms of co-operative organisation as are practicable and as experience shows would strengthen the economic position of their tenants. We consider that the question of the possible use of co-operative methods is of such importance that we have set up a special sub-committee to study it, and we shall be submitting a further report on the subject at a later date.

We trust that by these various means, Smallholdings Authorities will be able to make their smallholdings estates practical demonstrations of the way in which small farms can operate efficiently.

With these considerations in mind and in the light of all the other relevant factors, we think that each Smallholdings Authority, within one year of Part IV coming into operation should, in consultation with the Land Commissioner, draw up and submit to the Minister a comprehensive report showing broadly how it proposes to carry out its responsibilities under the Act, including the part to be played by the estate already in its possession. We think that such a report would be of assistance to the Authority and help the Minister to understand the problems of the county and to provide guidance. In its preparation the Authority should naturally consider and indicate those localities where additional land is likely to be required, but we do not envisage that the actual selection of suitable areas

should in general be made by the Authority until the Ministry has agreed to the broad proposals in the Report. This, however is not intended to prevent an Authority from putting up proposals for the creation of smallholdings before its report is completed, where suitable opportunities occur.

Summary of the Recommendations of the Council

We summarise below our main conclusions and recommendations.

1. General Considerations

In this somewhat congested country, it is clearly impracticable to create a number of entirely new agricultural units without disturbing existing owning and occupying interests to some extent. This in itself need not be detrimental to the general interests of agriculture, but the provision of holdings should not be carried so far as to bring about any radical change in the general structure of the agricultural industry.

The acquisition of existing small farms in private ownership for letting to agricultural workers as smallholdings may be a practicable alternative to splitting up larger farms.

The organisation of suitable co-operative methods should be encouraged by Smallholdings Authorities, in view of their value to the small producer. A further report on co-operation including the provision of centralised services is in preparation.

Each Authority, within twelve months of Part IV of the Act coming into force, should draw up and submit to the Minister a comprehensive plan for carrying out its responsibilities under the Act.

2. Smallholdings Authorities and Committees

County Borough Councils should not normally be constituted as Smallholdings Authorities.

Authorities must work in close co-operation with the Ministry of Agriculture and Fisheries, but they should have the maximum possible freedom to exercise their functions.

The Smallholdings Committee of each Authority should be reasonably small and predominantly agricultural in character. It should not be constituted on a representative basis, but all important viewpoints should be able to find expression.

3. Types, Sizes and Equipment of Smallholdings

The three main guiding principles are that:

(i) Smallholdings are to be provided for letting to people, particularly agricultural workers, who have adequate agricultural experi-

ence and the qualities likely to enable them to conduct their own business affairs successfully.

(ii) A smallholding must provide a full-time occupation and a reasonable livelihood for the occupier.

(iii) A smallholding normally should not exceed 50 acres in size. Special provision is made for holdings over 50 acres, and in these cases the annual full fair rent must not exceed £150, and the size 75 acres.

Land used for smallholdings must be of good quality and of a kind suitable for the type of holding to be provided.

An Authority's duty to provide holdings is not confined to meeting the demand from its residents.

Holdings must be large enough to provide a full-time occupation and a reasonable livelihood of £400-500 net income for the tenant and his family.

Three main types of holding are advocated:

- (a) Dairy holdings carrying 15-20 milking cows;
- (b) Mixed holdings with some semi-intensive arable cultivation, and
- (c) Market garden holdings.

Part-time holdings should be discouraged.

Holdings should be grouped wherever practicable, and all holdings should be properly equipped and laid out.

Dwelling houses should be grouped wherever possible with due regard to agricultural needs.

4. Acquisition of Land

Compulsory acquisition of land for smallholdings is justified in certain cases.

The provision of smallholdings on leased land is generally unsatisfactory.

5. Management

Smallholdings should generally be let on the terms and conditions laid down in a model tenancy agreement to be prescribed by the Minister.

Rent should be reviewed in the light of present day conditions.

Joint tenancies are generally unsatisfactory.

Sales of smallholdings to tenants should cease.

Section 52 of the Act lays down these conditions as to be the selection of tenants:—

(a) A general requirement that before letting a smallholding the Authority must be satisfied that the prospective tenant "has had sufficient agricultural experience to render it likely that he is or will become qualified to be a farmer on his own account."

(b) Within the general class of suitable persons defined above, preference must be given by the Authority "as between persons otherwise equally suitable, to applicants who at the time of the application are employed under a contract of service or who under regulations made by the Minister are to be treated as if they were then so employed."

Before we deal with these main principles in more detail, we would like to say by way of general explanation that the conception of smallholdings as a means of advancement for agricultural workers necessarily means in the case of many applicants that their experience may be relatively limited when they apply for a holding. This is particularly likely to be true in the field of management. With this in mind, the Act does not say that an applicant, for example an agricultural worker, must have acquired all the necessary experience before he can be given a holding, but only sufficient experience to render it likely that he is or will become qualified to farm on his own account. No conditions should therefore be laid down by Authorities which might have the effect of excluding men who, though lacking actual experience of managing a farm, yet have the knowledge and ability to adapt themselves reasonably quickly to their new undertaking.

6. Selection of Tenants

Applicants for small-holdings must have at least five years' practical experience.

The majority of new tenants should be in the age range; below 25 or over 50 should be exceptional.

Provided an applicant who is an agricultural worker has the minimum agricultural and other experience, he is entitled to preference over other applicants who are not agricultural workers and is not required to show that his qualifications are superior to those of the other applicants.

Certain classes of workers in the agricultural industry who are not strictly agricultural workers employed under contracts of service should have the benefit of the agricultural worker preference.

Tenants' sons have no prescriptive right to succeed their fathers and they must qualify as applicants in their own right.

Waiting lists of approved applicants should be kept by all Authorities and reviewed annually.

The occupation of existing smallholdings should be reviewed where the holdings are not now fulfilling their proper purpose.

Section 54 of the Act of 1947 enables the Minister to make loans to tenants and prospective tenants of smallholdings provided under the Act or under earlier Small Holdings Acts. This is an essential feature of the policy, for without it the preference to be accorded to agricultural workers could not in normal times be made really effective.

7. Working Capital Loan Scheme

Applicants should not be accepted who are not prepared to finance their holdings adequately.

In view of the substantial sums now required for the purchase of live and dead stock, loans for working capital should be repayable over periods up to 15 years at rates of interest not exceeding 3 per cent per annum.

No repayment of loans should be required for a minimum of twelve months.

Every loan should if possible be secured by an agricultural charge under the Agricultural Credits Act, 1928.

Loans should not be paid over to borrowers in cash, but should be used to settle accounts presented by approved suppliers.

Both as a means of ensuring that a loan is expended only on those items of farming stock for which it was advanced and of educating and advising the new smallholder in the proper development of his holding, we recommend that loan monies should be advanced under the control of the Smallholdings Authority only against goods supplied by approved suppliers. Smallholdings Authorities should require that their tenants should purchase required items of stock, if loan monies are being used, only through suppliers approved by the Authority and should refuse to make payment, out of loan monies held on their tenant's behalf, for goods supplied otherwise. Such an arrangement would apply to the initial expenditure of the loan and not to subsequent replacements out of income.

The various agencies set out below might be employed for this purpose:

A Smallholders' Co-operative Society, which would set up buying and distributing arrangements for the benefit of its members. The Co-operative Society would act in conjunction with the Authority

and would supply farming stock as permitted by the terms of its members' loans. Its accounts might be settled direct with the Authority.

An existing farmers' Co-operative Society, operating on similar lines to the Smallholder's Co-operative and accepting smallholders as members.

Approved agricultural merchants, who would receive orders through the Authority and whose accounts would be settled direct with the Authority.

The Smallholdings Authority itself, which might desire to provide facilities for the purchase of farming stock.

Loan applicants' schemes of production and items of farming stock required must be approved.

Borrowers must keep accounts.

8. Review of Existing Estates

All existing smallholdings estates should be reviewed in the light of the new policy and a report submitted to the Ministers of each Authority within 12 months of Part IV coming into operation.

18. THE SMALL HOLDING: ITS CREATION AND PROBLEMS*

G. Costanzo

One of the most characteristic and significant features of the evolution of the land system in Europe is the wide distribution of the small holding which, under the influence of various factors of an economic, social and political character, has evolved steadily until today it represents the prevalent feature of the land system in many countries.

As a matter of fact, a study of farm distribution in the countries of Western Europe between 1929 and 1933, on the basis of the latest official statistics shows that, in the majority of these countries, the size group of the 5 to 20 hectare farms and sometimes the two size groups of 2 to 5 and 5 to 20 hectares play a large part both as regards numbers and farm area. This group therefore constitutes in a general sense the central nucleus most widely represented in all the agrarian structures of the above-mentioned countries.

In a few other countries the 2 to 5 hectare and the 5 to 20 hectare farms, grouped together, also give a high percentage of farm numbers and areas.

This distribution of the land and, more precisely, the size of the farm, does not in itself represent the information of the small holding, especially because the two ideas of small farm and small holding do not coincide; they indicate, nevertheless, roughly speaking, and according to the country under consideration, a definite trend towards this end. The constitution of the small holding as a particular economic and juridical institute depends upon a complexity of political, social and rural conditions, such as has been evolving more intensely since the second half of the XIX century. It has attained considerable results which are well-known and on which we do not intend to dwell; during the agricultural crisis including the great depression between 1929 and 1932, the value of the small peasant family farm was proved by the greater power of resistance to economic fluctuations it displayed.

Small holding has followed three different trends. On the one hand, indeed, we have the small holding which developed spontaneously and unhindered, with no intervention from the authorities, the fruit of individual toil and savings; in this case, it is mostly a

* International Review of Agriculture, March 1943 (pp. 81E-115E).

matter of farm labourers who, by dint of great sacrifices over a long period and often through intermediary forms of farm working (small tenancy, etc.) have come to own the land they have cultivated, improved and rendered productive; this is the most "costly" form of small holding, the result of slow evolution and selection. This type of creation is found to a greater or lesser extent, in almost every country, especially those of long established agrarian civilisation.

Then there is the small holding created on the basis of definite programmes, more or less extensive and organic in scope, of internal colonization, programmes arranged by governments and carried out with State assistance both as regards technical education and credit. As will be shown further on, there are numerous types of examples. This is the small holding created by government initiative, constituted and carried out for the most part under the control of special settlement organizations. These organizations control and support the movement; the State intervenes, it is true, in this case, to a varying extent, but for the purpose of regulating a movement which still preserves a natural origin and in any case develops orderly both in time and space.

Lastly, we have the small holding which originated essentially in the social requirements resulting after the 1914-1918 war; this is the type which arose in the countries of Central and Eastern Europe in connection with agrarian reforms. Here we are faced with a somewhat tumultuous movement; this is no evolution but rather the immediate creation of small holders, most of whom poor in the live and dead stock necessary for guaranteeing high production on the farm; small holders, moreover installed on land which had not always been prepared for cultivation nor was it always suitable, land which ought to have been subjected to preliminary preparation and was therefore not yet in a fit state for production; small holdings not yet endowed with the indispensable measures of technical and financial aid.

Obviously, the contribution of these three types of small holdings to production and to the national income is not the same and consequently their repercussions on the social system are also different. They must, therefore, be judged according to the positive results obtained within the framework of the systems of agricultural enterprise prevalent in their respective countries.

Importance of Small Holding in Rehabilitation Programmes

For the past few years we have been observing a clearly pronounced evolution in every country towards a more or less integral regulation of all economic activities, intended to guarantee the supreme interest of the community and because, as a result, the problems

of internal colonization and the addition of farm workers to the ranks of small holders also created more and more problems affecting not only the well-being of the individuals concerned, but also that of the nation as a whole, which must ensure the best possible use of all its resources, both human and material.

The small holding should always be considered not only from the prevalent social standpoint, but also on the plane of the new trend of agrarian policy which requires the maximum exploitation of the soil and maximum expenditure of labour and which holds all agricultural labourers, without distinction between large and small holdings, responsible to the State. This distinction, moreover, would no longer be possible today because the small holding constitutes, as we know, the central or prevalent nucleus in many countries and its active participation in the execution of agricultural programmes is therefore absolutely indispensable and of a decisive value.

During the present phase of agricultural economy there is a well-defined tendency to control individual initiative within the framework of national requirements. While leaving to personal interest the task of stimulating the individual, it is nevertheless necessary to direct all productive effort, without distinction, towards the ends pursued by the State.

All those who have studied the situation of the small holding, while recognizing its social advantages, do not at the same time fail to point out the defects which it presents, defects which may be summarized as follows:

a) Inadequate area of the holding is often out of proportion to the working powers of the peasant family and therefore incapable of guaranteeing its complete livelihood. This disadvantage was observed particularly in the agrarian reform countries, in some of which provision was made for its elimination by enlarging the original farms. The lack of independence of the smallholding places the small holder on the same level as the hired labourer pure and simple, the latter from some points of view finding himself in a better situation than the former as he enjoys the benefits of social legislation; the non-independent small holder, compelled to seek work outside his own farm, lays a burden, too, on the local labour market; he cannot therefore be considered solely as an owner, but must be considered also in the various labour combinations in which, in each single case, his economic activity is incorporated; otherwise it is impossible to understand how some of the small holdings can continue to exist.

b) Lack of technical training of small holders; this was observed specially in cases where they were created suddenly as the result of a mass movement (agrarian reforms).

c) Lack of capital: the small holder who, by dint of great sacrifice over a long period, succeeds in purchasing a piece of land, if he has not been able to do so by means of fair credit terms and on the basis of special settlement programmes, arrives at ownership under bad financial conditions; he has little or perhaps no working capital, nor is he always able to procure any; thus, even at the beginning of his activity he finds himself handicapped financially and, since he cannot provide the necessary capital for his new land, is obliged to expend a greater effort in labour, often to the prejudice of his own health; to lack of capital in cash is added in many cases a lack of the indispensable equipment for cultivation of the land and this is the result, to a great extent, of the lack or shortage of working capital mentioned above.

d) Lack of business ability in making contracts; another weakness of the family undertaking is found in its commercial activities; satisfactory prices for purchase and sale cannot be obtained when small quantities of produce are handled; moreover, it often happens that the farmer must sell at an unfavourable moment, because he stands in absolute need of cash and has not sufficient instruction to adjust his own business satisfactorily; this is also due to the problem of locality, as his farm is often situated far from the large centres.

e) The small holding is also often subject to the disadvantages of parcelling and reduction into small plots, due for the most part to the succession system which will be discussed below; it may be stated that it is now generally recognised that the small farm holding is not in itself a perfect system; it requires to be integrated by wise action on the part of the State and by co-operation. While most people are agreed in considering that the existence of a numerous class of farm owners with small and medium-sized holdings is of considerable social and political advantage to the community as a whole, it is also admitted that this advantage would be too costly were it not accompanied by advantages to the national economy, i. e. were it to lead to a decline in production. As a matter of fact, this decline in production has in some cases actually taken place although perhaps only for strictly local reasons.

Remedies

While agricultural economists are agreed in complaining in some cases of the above mentioned defects of the small peasant farm, they are also agreed in pointing out the remedies. In the first place, they assert that the small farm holding, like every kind of enterprise, has its own zone of economic advantage, i.e. the one in which, in relation to existing agricultural conditions, it represents the most useful instrument for production. The chief features of this zone of

economic advantage are constituted by the kinds of crops which can be grown, and these must be capable of making the utmost use of the activity and industry of manual labour, rather than of the strength of capital and the skill of technical management; in the second place, a sufficiently regular distribution of labour during the year or else the possibility, for the same purpose of combining, with the small holder's work on his own land, other outside work of some description. Naturally, the zone of economic advantage of the small holding may be greatly enlarged if it has a given organization and given characteristics, namely wherever it is autonomous, in the sense already indicated, namely not broken up into allotments, where real collaboration exists between the small holdings and where the peasants have been given vocational training and are of irreproachable moral character.

Credit distributed by rational lines, co-operation, vocational training and an adequate marketing organization are indicated, as a rule, by authors, as the principal and most suitable means for strengthening small peasant holdings. They must also be protected against the risk of excessive parcelling which has an adverse effect on the soil's productivity; in some States effective measures are now in force to prevent this risk.

Among the methods for preserving the small holding mention may be made, too, of measures tending to limit the purchase price of land, which is equivalent to the prevention of overindebtedness, another factor which often weakens this class of farmers.

Above all, it is recommended that the formation of the small holding should not be forced by means of standardized provisions. The selective process is stimulated by all that is being done today by governments for advancing vocational training, and welfare, technical and economic organization as also by an organized system of agricultural credit and co-operation.

It will now be of interest to study, in more concrete form, and in connection with the problems described above, the attempts made in various countries to organize the small holding in the best possible manner and to create in it a valuable instrument of production in the common interest.

In the first case, in effect—formation of the small holdings as the result of a natural process—the basic element, namely the soil, is sought for in each instance, often with great difficulty, on the open market, usually in face of bitter competition and subject to the action of intermediaries which increases the cost; moreover, when the purchaser has no capital of his own, he must also solve the credit problem obtaining the necessary purchase money from private individuals or banks and often contracting heavy indebtedness; thus a difficult finan-

cial situation is created from the outset, a situation which acts as a drag on the progress of the farm and its results; moreover, "land hunger" closes the purchaser's eyes to conditions of climate, soil and locality in relation to the market, conditions which sometimes are not any too well suited to profitable production. We will pass over in silence the other disadvantages and inherent defects of this method of formation, which prove that the small holding created spontaneously does not always correspond, in its structure, to the requirements of the best productive system and that it is open to the risk of disappearing again.

In the second case, instead—settlement—and in the third—agrarian reform—although to a much smaller extent, the fundamental problems affecting the formation of the small holding are solved systematically by the Governments, on the basis of standards of public utility.

As regards the first point, it is obvious that wherever a system of agrarian utilization of the soil is already in existence and, at the same time, a given distribution of property, the scope of constituting new small holdings according to a settlement plan involves the need, as Prof. A. Serpieri observes, of altering the existing system and distribution; this also implies other adjustments in the land system and agrarian organization.

Moreover, consideration must be given to the quality of the soil, its initial suitability to cultivation, the climate and the matter of vicinity to the market. The peasant farm will be sound and peaceful only after the indispensable work of land transformation has been carried out over the district as a whole and when the works and utility services common to all the individual undertakings have been duly ensured. One of the most recent instances of a suitable adjustment of land for settlement is offered by Italy, where, through "integral land reclamation" the necessary conditions have been created in many regions permitting families of small farmers to settle permanently in given areas.

Problems of capital importance when instituting the small holding are those of the size of the property and the price at which the land has been purchased. If it is to meet economic requirements, a peasant farm must obviously be sufficiently large, in proportion to the number of the holder's family, for whom it must supply work and a living, and in proportion to the type of crops grown and the equipment available. As a rule, in the case of each type of farm, there is a size which at a given time and in a given place is, from the economic standpoint, the most suitable and useful; holdings must approach this size as closely as possible, so that human labour, and

that of the draught animals, the immoveable capital and the machinery may give the best possible return.

The lack of close proportion between the working capacity of the peasant family and the area of the land cultivated has often been one of the causes of the failure of agrarian reform in south-east Europe. The problem of the size of the farm in connection with its productivity has recently been realized with growing comprehension in Roumania, among other countries, where the evil consequences of excessive splitting up of property have been fully recognized. In particular, it has been remarked that the smallness of a farm is an unfavourable factor in the economic application of many technical methods, and especially of machinery. An attempt is being made today to attenuate the disadvantages by creating co-operative labour communities, and a law recently promulgated which will be discussed below, offers special facilities for those organisations. In order to adjust the size of the farms to the families which cultivate them, many countries have provided for the enlargement of the original allotments. It should however, be remarked that sometimes the extreme smallness of the farms is not a defect of origin, but has come about subsequently as a result of partial alienation of land or hereditary succession; these are facts which have led to the two disadvantages of excessive sub-division and dispersal of property, both very widespread among small holders and against whom energetic measures have been taken.

Another fundamental problem is that concerning the price of land, and upon this depends in a large measure the economic success of the small holding. In an article which we devoted to the land market we described its special features dependent to a great extent on the fact that land is as a rule much sought after possession, but is limited and cannot be reproduced or can only be reproduced to a limited extent by the creation of new land by means of reclamation. There is, therefore keen competition among candidates for its possession and this is principally true as regards peasant farms, for which, as is well-known, the soil does not represent an investment of capital but rather an instrument for work, work for them being a manner of living and the very purpose of farming. The great demand for small holdings and the scanty supply, in normal times, of this type of farm, renders its sale-purchase value, as a rule, far out of proportion to the larger or smaller income derived; in other words, it is liable to over-valuation, due to the work of speculation who exploit the peasant's ambition to become economically independent. On the other hand, the regime of uncontrolled contracts which prevailed until a few years ago has given rise to excessive prices in land values. Nevertheless, as a result of the evolution of

modern political and social ideas, the notion regarding land has gradually modified: it is finally recognised as a possession of a special nature and different to others, as the source of human nourishment and the basis of the State's social and political resistance.

So the opinion has gained ground that land should no longer be bartered like other property, with the consequence that State intervention has been called upon to ensure an equitable purchase price, thus indirectly encouraging the process of the formation of the small holding and consolidating its existence.

Many authors have considered State intervention advisable when restricted to the regions most suitable for cultivation and where the scarcity of land offered on the market leads to overvaluation and speculation.

Recent instances of aggravated speculation in rural property, instances connected with the abnormal situation of the money market, have led some countries (Germany, Italy, Japan, the Netherlands, Sweden, Switzerland), to introduce control, both direct and indirect, on land prices.

It will be seen, therefore, that there is a trend towards bringing the land market back to normal by eliminating speculation, having regard to the recognized social function of land-lordship. This new trend, on the other hand, is in perfect harmony with control of the market for staple products, a control which has not been introduced, under varying forms and to a greater or lesser degree, in the majority of countries.

Another important point in the formation of small holdings is the choice of the most suitable elements for their development. In the one case we have already described the natural process of selection by means of which only those who are best prepared financially and vocationally become or should become owners. On the other hand, in the second case contemplated, namely in that of the small holding created *ope legis*, the persons to whom the land is allotted must, as a preliminary condition, possess given qualities and offer certain guarantees of vocational ability and moral aptitude.

Lastly, another problem in connection with the creation of the small holding is the matter of credit. Under an ideal system the worker who aspires to become a small holder must possess the means to pay at least part of the purchase price. But this supposition is not always realized. Here, too, the usual distinction must again be made: in the case of the small holding created by the spontaneous initiative of the individual, credit is generally granted by private persons or ordinary banks, or even by co-operative banks which do not, however,

specialize in these operations; the credit granted is, therefore, as a general rule, of a burdensome nature, either because of the interest rate imposed, or because of the arrangements for re-imburement; on the other hand, in the case of the small holding created on the basis of legislation concerning home settlement, the laws promulgated generally provide for special credit terms and conditions regulated and controlled by the authorities, which is equivalent to saying on the fairest possible terms. These special credit institutes do not confine their activity merely to the granting of loans facilitating the purchase of the property; they also finance land improvement works (rural buildings, land drainage, irrigation, electrification, etc.), thus supplying the funds for the complete establishment, in the widest sense of the term, of the small holding. Credit assistance granted under these conditions has developed widely and under many forms, offering an interesting basis for separate study.

Starting from these general considerations concerning the problems affecting the creation of the small holding, we will now turn to a more positive study of the solutions adopted by some countries.

Non-Credit Measures

Italy: The following principles have been applied in the case of the Sicilian *latifundia* (Law of January 2, 1940). Landowners, even when their estates are not situated in the districts subject to reclamation, are compelled to arrange for the settlement of their land by creating economic farm units (*unita poderali*) and installing thereon families of settlers according to the instructions issued by the Ministry of Agriculture and Forests, in the way and according to the terms established by the said Ministry. They must also introduce suitable technical management and adopt the new durable labour relations tending to improve the land by guaranteeing a fair wage to the agricultural worker who undertakes the task of improvement. If the owner in question has not adequate financial means for carrying out the work of transformation on his estate, a public institution specially created by the Government, for the purpose, the *ente di colonizzazione del latifondo Siciliano* assists him by advancing the sums he may require. The aim of this institution, which at the present time disposes of 1,000 million lire, is to give technical and financial assistance to landowners in the work of transforming their productive organization and, if necessary, to proceed directly with the settlement of the land of which it has acquired the ownership or temporary possession.

Switzerland: In the case of this country very special mention should be made of the Financial Guarantee Bank for Agricultural

Workers and Small Farmers (*Casisse suisse de garantie financiere pour ouvriers agricoles et petits paysans*), created in connection with the Swiss Peasant Union; its task is to help farm servants and the sons of small peasants with limited means to take over an independent farm. This Bank, by means of the guarantees it is in a position to offer to creditors, could very often make the conclusion of a purchase contract or lease possible; it does not, however, study the problem in each separate case from this angle only. Its offices seek to find out above all whether all the conditions are fulfilled enabling the candidate and his family to earn a certain, though very modest, livelihood under present conditions on the holding they have in mind. But the Bank considers that there would be no sense in allowing a young farmer to purchase or rent a farm if the solid foundations essential to the development and prosperity of the enterprise are lacking from the very start. Great care is taken in the selection of candidates suitable to the management of an independent farm.

Sweden: As a rule, all intermediary operations for the creation of small holdings are the business of the Government organization. A special service has been created for the purpose. In the case of family farms, care must be taken that the estate be of a size and structure suitable for the creation of a profitable farm. When auxiliary farms are being established, it must be ascertained that there is a permanent possibility in the district of obtaining work or otherwise providing for the needs of the family. Even in this case, care must be taken that the farm in question is of a size and structure answering the aims in view. When the addition of supplementary land is contemplated for the enlargement of incomplete farms, account must be taken of their situation and of all the other circumstances which may prejudice the end in view, in order to guarantee that the farm's social income, after enlargement, is in reality improved.

Very generous credit assistance by the Government is contemplated in connection with the creation of small holdings of the various types mentioned. It should be stressed that no loan may be granted unless the purchase price of the property and the installation expenses are considered fair. The borrower must be known to be orderly and prudent in financial matters and he must possess the personal qualifications necessary for accomplishing the tasks which devolve upon him. He must be capable of operating the farm according to the end in view and must not be lacking in the means enabling him to contribute, to a certain extent, towards the realisation of these ends. Loans for the purchase of a family farm or of a supplementary farm may be granted only for obtaining a holding whose value does not exceed 30,000 crowns or, in exceptional cases, 35,000. The amount of the value of the real estate must correspond

to the sum which it is supposed a normal purchaser would pay, due account being taken of the return on the property during a given period.

The Problem of Credit

The problem of credit is of particular importance and therefore deserves to be discussed separately, since, in the majority of cases, as has already been stated, the candidate for ownership of a small holding is either absolutely without capital or only disposes of a minimum amount; in the latter hypothesis, the small savings are used, in most cases, to pay part of the purchase price of the land; it is then necessary to have recourse to credit to obtain the sum necessary for completing the purchase price and also for putting the land under cultivation, a process which often calls for the execution of land improvement works, however modest these may be. The result is that the small holder usually has need of all three types of credit, namely, long term, medium term and short-term credit. When agricultural depressions occur, credit requirements usually increase, simultaneously with a decrease in the possibility of obtaining loans.

The credit requirements of the small holding have been particularly great during the past years in the States where, after the world war, the Governments have altered the traditional agrarian structure and rural economy of the country, especially by means of the breaking up of the large estates to create farm properties, of small and medium size.

In order, on the one hand, to facilitate the attainment of ownership of a small holding on the part of workers and, on the other hand to recondition these holdings and guarantee the means developing them, the public authorities have almost everywhere been obliged to contemplate the concession of credit to farmers and to the various co-operative associations which have been created to group the new small farmers and enable them to live economically.

We have already seen that there is a steadily increasing trend towards the organization for small holders of a service of Government loans co-ordinated with settlement schemes; this trend meets a very urgent need and the public authorities alone have, as a rule, not only the necessary funds but also the possibility of according credits on terms and at the rate of interest suitable to this particular category of agricultural worker. Indeed, on the one hand, in most countries the small agricultural credit societies (rural banks, etc.), which have grown up, mainly, by private initiative, tend to specialize rather in short term credit operations; on the other hand, the

organization of medium and long term credit, so necessary to the small holder, calls for considerable resources which must be available for a fairly long period; and, besides their capital and reserves, the agricultural credit societies created by private initiative have little more at their disposal than the deposits entrusted to their care. This being the situation, the advisability is now admitted of State intervention in the form, in some cases, of the creation of special public institutes for financing small holdings. Some very interesting cases of this description are in existence. In Germany, for instance, the law dated December 7, 1939, concerning the Deutsche Landesrentenbank is of extreme importance for home settlements; under this law, the Preussische Landesrentenbank was raised to the rank of a Government financial institution; it is now the only institution in the Reich which grants long term loans for home settlements.

Medium and long term credit operations are now effected to the great advantage of small farmers especially, almost exclusively by public establishments or by special companies created by the State. Several States, especially in the Balkans where the small undertaking is absolutely predominant, have created specialized banks. agrarian banks, in most cases for the purpose of completing and consolidating the country's new economic organization, as a result of the measures adopted in connection with agrarian reform and market control. Most frequently, these institutions have realized the utility of founding their business on co-operative organizations and they have done everything in their power to guarantee their development.

It is believed that if agricultural credit institutions are to play a really satisfactory role, they must not only offer the possibility of purchasing a small farm to farmers with the necessary qualities of diligence and economy, but must also place at their disposal the funds required for its development.

The problem of credit for the small holding has been very carefully studied in Roumania by commissions of experts who have accomplished their work at the National Bank, for the definite purpose of reorganising this form of financial aid. It has been concluded that the credit indispensable to the small holder must, generally speaking, correspond to the following conditions: a) it must be in direct relation to productive requirements; b) it must be adequate to the end in view in order to prevent the small holder from being compelled to have recourse to other creditors who would oblige him to pay much higher interest; c) the term when the instalments fall due must correspond to the purpose for which the loan has been granted; d) that strict control be exercised over its use to prevent its being diverted for other purposes than those for which it was con-

tracted; e) the credit institute must be situated as close as possible to the site of the property in order to avoid the necessity of costly journeys on the part of the borrower. The National Institute of Agricultural Credit, created in 1937, on Government initiative, for the purpose of granting loans solely to medium sized and small holdings, has adhered strictly to the regulations described above.

Co-operative Assistance.

Apart from the question of credit, which has been satisfactorily solved either through public organizations (long and medium-term credit) or through organizations of a co-operative form credited by private initiative (short-term credit), a no less serious problem which faces the small farm is the problem of supplying the means of production and the sale of their products. Small farmers, mostly scattered over the countryside and far from inhabited centres, are not, as a rule, well-informed as regards prices of products and equipment as well as concerning the movement of the market; moreover, as they are not very practical businessmen, they are often the victims of middlemen and profiteers. This matter is of particular interest in connection with the small and medium-sized farms producing specialized crops for exclusively commercial purposes. Switzerland is a case in point. A recent work by Prof. E. Laur, published by the Swiss Peasant Union demonstrates that on the medium-sized peasant farms the area of natural meadows is always very high, varying on the farms reviewed from a minimum of 20 to a maximum of 98 per cent; consequently, in the formation of the gross product, the production of milk and its derivatives is of prevalent importance everywhere, and this is why almost all these farms are characterized by extreme dependence on the market; the amount of the gross product taken to market varies, on these farms, from 70 to 90 per cent.

Now the means recognized as most suitable for eliminating this situation which is unfavourable to agriculture is that of the union of the small farmers in co-operative societies. Students of the subject are agreed in admitting that the development of the small peasant holding depends in a large measure on that of co-operation. Supplies of means of production and, above all, the sale of products can best be organized in common. Consider, in particular, the difficulty encountered by small farmers in arranging for the sale of perishable products (vegetables, fruit, etc.), and of those, too, for which they have not, as a rule, the necessary equipment for dealing with industrial and homogeneous qualities, (wine, oil) or for preservation and transport; consider, too, the difficulties, still in the case of small holders, of marketing those products which cannot easily fetch their true value unless through co-ordinated commercial action on large markets.

Long experience, in numerous countries, has proved that the co-operative system lessens the technical and economic disadvantages inherent to the small farm, which it strengthens, guaranteeing its vitality. This is confirmed by the fact, that in those countries where the small holding is most widespread and progressive, the development of the co-operative movement is also more extensive. The following may serve as examples.

Agrarian Reforms

Passing to an examination of agrarian reform countries, we will limit ourselves to the mention of the case of Roumania alone, where the co-operative movement is becoming very widespread and an essential instrument in the renewal of national economy. Here the co-operative societies have the following purposes in view: to procure credits for their members, purchase or lease land, execute land improvements schemes, organize work in common use, use machinery in common, supply the members with the products necessary for their occupation and for the exploitation of the products of their work, etc.

It would take too long to describe here the developments of co-operation in other countries where the small holding is more widespread. It will suffice to observe that the growing participation of the small holding, especially in the forms of co-operation in credit, purchase and sale, and the strong support given to these forms by the Governments are the best proof of the fact that their function is indispensable.

Technical Assistance

The most serious and less easily reparable failing of the small operator is that encountered in the technical field. It appears under two forms. We are, of course, speaking of the countries where agricultural and social evolution, for reasons partly historical and partly political, has been slower. The two forms of this failing may be said to be one subjective, the other objective. The former consists of the scanty technical training of small farmers often coming from the class of mere labourers and having suddenly become agricultural workers, without having received that gradual training which alone can guarantee the rational organization and management of the undertaking; the second form of the technical inadequacy of the small holder, the one which may be called objective, consists in the insufficient technical equipment of the farm and also in the fact that the dimensions of the holding are not adequate for the existing labour strength nor for the type of crops grown.

Undoubtedly these two forms of the technical inferiority of the small holding are greatly to be deprecated in an extremely dynamic phase of agriculture, such as the one through which we are now passing, a phase in which, as a result of the trend towards self-sufficiency, all the agricultural energies are called upon to offer their maximum contribution for the satisfaction of the growing demands of production.

In order to obviate the scanty technical training of the class now under review, two methods have, as a rule, been adopted; by organizing above all vocational agricultural instruction, under the most varied forms, and by creating various services, most of which are public, giving technical aid to the small farmer. The importance of this instruction is becoming daily better understood and much is being done by the Governments to organize it in the most practical and profitable way possible.

In Italy, for instance, vocational instruction is given not only to farmers, owners and tenants by the inspectorates of agriculture, but also to simple field labourers by means of temporary courses of an essentially practical character, organised in the principal agricultural centres and divided into general and special courses; the former, dealing with fundamental notions of agriculture; the latter, with definite agricultural operations and practice, completed, with the help of specialized workers, with practical work in the field, inspection of demonstration fields, visits to well-organized farms, films, etc.

For the vocational training of peasants a special organisation for their instruction has been founded in Germany; this organization is to provide, by means of a four-year course, a basic training for the occupation of peasants. After the first two years of instruction, the apprentice will sit for an intermediary examination and, after another two years, for a final examination. The youth who comes from the country will be able to take his training in part even on his father's farm; he will, however, have to study for at least a year on another farm. Before the winter ends, 60 to 80 of the best farms will be selected in the 700 rural districts and on these farms the young agriculturists will serve their apprenticeships.

The better to attain their end, in many countries special technical aid services have been organized for the small farm. This is the case in the Netherlands. Since the small farm plays a very important role in agriculture in this country, it had to be protected. With this end in view, in 1934, it was decided to create a special service which began to operate on November 1, 1937. Information and advice are given to each small farmer by the officials of the crops of agricultural advisers who manage this institution. Each official has a small

number of farms under his supervision. Small farmers are divided into three categories: the first—A—groups those who work regularly for third persons; the second—B—those who work for the most part of their own farm, but who do not find that it absorbs their whole work, because it is too small to offer them a livelihood, and who therefore from time to time seek work on larger farms; the third—C—those who have a small farm which occupies their whole time but which, in time of depression, does not bring in enough to allow them to live. So, on condition that the persons concerned follow the advice given by the agricultural advisers, those belonging to category B receive a weekly cash subsidy, while those belonging to category C receive purchase coupons enabling them to obtain implements at very reduced prices, or even sometimes gratis. The cash subsidy varies in direct ratio to the return obtained from the farm and in inverse ratio to the size of the family. The purchase coupons are delivered after computation by the official of the Service of the use made of chemical fertilizers or cattle fodder, or after he has ascertained that the farm is in need of certain machinery or equipment.

A special form of technical assistance to peasant agriculture has been introduced in Hungary, where the Government has taken action in favour of the construction of silos, maize barns and model manure-pits in small farms. Vocational courses have been instituted for completing the instruction of fixed hired labourers for the purpose of spreading agricultural knowledge. A further stimulus to technical aid for small farmers is to be found in the law recently passed by Parliament concerning the encouragement of agriculture. Under the terms of this law, model farms are to be established in each commune and experimental farms in each district. Exhibitions, produce competitions and the organization of educational tours are also contemplated. The installation of agricultural administration must be completed in each commune by means of the appointment of skilled farmers who will have to make known and check the measures intended for the encouragement of economy (communal economic supervisors).

Organizations of agricultural owners have been created in Roumania, to obviate the disadvantages of small farms considered as unsuited to insure the upkeep of a family. The agricultural association is managed by five mandatories; technical and administrative control is effected by the head of the agricultural district. Members of the association are compelled to cultivate their own estates on satisfactory lines and according to the plan drawn up by the head of the agricultural district. Participants are expected to pay in a subscription proportionate to the area of their holding, to serve as

a rotation fund. A minimum of fifteen associations may form a union for the purpose of co-ordinating their activity.

There is a tendency in Roumania to create larger and better equipped farm units capable, that is, of raising production to the level required by the new aims of agriculture. Now, since the old small farms created under the agrarian reform cannot individually supply their own equipment, this new type of association among farm owners has been worked out, for the definite purpose of eliminating by means of common action, the shortcomings of the individual.

Mechanization

When the small holding is under discussion, mention must be made of another basic point, namely that of mechanisation. Now, for the small holdings also, and especially, when they are fairly large and lack adequate or suitable labour strength for the crops grown, the problem may and does arise concerning the use of machinery. This problem should be studied under several aspects—technical, economic and social. The first of these consists in creating the type of machinery which best answers the physical conditions of the environment where it is to be used. It may be stated that, thanks to the constant and tenacious effort of experts, many of the difficulties encountered by this adjustment have been overcome. The second problem consists in knowing whether the cost of purchase and operation of machinery (fuel, lubricants, spare parts), can be carried by the farms under discussion.

Doubtless, a relation must exist between the size of the farm and the extent of the use of machinery. It is admitted that machinery is, as a rule, best suited, from the economic standpoint, to the large farms, but it is also true that recently there has been a movement which tends to allow medium-sized and small farms too, to profit from mechanization, either through the construction of tractors suited to the technical and economic requirements of these farms or by establishing co-operatives among the smaller farms for using machinery in common.

In countries with small and medium-sized farms and, therefore, in most of the European countries, where the farmers who could afford to purchase expensive machinery and make full use of it were few, mechanization was introduced on a co-operative basis. Before the outbreak of hostilities, Europe had roughly 30,000 agricultural syndicates or general agricultural co-operative societies. Most of these organizations enabled the small farmers, their members, to purchase their usual implements more cheaply or more often, to use the latest types of machinery in common. This function was sometimes filled by special co-operatives; besides the agricultural

syndicates and general agricultural co-operative societies already mentioned, there were in Estonia 283 co-operatives for the use of machinery and 400 in Finland, 670 threshing co-operatives in France and 800 in Germany, 286 machinery co-operatives in Latvia, 133 in Lithuania, 460 in Switzerland, 64 in Jugoslavia, etc.

The recognized necessity, under given circumstances, to use machines even on small farms has led many governments to procure them for small farmers on special terms.

The data given above concerning the gradual extension of mechanization even on small farms and concerning Government aid granted for its encouragement are the best proof that, as we have asserted, this type of farm, too, should use, within the limits of its means, this modern method of production; also for the reason, which must not be overlooked—in so far as it concerns the social aspect of the problem—that the aim of mechanization is not concerned with economic advantages alone, but equally with the object of facilitating labour and often a better organization of the farm.

Under the present rule of mechanism—writes L. Feraud—with the shortage of hands which continues to prevail in agriculture, it must be admitted that a low-powered machine is now indispensable to the dynamism of the small farm and that electricity is the only power capable of placing it at the practical disposition of the staff.

Of course, electrification of the small farms presents, as a rule, very complex aspects. The chief of these is of a financial nature. The solution of this problem must doubtless be sought for the most part in State aid and credit.

Credit, co-operation, trade organization, vocational instruction, various forms of technical assistance supplied by the authorities, mechanization and electrification constitute so many means for supporting the small farm in its working and for contributing to its strengthening.

The integrity of the small holding may easily be compromised especially in countries where entire freedom still exists in connection with the division of real estate either by an act of the living or as a result of death.

Excessive splitting up of the land and the dispersal of the plots has been provided against, as is well-known, by the consolidation of the land and the modification of the succession laws.

Most of the European countries have made arrangements for regulating the work of consolidation including Germany, France, Italy, the Netherlands, Portugal and Switzerland; consolidation was

formerly only possible where a voluntary unanimous agreement could be reached between all the interested parties in order to avoid trespassing on private property. Later, when operations had to be started, it lay with the majority of the parties concerned to decide in favour of consolidation, the others being then compelled to take their share in the work. But since, meanwhile, consolidation has steadily demonstrated its accruing advantages with increasing clarity and since, on the other hand, the general importance for the country as a whole has in the long run been recognised, the number of the majority required by the various legislations has gradually been reduced. In regulation to the gradual disappearance of the conditions rendering consolidation dependent on the request of the parties concerned, this operation could be decreed exclusively by the Government and executed by the authorities.

Conclusion

It has been seen that the small holding is created either spontaneously or as a result of government initiative. In the former case there appear in its formation and development defects and disadvantages which weaken its organism. These may be summarized as follows: Abnormally high purchase price of the land and consequently frequent serious indebtedness, insufficient area of the holding which renders anti-economic the use of many forms of equipment; defective technical management of the farm; reduction of the area due, in many cases, to acts of alienation or hereditary succession. The remedies adopted for these defects have been indicated. These are partially counterbalanced by the greater relative resistance of the small holding depending on the fact that it is founded chiefly on the labour of the family, labour which is interested in the highest degree in the results of the undertaking, and is therefore careful and assiduous.

In the case of the small holding created by Government action, on the other hand, the above-mentioned weaknesses are, as a rule, more or less eliminated from the outset. In the first place, the price at which the land is granted is fixed at the lowest possible level and is paid over a more or less long period of time in most cases in instalments and with funds advanced by public credit institutes. In the second place, the land assigned is already to a greater or less extent prepared for cultivation; indeed, the laws recently passed in this connection show that there is an increasing tendency to coordinate settlement with land reclamation, which offers the new workers an opportunity of considerably simplified work as well as a saving of labour and expense. Moreover, public welfare services are often organized to assist the new settlers and they are given special help on favourable terms, both in kind (supplies of machinery,

implements, fertilizers, etc.) and in cash. Lastly, the cession of the allotment to third parties or its sub-division, for any motive, whatsoever, is forbidden for a given number of years. Of course, in order to obtain an allotment of land, under the government settlement schemes, the applicant must possess certain qualifications which are strictly defined by law; as a result, many candidates for holdings, however deserving of consideration, are excluded from the benefits of settlement. Consequently, while feeling bound to declare, as a general rule, in favour of the small holding created by public action, it is impossible to overlook the small holding, created by spontaneous initiative, more extensive as to numbers and substantially more interesting. In connection with this very aspect, the problems concerning its formation, development and preservation have been studied in the foregoing chapters.

It would seem to us, therefore, that these problems should, even now, be taken into consideration anew in order to prevent the recurrence—after the present war—when many ex-soldiers return to the land, of the regrettable difficulties which were observed after the last war. Timely intervention on the part of the authorities for the regulation of this movement and the anticipation of its pathological manifestations is obviously a vital necessity. Substantially, it is a matter of preventing the formation of new small holdings on an irrational basis by means of timely control. This would be all the more regrettable considering the complex duties which, after the war, will have to be fulfilled by agriculture and the rural classes. Not only will it be necessary than to obtain the highest possible rate of productivity in order to guarantee the maintenance of the population worn out by their long labour efforts and great privations, but it will also be necessary to reconstitute the stocks of foodstuffs and raw materials indispensable for the revival of activity in the various branches of production, industry and trade; this will call for a tremendous effort requiring the co-operation of every category of farm, without distinction, large and small, and especially on the small farms which constitute the chief nucleus in many countries. It is therefore necessary that they are organized in such a way as to become efficient organs of production, destined not only to supply the needs of the family, but also the growing demand on the markets. During the reconstructive phase the small holding will have to be protected and strengthened to the utmost, since it undoubtedly represents a great reserve of productive, demographic and moral force. The chief aim will have to be that of establishing greater harmony between the vital needs of the peasant family and the extent and productivity of the holding it cultivates.) The critical situation of many small farms originates in this lack of harmony. The solution of the problem concerning the small holding lies in

the balance between the means available and the ends to be attained. Now, while there is an uninterrupted trend towards this objective, many countries are still far from having attained the end in view.

In order to determine the correct ratio between the small holding and the requirements of the farmer owner's family, it would be indispensable to make a careful study of agricultural production as existing in the territory where the farm is operated, the cost of production and returns, living and working conditions of the small holders and the family budgets. By means of these and other factors of the same description a general view may be obtained by means of which it will be possible to organise the new small holding in the best possible manner.

The economic and social situation of the small holders among whom are included a large number of small landowners, has not failed to attract the attention of the Mixed Advisory Agricultural Commission, acting as a liaison for collaboration between the International Institute of Agriculture and the International Labour Bureau. In its meeting of December 12, '38, this Commission, outlined a study project concerning the situation of the small farmers, with special reference to the non-independent farmers, whose holding does not suffice to satisfy the family requirements and whose livelihood is consequently dependent on earnings outside the limits of the farm. It was recognized that the small holders' situation could be bettered by means of measures of a general nature and by others of a special character; the latter include, in the first place, an increase in the farm income or in the income obtained outside the farm in the case of non-independent farms. The increase in the farm income was contemplated as follows:

- a) increase in the area of the farm, by means of home settlement, adequate agrarian reform, etc.
- b) crop improvement through the organization of technical assistance to the small holding, vocational instruction.
- c) reduction of the technical and economic inferiority of the small holding in comparison with the large farm, by means of co-operative organization of sales production, credit, insurance, etc. for small farmers, by better organization and extension of agricultural credit in those particular forms which are suited to the needs of the small farm, by special fiscal system favouring the small farmer, by the vocational organization of the small farmer.

As regards an increase in the income earned outside the farm, this could be obtained, again according to the above mentioned commission, by:

- a) the organization of labour within the district with the object of obtaining a better distribution of labour among agricultural and other activities, as well as by the regulation of wages and labour conditions;
- b) the encouragement of regional rural industries;
- c) the encouragement of work in the home for account of undertaking;
- d) the encouragement of emigration from the regions suffering from rural over-population;
- e) the creation of industrial activities for absorbing surplus labour in the country.
- f) the encouragement and rational organization of temporary and seasonal emigration of labour in these areas.

But any programme for the improvement of the situation of small holders must be drafted after taking strict count of the evolution of agrarian policy following on the great economic depression of 1929-32 and the general trend towards self-sufficiency. It is justly observed that at the present time, the Governments no longer confine themselves to advising and persuading; they determine the duties of their citizens and compel them to carry them out, each according to his rank; they do not even hesitate, if necessary, to make attempts to limit their economic liberty and the exercise of their rights of ownership.

Ownership is now regulated according to collective interest. It has ceased to be a private fact. It has been said of ownership that it is a social function. In the near future it will be necessary to intensify agricultural production to a maximum. Serious effort will be required of agricultural workers' calling, in particular, for the reinforcement of small farms to the highest degree from the technical and economic points of view, in order to prepare them for the imperative needs of an agricultural revival.

19. RECOMMENDATIONS FOR TENANCY REFORM IN THE U.S.A. *

The Decline In Farm Ownership

For the past 55 years, the entire period for which we have statistics on land tenure, there has been a continuous and marked decrease in the proportion of operating owners and an accompanying increase in the proportion of tenants. Tenancy has increased from 25 percent of all farmers in 1880 to 42 percent in 1935. Because of debt the actual equity of operating owners is far less than these figures indicate. In some of our States, among them a number settled under the homestead system little more than a generation ago, it is estimated that the equity of operating farmers in their lands is little more than one-fifth; nearly four-fifths is in the hands of landlords and mortgage holders.

The Problem In Brief

Half a century ago, one out of every four farmers was a tenant. Today two out of every five are tenants. They operate land and buildings valued at \$11,000,000,000.

For the past 10 years the number of new tenants every year has been about 40,000. Many change farms every 2 or 3 years, and apparently one out of three remains no longer than 1 year.

Thousands of farmers commonly considered owners are as insecure as tenants, because in some areas the farmers' equity in their property is as little as one-fifth.

Fully half the total farm population of the United States has no adequate farm security.

The above facts reveal something of the magnitude of the farm tenancy problem in the United States. We have to deal with abuses that have been developing for two centuries. We cannot correct them overnight. But we can begin.

We can and should proceed as rapidly as our resources of manpower, money, and experience will permit. At the same time we should recognize that today we do not have the experience or the trained personnel to make it practical to start the programme on a scale as big as the problem would apparently warrant. The respon-

* Farm Tenancy: Report of the President's Committee, February 1937 (pp. 3-20).

possibility for action by State and Federal Governments is clear. The first start should not be too ambitious, but expansion later should be as rapid as experience demonstrates to be feasible.

Tenants

Although in all areas of the United States there are notable instances of desirable relationships between tenants and landlords, tenancy-conditions, in many cases and areas, are unsatisfactory to both tenant and landlord, are condemned by both, and are objectionable from the point of view of social welfare.

Tenants still move with some freedom up the agricultural ladder. Yet tenancy in many areas presents serious problems of insecurity, instability of occupancy, and lack of concern with soil conservation.

Rehabilitation Of Tenants

Approximately one and a third million tenant and cropper families and members of other groups of disadvantaged farm workers urgently require some form of financial assistance other than that obtainable from either the Farm Credit Administration or private lending agencies.

From the standpoint of the nature of their needs they fall into several classes. First, there is the wreckage of the prolonged agricultural depression or of extraordinary calamities such as droughts or floods. Approximately 420,000 farm families who were already near the bare subsistence level have been forced so far below that level as to require relief grants to avoid destitution. There are also 500,000 or 600,000 families, normally well above the subsistence level, who have suffered such a paralyzing series of misfortunes—largely as a result of drought—that they have exhausted their sources of capital and credit. They require financial aid in the form of feed and seed loans if they are to continue their farm operations. These people under normal circumstances have the capacity to conduct a farm successfully. They are the victims of calamity. The two groups present acute problems both of immediate relief and rehabilitation.

There is another large class of farm families, mostly tenants or croppers, who are either severely lacking in adequate operating capital or obtain it at rates that would break the back of any business. Probably the great majority of the 1,831,000 tenant and cropper families of the South and numerous small farmers in other sections not included in the groups mentioned above belong to this category. In general, they are unable to meet the requirements of strictly banking credit.

In the South a large proportion of farm families must go into debt for the means of sustenance, as well as for fertilizers and other requirements while making a crop. For these advances they rely on loans from merchants or landlords, for which they pay a combination of interest and "time" prices frequently equivalent to 30 percent or more on the face of the loan. The system has perpetuated itself in part because the insistence of lenders on the production of cash crops has prevented the farmer from raising his food, and in part because the experience of the farmer himself and the nature of his equipment limit him largely to cash-crop production.

To this class of farmers we recommend that the proposed Farm Security Administration offer a system of rehabilitation loans associated with technical guidance. This form of assistance has already been extended to some 300,000 families by the Resettlement Administration.

Such loans should be confined to those who cannot qualify for production-credit loans. They should be made for the purchase of machinery and other equipment, livestock, feed, seed, fertilizers, and other seasonal operating requirements, as well as for refunding existing short-term indebtedness.

Improvement of Lease Contracts and Landlord-tenant Relationships.

Although the Federal Government can do much to improve conditions of tenant farmers, some of the most fruitful fields of endeavour under the jurisdiction of State agencies. Much can be done to better the terms and conditions of leasing. Through regulation and education tenant-operators can be given greater security of tenure and opportunity to develop and improve their farms and participate in community activities.

It is recommended, therefore, that the several States give consideration to legislation which might well include provisions such as the following: (a) agricultural leases shall be written; (b) all improvements made by the tenant and capable of removal shall be removable by him at the termination of the lease; (c) the landlord shall compensate the tenant for specified unexhausted improvements which he does not remove at the time of quitting the holding, provided that for certain types of improvements the prior consent of the landlord be obtained; (d) the tenant shall compensate the landlord for any deterioration or damage due to factors over which the tenant has control, and the landlord shall be empowered to prevent continuance of serious wastage; (e) agricultural leases shall be terminable by either party only after due notice given at least 6 months in advance; (f) adequate records shall be kept of outlays for which either party will claim compensation; (g) after the first year payment shall be made:

for inconvenience or loss sustained by the other party by reason of termination of the lease without due cause; (h) the landlord's lien shall be limited during emergencies such as a serious crop failure or sudden fall of prices where rental payments are not based upon a sliding scale; (i) renting a farm on which the dwelling does not meet certain minimum housing and sanitary standards shall be a misdemeanor, though such requirements should be extremely moderate and limited to things primarily connected with health and sanitation, such as sanitary outside toilets, screens, tight roofs, and other reasonable stipulations; (j) landlord and tenant differences shall be settled by local boards of arbitration, composed of reasonable representatives of both landlords and tenants, whose decisions shall be subject to court review when considerable sums of money or problems of legal interpretation are involved.

Leasing provisions are strongly governed by custom and frequently fail to become adjusted to changing systems of farming and farm practices. It is, therefore, recommended that State agencies, particularly the agricultural extension service, cooperating with State and local representatives of the Farm Security Administration, inaugurate vigorous programmes to inform landlords and tenants concerning methods of improving farm leases; and that State agricultural experiment stations adequately support research work to adapt leases to various type-of-farming areas. Research is also needed on the technical application of compensation clauses. For all of these purposes more funds are required; both State and Federal Governments should make early and liberal appropriations restricted specifically to work on improving tenant contracts. Little has yet been done in this field, and in many States little will be done without Federal contributions. It is recommended that Federal grants be made to aid States in this work.

State agricultural research and extension services could be helpful in providing groups of tenants—as well as other farm operators—with the benefit of intensive technical aid on the payment-for-service basis successfully pioneered at the University of Illinois. In many areas such a programme could be set up and paid for by cooperating groups of tenants but in other areas it might not be within reach of poorer tenants unless the service is subsidized.

Cooperation with States in Improving Leases

The Committee recommends, therefore, that the Farm Security Administration be given authority and necessary funds to enable it to aid State governments in drafting proper regulatory measures regarding tenant contracts and to stimulate and cooperate in State research and extension work aimed at improving lease contracts.

It is obvious that in the extension of the new ownership and rehabilitation policies recommended above, the Federal Government has a direct interest not only in encouraging better lease provisions and improved landlord-tenant relationships, but also in assuring itself that the basic legislation of the States makes possible the accomplishment of the objectives of its own broad programme. As recommended above, therefore, adequate funds should be appropriated by the Federal Government to the land-grant colleges and universities to enable them to cooperate.

It is recommended also that in selected local areas consideration be given to trying the experiment of including improvements in leases among the conditions of benefit payments under the Soil Conservation and Domestic Allotment Act. Improvement of existing leases is one important manner of encouraging soil conservation. If the experiment succeeds, its extension on a broad scale may be worth while.

Need for Education and Health Services

Ignorance, no less than poverty and instability, forces many tenant and other disadvantaged families into an inferior relationship to the community. Ignorance, as well as insecurity, is often responsible for failure to adopt enlightened methods of farm operation, particularly of self-help to improve the family's mode of life.

Education can go far toward enabling these poorer farm groups to apply family labour intelligently in improving home, school, and community by repairing, cleaning, and decorating rooms and buildings; repairing and making furniture and equipment; planting public grounds and home dooryards; properly selecting, preparing, and serving home-produced food.

It is strongly recommended that the rural educational systems of various States be more definitely aimed at providing the kind of training needed by adult members of disadvantaged farm families as well as children.

It has been noted that large numbers of farm families are severely handicapped by debilitating diseases, malnutrition, and general morbidity. Much so-called laziness and shiftlessness trace back to a low level of vitality and the resulting mental habits and attitudes. No fundamental attack on the problem of the disadvantaged classes of farmers would be complete without inclusion of measures to improve their general level of health. To a large extent this is a matter of education in improved dietary practices and personal hygiene, supplemented by more adequate medical service and more ample provision of clinics and public-health nursing. The grouping of countries into public-health districts appears to be a promising way

of improving such services. It is urged that adequate funds be made available under the Social Security Act to take care of the health needs of rural communities, especially in areas of excessive tenancy.

Necessity for Action

Sturdy rural institutions beget self-reliance and independence of judgment. Sickly rural institutions beget dependency and incapacity to bear the responsibilities of citizenship. Over wide areas the vitality of American rural life is daily being sapped by systems of land tenure that waste human and natural resources alike. Security of tenure is essential to the development of better farm homes and better rural communities.

Vigorous and sustained action is required for restoring the impaired resources on whose conservation continuance of the democratic process in this country to no small extent depends.

The final emphasis of this report is consequently on the necessity for action; action to enable increasing numbers of farm families to enter into sound relationships with the land they till and the communities in which they live.

20. IMPROVING FARM LEASES *

H. C. M. Case and J. B. Cunningham.

Better Farm Leases

The major objectives of a farm lease are to encourage good landlord-tenant relationships and to make possible and to promote profitable farming and better rural living. In order to accomplish these objectives there must be an equitable division of the expenses and receipts between the two parties, provision for maintaining or increasing the productivity of the farm, a satisfactory basis for living for the tenant, and a reasonable degree of security for the tenant to remain on the farm. As the agriculture of the country becomes older these needs become more apparent. A good farm lease arrangement must provide for conservation of the soil and the maintenance of the farm and buildings of the farm as an economic production unit. The provision for good home life and longer tenure of the tenant on the same farm have much to do in making him willing to put forth his best effort, not only with respect to his farming operations, but in caring for the property as well.

Need for Improving Farm Leases

Many changing conditions which give rise to the need for improving farm leases, include the following :

- (1) Since the war more farmers are ready to retire and more young men are starting farming than under normal conditions.
- (2) Many young men who should make good tenants lack sufficient capital to begin farming and need leases adjusted to their financial condition.
- (3) The care of the soil because of the heavy use it received during the war and the difficulties arising from erosion, requires well-developed plans for soil improvement involving the expenditure of more capital.
- (4) On many farms buildings are in poor repair and wasteful of labour, or more equipment is needed when livestock production is undertaken to fit into an improved cropping plan.

* Illinois Farm Economics, No. 144, May 1947. The Appendix to this excerpt gives the major points to be considered in making a farm-lease.

- (5) An improved level of living reflected in such improvements as better housing, electricity, running water, and sewage disposal requires capital investments and lease provisions to provide for their maintenance and perhaps some sharing of such costs.
- (6) The use of mechanical power and newer types of machines including combines, corn pickers, pickup hay balers, and field ensilage cutters raise questions involving the provisions of farm leases.
- (7) Changing price relationships, especially labour costs and other cost items in relation to farm income, may require adjustments in farm leases, especially on farms which have heavy cash expenses.

What is a Fair Lease ?

The fairness of a farm lease on a profit-sharing arrangement depends mainly on whether or not the income from the farm is divided in about the same proportion as the expenses and other contributions of the landlord and tenant where the farm as a whole are considered. With continually changing price and production relationships, it is not possible to keep a lease in balance every year.

It is accepted generally in leasing farms that the owner furnishes the farm and fixed improvements, while the tenant furnishes the labour and the major part of the equipment. The other items of expense are shared in different ways in different lease agreements. There is need, therefore, of appraising the contributions of the two parties to determine whether the sharing of both the expenses and income provides an equitable arrangement between the parties.

Farm rent paid either in cash or as a share of the produce normally varies from one area to another in a way which is largely the outgrowth of customs, while custom in turn has been influenced by the productivity of the land and the tenant's normal costs of operating the farm. As the agriculture of an area becomes older, the changes in methods of production, the development of serious problems of soil conservation, changes in types of farming, and changes in technological developments give rise to questions of adjusting the provisions of the lease to provide for a more equitable division of expenses and income between the two parties. Differences in the original productivity of land have been recognized between regions. This is indicated by the differences in the share of produce or the amount each gives as rent in different parts of Illinois and other midwestern states. For

example, there are large areas where land is rented for one-fourth, one-third, or one-half of the crop being given as rent to the landlord.

On the other hand, even though the soil of a community may have been similar when the land was developed for farm use, differences in the income from farms within the same community result from the degree of care that has been given over the years to the land and improvements on the land. Under such conditions custom is not a safe guide in developing a lease for a given farm. It may, for example, cost a tenant as much to operate a farm that will not produce more than half as large yields as another farm in the same community. These differences in the productive value of farms in the same community become more marked as an agricultural region becomes older. When it becomes necessary to make more provisions for the improvement or conservation of the soil, many questions arise concerning equitable leases. Also there are frequent questions concerning whether well-improved farm buildings do not justify a higher rental than farms with mediocre buildings.

One method of determining whether a particular farm lease is equitable or not is to estimate the total contributions which both the landlord and the tenant expect to make towards the annual cost of operating the farm in question. If farm records are available from the farm for several years these estimates may be made with considerable accuracy. Caution must be used in placing valuations for various items on a comparable basis. For example, if conservative valuations are used for labour during the war years, equally conservative values should be placed on land and other capital items. If such records are not available for a given farm, data from records of similar farms may serve as a basis for estimating the contribution of the two parties.

Under all forms of leases the landlord furnishes the farm and makes all the fixed improvements. His major contribution is represented by a fair interest return on a conservative valuation of the property; hence, judgment must be exercised in estimating both the value of the property and the rate of interest to be expected on that valuation. Likewise, the operator of the farm furnishes his own labour and management and the labour of members of his family on which a valuation should be placed. Such items may be difficult to estimate although there are many items of farm operating expenses that can be quite accurately estimated for a given farm. Such estimates also serve to set forth the importance of unusual provisions which may be written into farm leases.

There are two ways of securing an equitable farm lease. The first assumes a fixed division of income between landlord and tenant and then proceeds to adjust the division of expenses and other contributions in order that they may be in the same proportion as the division of income. The second involves a listing of a fair evaluation of the contribution of each party and then suggests that income be divided on the basis of the relative contribution of each. Either approach to the problem is based on the same assumption; that is, that the landlord and the tenant should share the income of the farm in the same proportion as they contribute to the expense of its operation.

APPENDIX

Check list of Points to be Considered in making a Farm Lease *

Below is a check list of items that landlords and tenants may need to consider when drawing up a farm lease. Of course, no single lease would contain all of these things. But the list might be used advantageously by the landlord and tenant: Together, they might review and discuss those considered suitable for the particular contract. Then, as the lease is put in writing, the list could serve as a guide in assuring both parties that pertinent and important items are not being overlooked or omitted.

I Minimum Essentials

1. Time specifications and designation of parties:
 - a. Date of making lease.
 - b. Date lease becomes effective.
 - c. Date tenant's occupancy ends.
 - d. Name and address of landlord.
 - e. Name and address of tenant.
2. Description of property leased:
 - a. Name of farm.
 - b. Farm boundaries or legal description.
 - c. State, county, community.
 - d. Number of acres in farm.
 - e. Reservations of any part for landlord.
3. Signatures and acknowledgment:
 - a. Signature of landlord.
 - b. Signature of tenant.
 - c. Signature of wife, if required.
 - d. Signatures of witnesses, if required.
 - e. Acknowledgment or recording if required.

* Farmers' Bulletin No. 1969. U. S. Department of Agriculture.

II. Stable and Secure Tenure

1. Lease period:
 - a. One year.
 - b. Term of years.
 - c. Year to year.
2. Provisions for cancellations:
 - a. When operative.
 - b. Conditions under which operative.
 - c. Length of notice required.
3. Provisions for termination:
 - a. Compensation for disturbance.
 - b. Terminates at end of period without notice.
 - c. Date notice of termination is due.
4. Provisions for renewal:
 - a. Continues automatically from year to year.
 - b. Other type of renewal mutually agreeable.
5. Procedure in case:
 - a. Of death of either party.
 - b. Either party becomes bankrupt.
 - c. Tenant becomes incapacitated.
 - d. Mortgagee takes possession.

III. Equitable Rental Rates

1. Basis for rental rates:
 - a. Farm productivity.
 - b. Relative contribution of the two parties.
 - c. Participation in agricultural programmes.
2. Kind and amount of rent to be paid:
 - a. Cash.
 - b. Standing.
 - c. Share.
 - d. Expenses to be deducted before division of produce.
 - e. Products for family use.
 - f. Feeding work stock from undivided grain and hay.
 - g. Privilege of buying at farm prices the landlord's share of feed crops for on-farm use.
3. Specifications on payment of rent:
 - a. Time when payment is due.
 - b. Place where payment is due.
 - c. Method of dividing share rent.
 - d. Work to be performed instead of payment or rent.
4. Schedule for sliding-scale rentals based on:
 - a. Fluctuations in prices of one product.
 - b. Fluctuations in prices of several products.
 - c. Variations in production conditions.
5. Rent rebate for production losses beyond tenant's control:
 - a. Hail.
 - b. Freezes.
 - c. Flood.
 - d. Drought.
 - e. Fire.
 - f. Disease damage.
 - g. Insect damage.

IV. Conservation and Improvement of the Farm

1. Development and maintenance of improvements:
 - a. Supplying materials.
 - b. Supplying fruit trees and shrubs.
 - c. Furnishing skilled labour.
 - d. Furnishing unskilled labour.
 - e. Insurance on buildings.
2. Compensation for improvements:
 - a. Major improvements.
 - b. Minor improvements.
 - c. Soil and land improvement.
 - d. For superior farming.
3. Authorization to remove improvements made by tenants:
 - a. Buildings.
 - b. Fences.
 - c. Fixtures.
4. Items requiring special treatment:
 - a. Provisions regarding use and sale of:
 - (1) Timber.
 - (2) Sand.
 - (3) Gravel.
 - (4) Fish.
 - (5) Game.
 - (6) Minerals.
 - b. Specifications on care and maintenance of:
 - (1) Drains and ditches.
 - (2) Reservoirs and ponds.
 - (3) Terraces and check dams.
 - (4) Bridges.
 - (5) Roads.
 - (6) Buildings.
 - (7) Fences.
 - (8) Gates.
 - (9) Windmills.
 - (10) Motors.
 - (11) Pumps.
 - (12) Orchards and Vineyards.
 - (13) Farm wood lot.
 - c. Time and frequency of moving or grubbing:
 - (1) Fields.
 - (2) Pastures.
 - (3) Roads.
 - (4) Fence rows.
 - (5) Around buildings.
 - d. Waste:

Compensation for dilapidations.

V. Efficient Production

1. Rules of good husbandry regarding:
 - (a) General farming operations.
 - (b) Supervision by the landlord.
 - (c) Time of pasturing livestock.
 - (d) Control of disease among livestock.
 - (e) Ringing of hogs.
 - (f) Spraying crops.

2. Specifications regarding crops and livestock:
 - (a) Map of farm.
 - (b) Acreage of crops to be grown.
 - (c) Location of these crops on the farm.
 - (d) Rotation to be followed.
 - (e) Winter cover crops.
 - (f) Kind and quantity of seed.
 - (g) Number of each class of livestock.
 - (h) Breed of livestock.
 - (i) Insurance on crops and livestock.
3. Participation in Government programmes:
 - (a) Crop adjustment.
 - (b) Soil conservation.
 - (c) Modification in farming system.
 - (d) Home wood lot.
 - (e) Wildlife preservation.
4. Specifications regarding use of crops:
 - (a) Sale.
 - (b) Feed on farm.
 - (c) Handling of straw, fodder, manure.
 - (d) Pasturing small grain.
5. Actions agreed upon in case of neglect:
 - (a) Hiring persons.
 - (b) Hiring machines or custom work.
 - (c) Buying materials.

VI. Responsibilities of the Contracting Parties

1. Relating to performance:
 - (a) Warranty that landlord has right to lease farm.
 - (b) Procedure in event farm is sold.
 - (c) Right of landlord to inspect, improve, and repair.
 - (d) Agreement regarding subletting of farm.
 - (e) Continuous occupancy throughout the lease period.
 - (f) Agreement regarding off-farm work.
 - (g) Yielding possession at end of lease period.
 - (h) Working for landlord.
 - (i) Assignment of rights covered in lease.
2. Relating to joint property:
 - (a) Appraisals at beginning of lease.
 - (b) Purchases and sales with and without consultation.
 - (c) Keeping farm records.
 - (d) Furnishing vouchers and receipts.
 - (e) Handling joint or undivided funds.
3. Relating to settlement at termination of lease:
 - (a) Appraisal of joint property.
 - (b) Method of dividing joint property.
 - (c) Acreages plowed, seeded, or planted to crops:
 - (1) At beginning of lease.
 - (2) Compensation for excess at end of lease.
 - (3) Payment for deficiency at end of lease.
 - (d) Payment of outstanding debts of joint responsibility.

VII. Operating Capital and Expenses

1. Respective contributions to operating capital:
 - (a) Machinery and equipment.
 - (b) Special tools and machines.

- (c) Work stock and power.
 - (d) Productive livestock.
2. Respective contributions to labour and operating expenses:
- (a) Regular labour.
 - (b) Special labour.
 - (c) Machine hire or custom work.
 - (d) Packing and processing charges.
 - (e) Feed costs, veterinary charges, breeding fees, and other livestock expenses.
 - (f) Seeds.
 - (g) Fertilizer and lime.
 - (h) Spray and dusting materials.
 - (i) Fuel and oil for tractors, trucks, and power equipment.
 - (j) Electricity for farm use.
3. Credit for operating expenses:
- (a) Furnished by landlord.
 - (b) Furnished by tenant.
 - (c) Furnished by bank, FCA, FSA, or others.
4. Special facilities to increase production:
- (a) Additional and temporary fencing.
 - (b) Additional and temporary buildings.
 - (c) Special types of seed.
 - (d) Development of new pastures.
 - (e) Development of water supply.

VIII. General Provisions

1. Settling differences:
- (a) Arbitration.
 - (b) Court action.
2. Declarations pertaining to partnership status:
- (a) Disavowals.
 - (b) Admissions.
 - (c) Qualifications.

SECTION V

REHABILITATION OF THE INDIVIDUAL

21. RURAL REHABILITATION PROGRAMME *

(The Direct Method of helping Low Income Farm Families to improve living standards and attain a greater degree of Security).

General Scope and Method of Rural Rehabilitation

The rural rehabilitation programme administered by the Farm Security Administration has been of service to more than a million farm families during the last 4 years. While grants of direct relief and emergency loans have been made to thousands of needy families by this agency, the main part of the programme has been concerned with assisting what are called "standard cases." County rehabilitation supervisors, some trained in farm management and some with home-management training, with the help of county committees, assist applicants for "standard loans" in analyzing their needs and in working out a programme for their rehabilitation. The families, with the assistance of the supervisors, prepare farm and home plans for the year's operations. These plans provide for careful budgeting of expenditures and estimating probable income. A standard loan is made to finance necessary purchases of livestock, machinery, seed, fertilizer, household equipment, and other items needed to assure the soundness of the plan and the following of good farm and home management practices. These loans, which average about \$350, usually are repayable within a period of 5 years.

According to W. W. Alexander, who until recently was Administrator of the Farm Security Administration:—

"The annual net cost of the rehabilitation loan programme—including all losses and expenses of administration—amounts to less than \$75 for each family aided. This is without doubt the lowest cost to the taxpayer of any kind of help for needy families. Moreover, rehabilitation differs fundamentally from all other types of aid, because its whole purpose is to help needy families escape the relief rolls and become self-supporting. It has proved eminently successful in achieving this goal. Although the normal period of rehabilitation is 5 years, and the programme has been in operation for only 4, more than 87,000 families—the number has increased since this statement was made—already have paid off their loans in full and "graduated" into a self-supporting status. The remaining families have made surprising gains in their net worth, standards of living, and capacity for self-support."

*"FARMERS IN A CHANGING WORLD" (U.S.D.A., Year Book of Agriculture, 1940): (i) 'New Conditions New Opportunities' by Raymond C. Smith and (ii) 'Overcrowded Farms' by W. W. Alexander.

The rehabilitation programme is an effective instrument in improving the welfare of low-income farm families and has made a great deal of progress in starting such families once more on the way to self-dependency and higher living standards. Many thousands of low-income farm families have not been served, however, because sufficient funds were not available.

Purchase of Submarginal Land by the Government

Purchase of submarginal land by the Government and assistance to the families living on it in finding new locations have been a worthwhile form of aid to a few thousand farm families. Some of these families were assisted by rehabilitation supervisors in renting farms in new locations and received standard rehabilitation loans and farm and home-management guidance in making a new start. Others were settled on resettlement projects administered by the Farm Security Administration, where they either rented farms or purchased them under a plan providing for payments over a 40-year period. On these projects, families from submarginal farms were included along with a number of rehabilitation-client families and farm labourer families who had not had an opportunity to rise above the farm-labourer class.

The development of resettlement projects involved the purchase of good land, which was usually subdivided into family-size farms, and the repair of existing buildings and construction of new buildings suitable to the units.

In a few cases the land, instead of being subdivided into family-size farms, was developed into large co-operative farms. These large farms were leased or sold to co-operatives formed by low-income families, in accordance with existing State co-operative laws. In these cases the co-operative associations rather than the individual farmers operate the farms. The members of the co-operative divide the profits from the farm operations, usually in accordance with the number of hours of work contributed by each member.

Since most of the resettlement projects, both those with individual farming units and those with co-operative farming units, have enabled a larger number of families to make a living on the land than were being supported by the same land before its purchase for the projects, these projects have great significance. They have developed a pattern that could be followed more generally if the Nation should decide to make a serious effort to relieve this pressure of population on the land and to provide opportunities for a larger number of needy farm families to make a better living. Even though urban industry should be able to absorb a considerable amount of surplus farm population.

—an eventuality that does not appear to be likely in the immediate future—there would be a place for a great deal of activity of this kind.

In some sections of the country stranded rural industrial workers—for instance, coal miners and timber workers—have been trying to wrest a living from worn-out or unsuitable soil since their former sources of income disappeared.

The development of rural industries should be helpful in many such areas in furnishing part-time employment to stranded families.

The Problem of Subsistence or Non-Commercial Farm Families

The problems of thousands of subsistence, or non-commercial, farm families are not likely to be solved through methods designed to improve the welfare of the commercial farmers. The development of new types of farming and of new farm and home-management techniques particularly applicable to their problems may be necessary. Entirely new patterns of living may have to be developed in order to assure many subsistence farmers an opportunity to be self-supporting.

It also appears that a rural public-works programme is needed to supplement the income of the thousands of low-income farmers who either have access to no land at all or are unable to get enough good land to make all of their living from farming. Because of the crying need for conservation of the soil over widespread areas, a rural public-works programme designed to provide part-time employment to low-income farmers in saving and improving soil and forest resources would appear to be especially desirable. Such programme would contribute not only to the conservation of the soil and to the public benefits usually derived from soil conservation but also to the immediate needs of the farmers who would be given employment. This would be a method of combining conservation of human resources with conservation of natural resources in a very practical way.

Many tenants and even some farm owners have drooped back to become labourers, and labourers have had increased difficulties in taking the next step up the agricultural ladder. The use of mechanized equipment has made for combination of farms into larger units and has increased the number of labourers in proportion to the number of tenants and owners in highly mechanized areas. In some sections mechanization has reached the point where unemployment among the farm-labourer class has become pronounced. Migration of such labourers seeking work opportunities has created a migratory-labour class in some areas.

Efforts to improve the situation are needed in two directions: (1) To provide greater opportunities for farm labourers to become tenants and later farm owners, thus preventing the development of a permanent and static farm-labourer class, and (2) improve the welfare of farm labourers while they are labourers.

The labour camp programme of the Farm Security Administration has been of help to migratory labourers, at least to the extent of giving them a chance to live decently while moving about from place to place. The few permanent homes that this agency has provided in connection with the labour camps, along with mobile camp facilities, probably have been of much greater benefit. Efforts to assist migratory labourers to settle down, or at least to have a permanent home to which they can return between migrations, should be an effective means of improving their welfare. Under such conditions, the children could have much better schooling opportunities, and if a small amount of land were provided in connection with the permanent home, the standard of living could be raised through the production of food for home use. A well-co-ordinated information service conducted by employment-service offices and accurately reflecting employment opportunities should also be helpful.

Housing, Educational, and Health Needs

One of the real needs in rural areas, particularly for labourers and sharecroppers, and to quite an extent for tenants as well, is the construction of well-built low-cost houses. Hundreds of thousands of low-income farm families are literally living under slum conditions. This is not only socially undesirable but is a very real menace to health. A large-scale programme of rural housing would be desirable not only from the standpoint of improving housing itself but also from that of providing employment opportunities in the construction programme.

Action is needed in the fields of education and health for the benefit of disadvantaged farm families.

There is also a place for the development of more adult-education facilities among disadvantaged farm families. The Farm Security Administration has made a contribution in this field with its farm—and home management guidance. The National Youth Administration has done likewise in providing educational opportunities for rural youth. There appears, however, to be a need for much more activity along the line of increasing educational opportunity for adults and youth as well as for the younger children of low-income farm families.

Health problems, including sanitation, adequate medical and dental care, and hospitalization, are in need of a great deal more

attention in many rural areas. The approach made jointly by county and State medical associations, together with the Farm Security Administration, in providing adequate medical care for low-income families on a county basis, has already accomplished a great deal in approximately 500 counties. More than 100,000 low-income farm families are receiving medical care under this plan. There is need for much more activity of this kind and for other efforts in improving sanitation, dental care, and hospitalization. If adequate health and educational facilities are to be provided for these families, national as well as local resources probably must form the base for them.

Adjustment to Technological Change

There appears to be a great need for action in assisting farm families to make adjustments to technological changes on farms. In the commercial farming sections, where mechanization has assumed considerable proportions, family-size farms more and more are being combined into larger units. Farm-management specialists on occasion quote figures to show that such changes in size of farm make for greater efficiency in agricultural production. When these figures are analyzed, however, they often show that the greater efficiency attained is measured in terms of labour income to the farm operator, the entrepreneur, without regard to the effect on the farm labourers and the families crowded off the land to make possible the use of mechanized equipment. A broader base than the income of the entrepreneur should be used in measuring efficiency in farming. The income of farm labourers should be considered, as should the incomes of any displaced farmers, many of whom under present conditions probably have had to go on relief. In the long run, the welfare of all farm families as well as efficiency in production will have to be considered in attempting to measure efficiency in agriculture.

If we had no concern whatever for the welfare of farm people we might be able to consider efficiency in agriculture simply in terms of production of food and fiber for the Nation and in terms of income or standard of living for only a part of the families in agriculture. However, if we are interested in the welfare of all the families that have had and would like to continue to have the opportunity to make a living on the land, we cannot accept this type of efficiency with complacency.

It does, however, show the need for assisting displaced farmers in making adjustments to technological change and the need to influence the rate of introduction of technological change in such a way as to prevent its impact from causing serious losses in human values.

In the long run the widespread combination of farms into larger and larger units would no doubt make for a static, stratified farm population with a permanent labourer class in agriculture. If the farm land of the Nation were all to be owned by a relatively small land-owning class there would be an opportunity for comparatively few farm labourers to become landowners. There are those who argue that this would be desirable, as under such a system we could get the maximum advantage from modern technologies, have the most capable people managing the land and directing the less capable (who would be labourers), and have the maximum efficiency in agricultural production.

The Rational Limits to the Expansion in the Size of the Farms

It would seem, however, that there is a point beyond which the trend toward larger farms is undesirable. Safeguards to protect the security of families on family size farms who desire to continue to operate such farms are essential. Farms should, of course, be large enough to be sound economic units—and at present some families are handicapped by units that are too small; but when the population pressure upon the land is considered, it seems that farms should also be small enough to be sound social units. Many very large farms appear upon the market every year, offered for sale either by owners or by the estates of deceased owners. Without in any way disturbing the owners of large farms who desire to keep them, it should be possible to develop procedures whereby some of the larger farms annually put up for sale could be made available to farmers displaced by technological change. By subdividing into family-size farms the larger farms capable of being developed in such a way that the same land could support more families than before, the maximum number of displaced farmers who want to make a living on small family-size farms could be given an opportunity to do so.

How Rural Families are Helped by the F. S. A.

The basic feature of the rehabilitation programme today is the guidance the family receives. Although the extent of this guidance has increased markedly since earlier days, it is still far short of what it should be. owing to the large number of families each supervisor is expected to look out for.

The administration has proceeded on the theory that, aside from humanitarian motives, it is good business for a lending and rehabilitation agency to do what it can to improve the health of its borrowers. Accumulated evidence shows that in a large percentage of failures, poor health is one of the primary causes.

The F.S.A. rehabilitation-loan programme, which at the present time is one of the strongest arms of the Government in the so-called rural relief field, is not actually relief, any more than are loans to home builders, banks, or railroads.

In the spring a farmer who needs fertilizer, seed, a plow or other equipment to carry on his work and who is not able to obtain the money to purchase these necessities from any other source calls at a county office of the Farm Security Administration and asks for help. If the farmer owns or can rent enough land to support his family and repay the loan under normal conditions, the county supervisor sits down with him and draws up a plan for working the farm under which it can be done. Included in the plan are provisions for raising the family's food supply and feed for its livestock, and for the development of two or more cash-crop enterprises. The plan also contains all the soil conservation measures necessary for rebuilding or retaining the fertility of the soil.

While the supervisor is helping the farmer plan his work, a home economist gives the farmer's wife similar help. A household budget is drawn up and a year round balanced diet planned for the whole family. Emphasis is placed on the canning of the surplus garden products and the working out of time saving and money saving measures in the everyday household job of feeding, clothing, and sheltering the family.

The completed farm and home plan clearly indicates what equipment is needed to carry on the work. These items may range from a mule, a milk cow, and 100 baby chickens to a pressure cooker and a dozen glass jars. Whatever they are, if the estimated income of the family appears large enough to pay for them, the money for their purchase is loaned to the farmer. These loans carry a 5-per-cent interest rate and are made out usually for a term of 5 years.

After the loan is made and the year's work started on the farm, the supervisor and the home economist continue to work with the family. They help with the farm problems that arise—such difficulties as fighting tobacco blight and doctoring sick chickens—and they bring the latest information on the work of the state experiment stations to the families.

Throughout the year the rehabilitation clients are encouraged to keep record books of all expenses and income, putting down each week the money they spend and earn. In the fall, when the crops are harvested, they find themselves, under normal conditions, with enough food to last through the winter and considerable gain in farming.

When the next spring rolls around the same sort of planning is repeated. After several years of continual progress, during which the farmer gains experience and pays off his loan, the family often is able to finance itself and proceed on its own.

County supervisors now have an average of nearly 150 families each. For proper supervision, the number of families should not exceed 75.

The grant programme plays a smaller part than it once did. Drought years developed the heaviest demand for grants, and with the slackening of need in this direction fewer grants have been given. Many are still being made, however, in the areas of greatest need, and in emergency cases they are still used to supply food, clothing, or medical care to rehabilitation families.

Several other activities supplement the rehabilitation work. One of these, debt adjustment, was started as early as 1933. The other two programmes of medical care and participation in co-operatives are of more recent development. In these auxiliary programmes the Farm Security Administration attempts to remedy some of the basic troubles that plague low-income farm families.

If the farm family's debts are a hang-over from other days and are too big to be repaid the F.S.A. helps to get them reduced to a size where they can be handled. If the family is unable to obtain adequate medical care, the Administration aids in the formation of a county health association through which the family can obtain the services of a physician at a price it can afford to pay. Also when the families need breeding stock, expensive machinery, or other equipment that they cannot afford individually, the Administration assists them to co-operate with neighbours in the joint purchase and use of such facilities.

A Typical Story of the Rehabilitation of a One-time Relief Family

A typical story of the rehabilitation of a one-time relief family into an independent, self-supporting family unit can be told by Lee Barnes, of Jackson County, Okla.

Back in 1936, Barnes, who supports a wife and two children, had very little to farm with, and what he had was threatened with foreclosure. He applied to the county rehabilitation supervisor for help.

Together, Barnes and the supervisor worked out a farm plan that called for him to raise all his livestock feed, most of his family's food, and several cash crops. Mrs. Barnes worked out a home-management plan with the help of the F.S.A. home management supervisor.

One of Barnes' troubles had been one-crop cotton farming. The F.S.A. loan enabled him to diversify by developing a milk herd for supplemental income. Now he milks five cows, which provide a weekly cream check averaging between \$3.50 and \$4. This takes care of the few groceries he has to buy. He raises his own livestock feed and most of the family's food.

From a 1½-acre garden Mrs. Barnes keeps the family supplied with vegetables and fruit throughout the year. One year she canned 600 quarts, enough to carry her through the next year when grasshoppers got their garden.

By last year, Barnes was well enough fixed so that he said he would not sell out for \$1,000. He was looking forward to 1940, when he hoped to be able to pay off his final instalment on the loan and be debt-free.

22. TOWARD FARM SECURITY*

I. F.S.A. IN THE U.S.D.A.

The Department of Agriculture defines the Farm Security Administration as the agency which "aids low-income farm families to re-establish themselves on productive land and to become self-supporting through a threefold programme of rural rehabilitation, farm purchase by tenants and rural homestead."

This aid is given in order to help alleviate immediately (and eliminate ultimately), rural poverty and insecurity on the farm. The Farm Security Administration has, therefore, two kinds of objectives: Immediate objectives and ultimate objectives.

A. Immediate Objectives of the Farm Security Administration

1. To relieve the suffering and misery among rural people by making it possible for them to become self-supporting.
2. To improve the level of living among the low-income farmers and farm workers through an improvement in their health, housing, sanitation, and diet;
3. To increase real income by better methods of farm and home planning;
4. To stem the dangerous tide of migratory workers by providing greater security to workers on the land.
5. To reduce the load of indebtedness;
6. To reduce the cost of rural relief by making farm families self-supporting.

B. Ultimate Objectives of the Farm Security Administration

1. To re-establish people now farming poor land on land which, with proper management, can guarantee the family a decent living both in goods and in the required cash;
2. To improve the techniques and planning on the family-type farm so that it may become a source of strength to the Nation as a whole;
3. To weave into the general fabric of community living all the families which at present are gradually forced out of the general community life by their low incomes;

4. To work toward a more equitable adjustment of the population on the land, involving relocation of families from over-populated areas; the subdivision of large holdings capable of supporting a large number of families on a satisfactory level of living; and the development of certain underpopulated agricultural areas;

5. To work toward a control of land prices which would be consistent with its use value rather than with its speculative value, and thereby safeguard the family living against unjustified capitalization of earnings through increased land prices;

6. To reduce the number of farm tenants in the United States;

7. To improve the status of farm tenants by a widespread adoption of long-term written leases which will safeguard the interest of both farmers and renters and provide incentives for protecting and improving the land;

8. To develop and increase co-operative leasing and purchasing associations to meet the needs of low-income groups;

9. To regain the balance and values of rural living which the pursuit of agriculture has always had since the beginning of civilized life.

Success of Immediate FSA Objectives

Though it is too early to measure the success of the Farm Security Administration in terms of its ultimate objectives, we can gauge the speed with which we are moving toward that goal by the successes in immediate objectives.

Since its inception, the Farm Security Administration has helped more than a million families. These included standard borrowers and non-standard borrowers, families on resettlement projects, families participating in tenant purchase, grant recipients, and migratory workers. The number of people who have paid up their loans and the increase in their net worth is a fair index of the improved conditions of these families. The average increase in net worth from before acceptance on our programme to December 31, 1940, was \$180 per borrower, a 21 per cent average increase. The net annual income per family almost doubled. The number who had paid up their loans as of April 30, 1941, was 114,842, even though most of these loans were not yet due. These figures are symbolical of the improved standard of living for Farm Security families. In sanitation, in health, in diet, in better clothing, in school attendance, and in community participation, the improvement was considerably greater than represented by the increase in net worth or by the percentage of repayment of loans.

As for stemming the tide of migratory workers, though it is difficult to give specific figures on "what might have happened if," there can be no doubt that great numbers of the families helped by Farm Security during this period would have been driven off the land by want and that many of them would have joined the stream of rootless rural migratory labour, had they not been assisted by the Farm Security Administration.

The FSA Credo

If we examine the Farm Security Administration objectives, both immediate and ultimate, we discern facts which may serve as guides in the execution of Farm Security Administration duties.

The first and most obvious observation is the fact that the Farm Security Administration is intended for low-income farm families. Whatever is done is done for them. If it fails to help these families Farm Security fails. The Farm Security programme is not for any of its employees—the Administrator in Washington or the employees in the county offices. This fact unfortunately, although so obvious, can be easily lost sight of, with disastrous results.

The second fact discernible is that the Farm Security Administration is for the lowest income level, for the people who have no credit left and whose need is greatest. This, too, although obvious is also a fact often lost sight of. The tendency is to help those among the low-income farm families who are in the best position to help themselves, because success can be easily attained. The Farm Security Administration is not for easy success; therefore, preference and attention must be focussed on those in greatest need even though their rehabilitation may take longer and prove more difficult to attain.

From these objectives it should also be clear that the Farm Security Administration is not intended for the helpless and hopeless. Where the family has neither the ability nor the land to make rehabilitation possible, that family is not eligible for standard rehabilitation assistance. Much more important than the skill and the wherewithal for success, the family must have the hope and conviction that with proper financial aid and guidance in technique it can succeed in becoming self-sustaining. In many instances the hope and conviction may be lacking but with proper assistance and correct approach, these families can be stabilized and strengthened.

From the objectives, too, it must be clear that nothing should be done by the Farm Security Administration to segregate its families from the general fabric of the community. Complete self-sufficiency on the farm, with home production of all its needs and wants, were such a thing possible, would still be undesirable from the point

of view of our objectives. For the family to take part fully in the community, it must have at least a minimum of cash income to take part in those advantages enjoyed by the rest of the community.

Of all the Farm Security Administration objectives the most important is the desire, ultimately, to open the gates of opportunity to all its families on an equal basis with the rest of the rural community.

The Farm Security Administration programme cannot be placed on schedule. Its ultimate success depends less on forces beyond the administration's control than it does on the effectiveness of its activities. No one is so rash as to set a date when farm security will be fully realized for all the low-income people on the land. Those forces over which we have no control, we cannot harness. But it is up to us to carry out our duties within our sphere and in accord with our objectives as well as we are able. It is our responsibility to see that no family in our programme is neglected because of a lack of understanding on our part, or because of a shirking of our duties. The Farm Security Administration objectives might be reduced to a simple credo:

We believe and know there is poverty on the land.

We believe and know that most of the poor on the land are poor through no fault of their own or any lack in them.

We believe that if the causes of rural poverty are abolished, rural poverty will disappear.

We believe that it is the Government's duty to help handicapped farm families.

We believe the Farm Security Administration programme to be a sound approach to the problem of rural poverty.

We believe that sound farm and home management can do as much (and more) for the poor families as loans and grants.

We believe that the poorer the families, the greater our obligation to them.

We believe the Farm Security Administration was created for the poorest farmers and farm workers, and not for those whose credit is good and who can rehabilitate themselves without government aid.

We believe rehabilitation can be attained only after the families are taught better farm and home practices.

We believe our programme to be so sound that the people who understand it will accept it.

We believe that the success of the Farm Security programme depends on the intelligence and eagerness to serve on the part of all Farm Security Administration employees, and particularly on the part of the county staffs.

We believe that our faith in the low-income farmers is fully justified by the progress we have made so far.

We believe that the Farm Security Administration programme will succeed.

II Organisation of the FSA

The Farm Security Administration operates chiefly through the following types of offices:

- (1) The Washington Office.
- (2) The Regional Office.
- (3) The State Office.
- (4) The District Office.
- (5) The County Office.

As far as the County Supervisors are concerned, they are directly related, through the district and State officers, to the regional office, the Finance and Investigation Divisions, and Offices of the Chief Engineer and Medical Care Staff who reach them out of Washington in a manner and for a reason explained below. Farm Security Administration projects are directly related to the regional office, rarely having any direct dealings with either district or State offices. The Washington office consists of an Administrator (responsible to the Secretary of Agriculture) and his assistants (responsible to the Administrator). The Administrator is supported by 12 heads of divisions who act as consultants, but have no direct authority in the field (excepting that the Finance and Investigation Divisions and the Offices of the Chief Engineer and Medical Care Staff directly supervise their own staffs in the field). In theory at least, the directors of these various divisions in Washington are not in administrative positions but act as consultants to the Administrator. The Regional Director is directly responsible to the Administrator in Washington and not to any of the Washington division directors.

This is all in theory. In actual practice, of course, the division directors in Washington consult with the regional staffs and make various recommendations in the field. But they have no authority to impose any of their recommendations other than through the Administrator to the Regional Directors. The division in the Washington office may be simple division having a uniform function and operating with a very small staff, such as the Labour Division or the Procedure-

Division; or it may be a complex organization working through a number of sections and a large staff, such as the Rural Rehabilitation Division, the Resettlement Division, or the Business Management Division.

Whereas the Washington office is primarily a programme-planning policy-making and procedure-devising body, the regional office is a functional body carrying out agreed-upon programmes. For that reason there is a corresponding difference in staff organization. The Investigation Division and the Chief Engineer and Chief Medical Officer, as already mentioned, do not come under the jurisdiction of the Regional Director. In the regional office is found the regional custodian with no corresponding office in Washington. The State, district, and county offices are devoted mainly to rural rehabilitation and tenant purchase activities, supported by extra-governmental committees consisting of the Farm Debt Adjustment Committee and the Farm Security Advisory Committee in the State; and in each county, the County Farm Security Advisory Council and the County Farm Debt Adjustment Committee, the County Tenant Purchase Committee and the County Rural Rehabilitation Committee.

III The FSA Program

A question to which there is no answer is not really a question and a good intention that cannot be realized is not really a good intention. To be good, an intention must be realistic within a given framework of circumstances; and, of course, it must have behind it the will to translate objectives into a programme of action.

The objectives of the Farm Security Administration, to have validity, must be translated into a programme or a series of action programmes. Rural poverty cannot be alleviated and eliminated by magic or wishful thinking. First, the problem must be correctly understood, and then it is necessary to find the right corrective remedies.

Arthur P. Chew, Assistant to the Director, Office of Information, United States Department of Agriculture, in his Book, the "Response of Government to agriculture", describes the central difficulty in agriculture today in the following words :—

"Taken one by one, the economic problems of agriculture yield to analysis more or less readily, though the solution remains difficult. There is no particular mystery, for example, about the origin of surpluses, about the disparities that develop between farm and nonfarm prices, about the increase of tenancy, or about the conditions that promote accelerated erosion.

But taken together these problems make a total that is greater than the sum of the parts and merges with the central problem of the modern economy, which is the existence, side by side, of want and potential plenty. No one seems to know the answer. Monetary theorists, Neo-Malthusians, social reformers, and revolutionists, offer conflicting interpretations, which the older schools at least agree in rejecting.

Agriculture, though it is a principal source of food and clothing, feels the paradox cruelly. Those who work at it and produce abundance, find themselves going without, particularly when they have been exceptionally successful in getting nature to give up her treasure. American farmers grow enough for the country and something for export even in drought years; in years of normal weather they produce surpluses. The result is not plenty on the farms, in contrast to an insufficiency elsewhere. On the contrary, the farmers go short, and other people satisfy their wants at a very low cost."

The Farm Security Administration aims to resolve this paradox for the families with whom it deals. By progressive stages the Farm Security Administration has learned some of the conditions which must be satisfied if the farm family is to be rehabilitated.

The needs of the families served are divided into categories of health, sanitation, food, housing, land resources, tools and equipment, financing, debt adjustment, better tenure, educational advantages, and so on. A programme has been worked out to cope with each need, within the limitations of this agency. The various aspects of this programme are realistically integrated. No plan is prepared purely on the basis of what is theoretically desirable; what is theoretically desirable is first adjusted to what is practically possible within any given area or within the limitation of funds, technical aid, and local cooperation.

Farm Security and Health

A sick man cannot be successfully rehabilitated. His (or his family's) illness may be the very cause for the plight he is in; and the constant threat of illness is a constant threat to security. As we have seen, farmers do not receive sufficient medical care and the low-income farmers receive disproportionately less. If the low-income farmer is to be helped by the Farm Security, the Administration must have the assurance that he will be able to carry out the strenuous activities planned for his rehabilitation.

Furthermore, since the Farm Security Administration is not a relief agency and the loans given to families have to be repaid within a specified period of time, the family unprotected by the insurance

of medical care constitutes a poor risk! When a bank advances a loan on an automobile, on a house, or on a factory, the first stipulation is that the property must be adequately insured. And the best insurance Farm Security can ask from and for its borrowers is health improvement and protection.

Investigations of disadvantaged farm families showed that more than half were handicapped by poor health. Often because they could not afford medical care they neglected minor ailments, which later developed into major ailments. When these ailments became serious threats to life, everything on the farm was sacrificed to pay the doctor and hospital bills. Many others who tried to go on with their work while suffering from malaria, pellegra, hookworm, and other diseases, were unable to do the work on the farm effectively.

The Farm Security Administration has, therefore, worked out a medical plan based on the theory that a healthy family is a good credit risk and, what is really more important, that a healthy family stands a better chance of becoming self-supporting.

- The Farm Security Administration medical plan is very simple:
1. Each family is asked to pay a fixed annual fee for medical care. This amount is included in the farm and home plan and set aside at the beginning of the year from the loan,
 2. These fees are placed with a bonded trustee for future disbursements;
 3. Each family is given the list of doctors participating in the plan. Whenever they need medical aid, they call the doctor of their choice on the list;
 4. The typical fee is \$18 a year for a man and his wife, and \$1 for each child;
 5. Doctors send their bills for all services to the trustee;
 6. The trustee divides the funds into twelve equal parts, and pays the doctors' bills monthly—if the funds are sufficient to pay all the bills in full, he does so; if they are insufficient, he pro-rates the amount on hand. In some months doctors may receive 100 per cent payment of all cases treated; in others they may receive only 50 per cent.

The payments to physicians up to the present from all Farm Security medical associations averaged over 60 percent of the bills presented. This represents a considerable increase in collections for the participating doctors over their collections in the past. Although, at first, local medical associations and local medical societies were

often not inclined to participate, and doubted the success of the plan, its successful operation has slowly won over a greater and greater number.

In addition to the medical plan for Rehabilitation, Tenant purchase, and Homestead families, the Farm Security Administration established a special medical aid plan for rural migrant workers. Migrant workers suffer from many illnesses for which they receive no treatment; and because they move so frequently from place to place, they become the carriers of communicable diseases. The Farm Security Administration cooperates with State medical associations and State departments of health in establishing health and medical associations for these migrant families. The associations are billed for services rendered to migrant workers. The patients obligate themselves to repay the cost of the service when they are able to do so. In most cases they are too poor to repay the bills although many make the effort to make at least a small payment.

The Farm Security Administration, as of March 31, 1941, has 704 medical associations in 832 countries, with 41 medical centres for migratory workers in California, Arizona, Texas, and Florida. This figure does not include units offering dental services only.

The Farm Security Administration medical programme is entirely voluntary in nature. Physicians and families participate in it of their own choice, after the plan has been explained to them and they find it acceptable and to their mutual advantage.

FSA and Sanitation

Poor health resulting from unprotected water supplies, inadequate screening for farm houses, lack of proper bathing facilities, and lack of sanitary privies has retarded the satisfactory progress of many families on the Farm Security Administration Programme toward ultimate rehabilitation. Hookworm and malaria, among other illnesses, can be traced directly to the lack of sanitation.

In order to protect the health of its borrowers and to help them make permanent improvement in their sanitary conditions, the Farm Security Administration has carried on a nationwide environmental sanitation programme under the supervision of a Sanitary Engineer attached to the staff of the Chief Medical Officer. Under this programme Farm Security has provided facilities for water supplies, sewage and waste disposal, drainage, and mosquito control measures on resettlement projects; sanitation facilities and measures for recreational areas on land utilization projects; improvement of sanitary conditions of migratory labour camps, and sanitation facilities for

farm units of families on the tenant purchase and rural rehabilitation programmes.

The Farm Security Administration environmental sanitation programme is conducted in cooperation with local public health departments, the National Youth Administration and Work Projects Administration. Many sanitary privies, wells, and screens have been built with the supervision and labour furnished by the Work Projects Administration or the National Youth Administration Works projects. Public health officials have cooperated in planning, supervising, and inspecting Farm Security sanitation projects.

In some areas farm families form groups through which they purchase materials at a saving by pooling their cash. They either do their own construction work or are assisted by neighbours or other members of the community, and in turn they help other families in similar work.

Rehabilitation families often use part of their loan to cover the cost of improvements in sanitary facilities. In addition grant funds are used to finance the construction of facilities for families who are unable to borrow money for the purpose. During the fiscal year ending June 30, 1941, 16,458 Farm Security families in 651 counties participated in the sanitation grant programme at an average grant per family of \$53.52, or a total of \$880,906.31 in grant funds. Altogether nearly 75,000 Farm Security families have been assisted by this programme since its beginning.

Home Produced Goods

The diet of low-income farmers is woefully deficient. Growing sufficient food and feed is, therefore, one of the first objectives in rehabilitation. Few low-income farmers devote enough time to the growing and preservation of home-grown food. Their gardens are not properly utilised. Not enough is canned or stored for the winter months. Many do not know the most economical way of preserving food. Many do not know the need for a balanced diet. Many families too, are not aware of the disparity between the value of home-grown food and that bought at retail prices. A dollar's worth of food grown and consumed on the farm costs a great deal more if bought at retail prices. The Farm Security Administration tries to educate these families in the value of producing their own food as far as possible.

For this reason, in the farm and home plan, the garden becomes as important as the field.

In addition to vegetables, the family must have milk, meat, and eggs. The Farm Security Administration, therefore, says: "The

Rehabilitation of our families depends greatly on the garden, the cow, the sows, and the chicken."

Families are aided to increase their food consumption, and are taught to increase the variety of foods rich in body-building and health-protecting elements.

The county supervisors help the family decide how much and what kind of food will be required during the year to meet the family's needs. Then together the supervisors and the husband and wife make an estimate of the quantity of this food that can be produced on the farm.

The next step is to plan carefully how this food will be produced. It must be calculated how many cows and hogs and chickens will be required, how much feed must be provided for these animals and what portion of the total amount of feed can be produced at home. A garden must be planned and estimates made of the amount of fencing and fertilizer and seed and tools and insecticides that must be obtained.

After the planning stage the supervisors visit the family periodically to give them advice and guidance in carrying out the plans. For example, the family needs to know how and when to plant food crops successively so that there will be a continuous supply of fresh vegetables; when and how to cultivate the garden; when the vegetables should be canned; and how to can them properly.

FSA and Housing

Rural housing has been recognized as woefully deficient. But to repair all the farm houses that need repairing, to replace all the farm houses that need replacing, and to repaint those in need of painting, is a task beyond the purse of the Farm Security Administration. The Farm Security Administration, therefore, devotes itself at first to such improvements as are imperative to protect the health of the people, namely, the building of sanitary privies, and the repairing or putting up of the screens, and encourages the families to make such progressive improvements on and within the house as can be made at moderate cost. Loans are given for sanitary improvements and for the repair of broken roofs and windows, unsafe chimneys, and replacement of dangerous stairways and the sanitary protection of the water supply.

The Farm Security Administration has also experimented with low cost rural housing, and developed a substantial house which can be built at a very low cost. The Farm Security Administration (and its predecessor, the Resettlement Administration) has built many low cost homes, at an average cost below \$1,500, for farm families who

today enjoy better homes as a result of this construction programme. Farm tenants, labourers, and sharecroppers who are buying farms of their own under the tenant purchase programme receive loans for the repair of the old houses and other old buildings on the farms or for the construction of new homes and outbuildings, when necessary. The Farm Security Administration housing programme is administratively still in the experimental stage and as yet affects too few of its families. At present Farm Security devotes itself particularly to the task of showing low-income families how to improve their dwellings without cost, or at a very low cost.

FSA and Safety

Various studies of farm accidents show that nearly 5,000 farm people each year lose their lives in accidents on the farm and that farm accidents take a dollar out of every 10 dollars that the farmer earns. The loss to the farmer through accidents is so tremendous that it claims just about twice the total cost of the loss of land through soil erosion.

Year in, year out, thousands of farm buildings, crops, and livestock are destroyed by preventible fires and each year one out of even 12 homes is saddened by accident. The National Safety Council claims that at least half of all fires and accidents can be eliminated through proper training.

The Farm Security Administration has therefore established a farm and home accident prevention programme under the Labour Division. The objective of this programme is to decrease the loss to Farm Security families which they now bear in the form of loss of time, medical expenses, damage to livestock and equipment. The method used in this programme is to stimulate an awareness and concern about the consequences of accidents which can be prevented. The safety officers of the Labour Division examine information about farm accidents and their causes. The results of their studies are communicated to the County Supervisors who are supplied with bulletins for distribution among the families. The Farm Security Administration Information Division cooperates in this work by sending out various releases and preparing publications and radio broadcasts on farm and home safety.

FSA and Debt Adjustment

To be eligible for Farm Security Administration assistance the applicant must prove three things: (1) need, (2) ability to rehabilitate himself with assistance, and (3) lack of credit. If the farmer can receive credit elsewhere, he is not eligible for Farm Security Administration does not believe that rehabilitation can proceed at an

encouraging pace when the threat of old debts hangs over a family, so it encourages an equitable debt adjustment. In every county where it operates, the Farm Security Administration has cooperated with groups of local farmers, businessmen and townspeople who act as farm debt adjustment committees. To these committees, debtors and creditors bring their problems and the debts are reamortized, interest rates changed, or an extension of time arranged for, so that there can be a reasonable chance for the debtor to repay. Usually creditors actually receive more in the end, under this arrangement, than if they had foreclosed.

Debt adjustment is voluntary for debtors and creditors. Furthermore, this service is open to all farmers whether they are applying for Farm Security loans or not. The procedure is really very simple and has proved as an amicable way of adjusting debts. From 1934, when these committees were organized, until 1940, over 135,000 farmers have had their debts reduced on an average of 25 per cent.

FSA and Security of Tenure

Most of the Farm Security Families, over 70 per cent of them, are tenants. Insecure tenure has contributed a considerable share to the impoverishment of the land and the erosion of the people. Until recently over one-third of all tenant families moved every year at a tragic cost to themselves, to the landlords, and to the land. But the greatest cost was in the lowering of the standard of living, of the moving families in terms of health, sanitation, and their outlook for the future. Insurance tenancy seems to be a game in which everyone is the loser. In some regions, moving every year or two has become the fixed habit of the tenant. All year round, he lives and works like a camper anticipating the day when he must pack up and leave.

The Farm Security Administration tries to establish better relations between landlord and tenant, to the benefit of both. The first step towards improving this relationship is to insist upon a written lease. The next step is to encourage a long term lease—the longer the term the better.

The Farm Security Administration has worked out a standard flexible lease form. This form provides for compensation to the tenant for the unexhausted values in property improvements, and thereby gives the tenant an incentive for improving the land and buildings. This assures the improvement of the property for the landlord, and improves the tenant's living conditions. On the other hand, this lease provides for compensation to the landlord for destructive activities on the rented farm, which should act as a deterrent to malicious destructiveness or deliberate neglect. In the event of

a complaint on the part of either the landlord or the tenant, the lease provides for an arbitration of their differences. Wherever possible, leases are expected to run for at least five years. This period allows for soil conservation planning and for such improvements on the farmstead and the land as are necessary for the welfare of the tenant, yet which no tenant would make if he had to leave the place by the time the improvements were completed.

FSA and Supervision

The families who came to the Farm Security Administration for assistance often come convinced that their need is exclusively financial. They rarely recognize the other factors responsible for their condition. It is necessary to point out to these families that the causes of their poverty are many, and that some of their difficulties can be dealt with through other than financial assistance. Even families who recognize these facts often do not know how to adjust their debts, improve their conditions, or obtain various benefits from agencies which exist to help the farmer.

It is not enough to point out to applicants that the acceptance of a grant or a loan from the Farm Security Administration necessarily means that they have to accept supervision and guidance in their general farm and home practices. The families must be convinced that they are as much in need for better management and better methods as they are of the money advanced to them. Although it may be difficult for many families to accept assistance and guidance at first, it is nevertheless crucial that this part of the programme is clearly understood by them and acceptable to them. For the Farm Security as a whole is predicted on the conviction that low-income farmers can be helped a great deal more by intelligent guidance and proper farm and home management education than by the loans and grants alone.

The Farm Security Grant and Loan

Although in the ultimate objectives of the Farm Security Administration the grant and loan are of secondary importance as methods of rehabilitation, in the immediate objectives they loom very large.

It has been found that in areas stricken by drought, flood, or other natural catastrophes, or in areas where the land has been seriously eroded, aid cannot be deferred until a rehabilitation plan can be developed. It must start with a grant as an immediate subsidy to tide people over to the time when they can request loans—that is, request sums of money which they are reasonably certain of earning and repaying through farm work. Even outside a disaster area, cases occur where illness, or some other cause, has reduced the family to

so low a financial level that a grant must be made, an outright grant of money, before a loan can be advanced for farm planning.

There has been considerable resistance and many objections raised to the grant. Curiously enough many of these objections came from the people themselves who did not want to accept, what they called, "charity" from the Government. This feeling was essentially a reflection of the community's attitude toward the grant.

Actually, the grant differs in form but not in essence from a great many government payments to industrial and agricultural people, such as for example, the Agricultural Adjustment Administration payments. The Agricultural Adjustment Administration payments for retired or "contract" acres goes to all participating farmers, rich and poor alike. It is not a loan; it is never to be repaid; it is essentially a grant for a specific stabilization purpose. When a large insurance company owning tracts of land receives the Government Agricultural Administration check, it does not feel that it has received "charity." Nor certainly should the impoverished farmer in dire need feel that the grant he receives is charity. It is not given him as charity. It is given for the purpose of ultimately making the family self-sufficient and strong, and thereby actually saves the Government the greater sums of money that would be needed to pay for the relief of the same family, if it were allowed to reach the stage where rehabilitation would be impossible. In those cases where the family can do some useful work in return for a grant, they are requested to do it, even if the work is done on their own farm and toward their own future rehabilitation.

It is necessary for the County Supervisor to realize that the Farm Security grant is not "free" money; and the fact that it is given with no expectation of repayment in no way indicates that it serves a lesser purpose, than the loan. The grant is a rehabilitation tool. If it is dispensed as "charity," its rehabilitation value is destroyed.

Grants are advanced under emergency conditions or for special purposes. All other Farm Security Financial aid is made in the form of loans, which greatly predominate in the programme.

Since the Farm Security Administration rehabilitation programme was started, the Administration has loaned more than \$473,000,000, as of April 30, 1941, to farm families who could not obtain credit elsewhere. Only \$122,375,117 have been paid out of grants. The number of families who have repaid their loans and have since left the Farm Security Administration, because they can navigate for themselves, is far greater than even the most optimistic could have predicted. Of the amounts due at this time, about 75 per cent have been repaid.

Delinquencies are found mainly in areas stricken by unpredictable natural catastrophes during the past few years.

One method of gauging the beneficial effect of the Farm Security loan, when augmented with the proper farm and home plan, is to ascertain the increase in the net worth of the families and more particularly the increase in the net income. At the end of 1940 the average net worth of all Farm Security families rose by 21 per cent over what it had been the year before acceptance. The average net income rose from \$480 in the year before acceptance to \$650 in 1940 an increase of 35 per cent. This increase meant a higher standard of living and the beginning of the opportunity to be self-supporting. It really meant a great deal more than that. Its benefit spread through the community. For these families spent their increased income, and the increasing purchasing power enriched the communities in which that money was spent.

Even greater than the increase in cash income was the increase in home grown food for home consumption. Milk for home use rose on the average from 99 to 448 gallons per family. Canned fruit and vegetables rose from an average of 51 to 242 quarts per family. The same was true of meat and eggs for home use—with a corresponding increase in family health and well-being.

FSA and Tenant Purchase

With the enactment of the Bankhead-Jones Farm Tenant Act in 1937 and the consequent appropriation of \$75,000,000 to be spent during a 3-year period (\$10,000,000 for the first year, \$25,000,000 for the second year, and \$40,000,000 for the third year), along with a \$50,000,000 fund to be obtained from the Reconstruction Finance Corporation for each of the fourth and fifth years, the tenant purchase programme was launched. Tenants, sharecroppers, or farm labourers, selected and approved by local committees in the county, are lent funds with which to buy their own farms. The loans are to be paid within 40 years, bearing 3 per cent interest. The loans will be repaid on a "variable payment plan," which means that in years when the crops are poor, or when the borrower cannot make the due payments in full for any reason, he can pay according to his means that year and make proportionately higher payments in good years. Early in 1941 there were 16,000 tenant families who had received loans, averaging \$5,000 each, for the purchase of their own land.

FSA and Cooperatives

Working together in groups is one of the oldest farming institutions in America. Farmers traditionally have gotten together to help one another do the job that none do alone—build a new barn,

husk corn, thresh the wheat. For several decades farmers have also been organizing more formal co-operative organizations to help cut the costs of processing or marketing their farm products or facilitate their purchase of the things they need.

Small farmers actually need the services of co-operative enterprises in solving their mutual problems in an even more fundamental way than the larger farmers. Small farmers, such as Farm Security borrowers, need better tools, machinery, and services on their farms—things they are unable to get singly and individually but which larger farmers are usually able to purchase and use efficiently on an individual basis. By pooling their funds and energies small farmers are able to obtain many of the advantages of modern farming methods through the joint ownership and operation of farm equipment and services. They can also save money on their purchase of farm supplies such as feed, seed, fertilizer, fencing materials, fuel, soap, baby chicks, and many other items needed on the farm and in the home, by buying together in large quantities.

It is exactly for such purposes that the Farm Security Administration makes what are known as community and co-operative loans to its borrowers. With these loans more than 395,000 Farm Security borrowers and other low-income farmers in their neighbourhoods have formed 21,500 groups through which they co-operatively own and use purebred sires, jacks, rams, and stallions; modern tractors, combines, rakes, plows, and manure spreaders; and many other essentials for improved farm management.

Even if an individual Farm Security borrower could afford to buy any of these things separately it would be uneconomical to do so because the breeding livestock or equipment would not be fully utilised on his farm. Co-operatively owned property, however, be used more nearly to its maximum efficiency. Its costs are distributed among a number of farmers, each of whom gets the full advantage of modern equipment or essential services that enable him to operate more successfully.

In working together to market their crops and purchase needed supplies, borrowers and other low-income farmers are being assisted in organizing purchasing and marketing associations. Controlled and operated by the members in accordance with co-operative principles, they not only improve family living through increased income and savings but also teach democratic participation in community affairs.

Tenure problems are being attacked through co-operative land leasing associations and land purchasing associations. Such associa-

tions either lease or purchase good farm land and then make it available under equitable tenure arrangements to their members.

To enable its rehabilitation borrowers to purchase membership in existing co-operative associations, Farm Security also makes small participation loans when it is clear that such participation will aid in the families' rehabilitation. There are in every State many co-operatives of all types, including creameries, cotton gins, cheese factories, saw mills, fertilizer plants, irrigation companies, and many others. By becoming members of these associations Farm Security families can get the advantage of large-scale buying and selling and processing.

Direct loans may also be made to a formal association for the purchase of needed facilities or to provide operating capital if such an association can help Farm Security families and other low-income farmers in the area. Likewise loans can be made to establish new co-operative associations under similar circumstances.

FSA and the Homestead Projects

Soon after the Federal Government started its rehabilitation programme, it was discovered that the kind of aid thus provided was not of much help for some families, simply because they are living on land which was too worn out to support them under any system of farming. To help these people, the Federal Emergency Relief Administration and the Resettlement Administration worked out the simple plan of buying and developing good land, building inexpensive but adequate homes and buildings, and resettling the families in new communities. At about the same time, in 1933, the Division of Subsistence Homesteads of the Department of the Interior, set about helping people who had part-time jobs in industry to obtain a better living. Like that of the resettlement communities, the basic idea was simple: The Government bought good land in suburban areas, laid out and developed homestead tracts large enough for a house and a good-sized garden, and built small, sturdy homes on each tract. The main benefits to the families were two: The gardens enabled them to supplement their income with home-raised food; the new homes were low-cost adequate houses. In a few instances, where the chance for part-time employment in industry was small, plans were made to have the homesteaders develop community industries, and to encourage private industry to establish factories or assembly plants in the locality.

Today, all but one of the various full-time and part-time farming projects, providing for more than 13,000 families, are under the supervision of the Farm Security Administration.

No two of the projects are exactly alike. They range in size from 36 to 55,000 acres and accommodate from 9 to 312 families. Ap-

proximately 92 projects, which include all 33 subsistence homestead developments, are in the form of small communities. Many have their own school, store, and sometimes other community facilities, such as a cotton gin. The rest of the projects consist of individual farms scattered over two or more countries.

An outstanding feature of the projects is the chance they give farm families to make the most of all types of Farm Security Administration aid. Opportunities for intensive education, with emphasis on farm and home management; cooperative effort; medical care; good land tenure; and adequate housing are all easier to obtain in the homestead communities.

The projects serve as proving grounds for social, economic, and educational programmes that may be used in the modified form by all handicapped farm families. The experience gained in the homestead developments has proved valuable in newer efforts to establish sound farm communities.

Comparatively recent of development are the land-leasing associations. These associations, formed by sharecropper families with the help of the Farm Security Administration, lease large plantations and then sublease individual tracts to association members. The Farm Security Administration places trained farm and home supervisors on the plantations to help plan the farm work. Frequently, families operate through the association to obtain marketing and purchasing services, and the use of cotton gins, large-scale machinery, and similar farm aids. Sharecroppers thus obtain land, supervision, and services that otherwise would be beyond their reach. A total of 41 land-leasing associations providing for 1,600 families were in operation at the close of the 1940-41 fiscal year. Additional associations are now being developed.

Water conservation projects being developed in arid and semi-arid Western areas under the authority of the Wheeler-Case Act, will also make use of Farm Security's experience in homestead developments. These projects provide a change for settlement on irrigated land for farmers made foot-loose by drought or wind erosion, and for farmers who are failing to make a living because their dry-land farms are too limited to support a family. The Bureau of Reclamation of the Department of the Interior plans and builds the irrigation works, the dams, canals, laterals, and drainage. The Farm Security Administration makes loans for developing and settling the projects. Twelve water conservation projects have been provided so far.

The Farm Security Administration also supervises the three Greenbelt Towns. Providing homes for more than 2,100 medium-in-

come families these projects were built as models of modern town planning. Well built homes surrounded by large lawns and parks, a minimum of thoroughfares, complete schools, stores, playgrounds, and other community facilities are features of these communities. Of considerable importance is the full community life developed at each Greenbelt Town as every resident has a chance to take part in local educational, political, and social affairs. Visited by thousands of housing experts from all parts of the United States and foreign countries, the towns are already being copied by private enterprise.

Farm Security and Education

While all these various aspects of the programme are in operation, the Farm Security Administration realizes that ultimate success will depend greatly on education—education of the adult and of the young. If Farm Security families are to be rehabilitated in accord with our objectives, they must have and must know that they have equal opportunities to function and to thrive in their respective communities. They cannot have such equal opportunities if their children do not receive proper education.

Generally, the educational opportunities of the rural child are not as good as those of the city child. Less money is spent on rural education than on urban education, and there are fewer cultural resources at their disposal. The rural child of a low-income family is particularly handicapped. The child of the migrant worker may not attend school at all. The child of the low income tenant or share-cropper may be kept out of school by illness, by the lack of clothing, by the lack of money required for books and supplies (in regions where the children have to pay for them), and often by the need to help with the work on the farm when they should be attending school.

The Farm Security Administration recognizes the necessity for assisting such families in keeping their children in school. Every effort is made to enable them to attend school on equal terms with other children in the community. If the children lose out in their opportunity for education when they are young, they are certain to lose out in the opportunities for work in the city and on the farm when they grow older.

Not for the young alone is there a need for education. The adults, too, must be educated, although in quite a different way. The education of the adults is not to be found so much in books as in the realization of their problem and a clear understanding of the methods whereby these problems can be solved. Adults who do not understand their plight, and cannot grasp the methods whereby they can improve their conditions, cannot be rehabilitated. They cannot become self-sustaining. They may succeed as long as they are supervised and

managed, but they fall back into their original state as soon as they are left alone. The Farm Security Administration, properly understood, is an educational as well as a credit agency. The two functions are fused in the rehabilitation process and the success of the whole programme depends as much on education as on any other activity.

All the methods used and all the aspects of the programme inaugurated by the Farm Security Administration are not ends in themselves. They are designed to attain security for low-income farmers: and to afford better opportunities to the farmer who works on his own land or who works on the land as a tenant, a sharecropper or a farm labourer. Because these various activities and methods are not ends in themselves, they cannot be superimposed on the people as fixed prescriptions to cure rural poverty.

John Dewey, the noted philosopher, in his *Economic Basis of the New Society*, tells us that: "The ultimate problem of production is the production of human beings. To this end, the production of goods is intermediate and auxiliary. It is by this standard that the present system stands condemned. "Security" is a means, and although an indispensable social means, it is not the end. Machinery and technological improvement are means, but again are not the end. Discovery of individual needs and capacities is a means to the end, but only a means. The means have to be implemented by a socio-economic system that establishes and uses the means for the production of free human beings associating with one another on terms of equality. Then and then only will these means be an integral part of the end, not frustrated and self-defeating—bringing new evils and generating new problems."

This certainly applies to the entire Farm Security programme. The objective is to help people on the land become self-sustaining. All we do must be thought of and understood in terms of the people and their needs. Toward this end all the Farm Security Administration activities are dedicated.

To carry out its programme, the Farm Security Administration is departmentalized for efficient functioning. But the successful execution of the entire programme depends as much, or more, on the proper functioning of the county office as it does on the planning and technical administration in the district, State, regional, or Washington offices.

23. LESSONS FROM RURAL REHABILITATION EXPERIENCE*.

Olaf F. Larson.

Now that we have had a full decade of experience in rehabilitation among our rural people, it is time to take stock of goals visualized, methods used, and lessons learned. Moreover, these experiences may have new and extended value in connection with work now to be done in war-depleted countries the world over.

What lessons may be learned by looking back at the Nation's experience during the past decade with rural rehabilitation programmes? What issues are involved in deciding the role of a rehabilitation programme as an instrument of post-war national agricultural policy? Answers to these questions were among the purposes of a comprehensive study recently completed of the standard rehabilitation loan programme administered by the Farm Security Administration and its predecessors.

Awareness of these lessons and these issues should enable the Nation to do a better job of improving the welfare of farm people in the lower economic brackets, come depression or prosperity. Then, too, measures for the rural reconstruction of war ravaged countries may be more fruitful if experience in the United States is heeded. The study was restricted to the standard-loan programme because, as measured by people or money or geography, this has been the major rehabilitation activity. Thus, the farm-ownership (tenant purchase) and the non-standard loan programmes and the much-debated resettlement-type projects are not included in the generalizations given here.

* Land Policy Review (U.S.D.A.) Vol. IX No. 3, 1946. p. 13-18.

This extract gives only a glimpse of the vast field of activities of the United States Department of Agriculture, directed towards rural rehabilitation. As it is not possible to give within the limited space of this volume the varied efforts made in this field by the Department, we propose to publish separately a volume summarising a recent report of the Bureau of Agricultural Economics, U.S.D.A., entitled "Ten Years of Rural Rehabilitation in the United States". This report records the significant experience accumulated in the States through the rural rehabilitation programme by the Resettlement Administration from 1935 to 1937 and by the Farm Security Administration after 1937; it also outlines the basic lessons that have been learnt about the rehabilitation process. How far these lessons will be useful to countries other than America is stated in the following words at the end of that Report:— "Beyond our own borders, we see that great numbers of the world's farmers are chained by poverty. World War II has depleted the resources of many. Apparently many of the lessons learned from this Nation's experience with rural rehabilitation may be fruitfully applied in the rural reconstruction of war-ravaged and poverty-stricken countries. The lessons may be applied in keeping with local problems, local needs, and in complete harmony with democratic ideals."

The chief characteristics of standard-loan programme are well recognised. They include (1) credit for normal farm and home operating expenses to farm families who are unable to obtain satisfactory financing from any other private or federal source, (2) supervision which includes the making of sound farm and home plans, "on-the-farm" teaching of improved farm and home practices, and (3) rehabilitation in place, that is, without resettlement. In addition to the combination of credit and supervision which are key parts of every standard loan, other techniques have been adapted or developed to aid the borrowers. These include improvement of tenure, group services, group-health plans, adjustment of debts, environmental sanitation, special types of loans such as for water facilities and 4-H club activities, and specialized programme carried on in limited areas to develop new methods or to meet localized needs. Grants were used extensively during depression years but are now greatly restricted. Prior to prohibition by congress, written into the 1944, Agriculture Appropriation Act and subsequent Acts, cooperative associations were assisted and established to aid the rehabilitation of borrowers. Neighbourhood action or study groups at one time were given encouragements as an aid to borrowers.

Nearly 770,000 families, one out of every eight farm operators reported by the census, have had a standard loan from the Resettlement Administration or FSA between July 1, 1935, and the end of 1945. (This excludes from ownership borrowers and project occupants who have also had standard loans). These families are dispersed throughout all but a dozen counties of United States. Several counties of the States, mostly in the cotton-plantation areas of the South, have had more than 1,000 borrowers. Counties having the largest proportions of their farmers with such loans tend to be concentrated in the Mountains and Great Plain States, but nearly three-fifths of the total number are in the States that make up the "four Southern FSA regions". Before July 1935, when administration was under FERA and the State rehabilitation corporations, there was no standard loan category, but probably the majority of the 397,000 families who were made loans would later have been classified as "non-standard loan" or "grant only" cases.

Between July 1935 and June 1944 more than 800 million dollars was put out in the form of standard loans to individuals. Direct loans to associations some or all of whose members were standard borrowers, totalled 22 million dollars during this period. Much of the additional 49 million dollars loaned under FERA would later have been called grants or nonstandard loans.

Some other measures of the scope of the programme can be mentioned. More than 27,000 group services were established to provide

several times this number of families with needed services or facilities such as sires and machinery. About 4,500 associations of various types were established or given financial or supervisory assistance.

Characteristics Change

Borrowers accepted under FERA had the least in the way of physical and financial resources, had the lowest socio-economic status, and were the most disadvantaged of those accepted at any time. An upward trend in family selection, under way when FSA was started, has generally continued. This means that the "floor" rather than the "ceiling" of acceptance has been raised in practice. Wartime objectives accentuated this tendency.

Objectives Broaden

When the programme was conceived to perform an emergency function during the crisis of rural relief, the goals for individual families were to relieve their suffering and to restore them to permanent self-support. As the programme continued, as understanding grew of the problem of rural poverty, and as deep-rooted causes of poverty were attacked, the objectives shifted and broadened. Stated in somewhat philosophical terms, for the individual family the goals also were to obtain a physically healthful level of living, to obtain a socially desirable level of living, to acquire the skills and abilities needed to manage one's own farm and home successfully and independently, to achieve security, to obtain enough land for an economic unit of the family-farm type, to become a full participant in a democratic way of life, and later, to have maximum employment of the family labour in the production related to the war.

The programme has also had broad objectives with respect to agriculture, rural society, and general welfare of the nation. To save the taxpayers' money was one of the first stated; when the programme began in a relief setting—loans plus supervision were viewed as more economical of public funds than either direct relief or work relief. To preserve, reinforce, and perpetuate the family-type farm and to foster farming as a way of life rather than as purely a commercial enterprise have been prominent national goals, along with the encouragement of land conservation.

Wartime Influences

Keeping the maximum number of people on the land was advocated during the early days of the programme but this goal was modified and almost reversed by the later aim of achieving full utilization of manpower in the low-income farm population in the production necessary to the war. Discouraging undirected migration of farm population was particularly tied to the problems of man-land

adjustment during the drought years. Bringing about a better adjustment of population and land resources was the major attack of resettlement but it is also a goal that has had the support of the standard programme. Implied earlier in the whole social-welfare approach, the over-all goal of making available to all of our citizens the opportunities of democracy so they might have a stake in it became more clear-cut under wartime pressures.

These goals for individual families and the large society have not been concisely stated in any official pronouncement. They are expressed more concretely and are better understood by most people in terms of the working tools used to achieve them—"live at home methods," diversified farming, debt adjustment, tenure improvement, record books, farm and home plans. "precious" cookers.

Basic Assumptions

The objectives rest upon fundamental assumptions which are a complete rejection of the relief philosophy handed down from Elizabethan "poor laws". One other basic philosophical idea came to be propounded: the resources for lasting rehabilitation rest within the people themselves; therefore, the programme must direct its efforts toward tapping and mobilising these resources. The premise is in accord with the democratic spirit. It stands at the exact opposite of paternalistic and continuous supervision.

Measurements

Successes and failures of the programme to date cannot be measured solely in financial terms. Repayment by the end of 1945: of 68.6 per cent of the principal involved in "high risk" loans to individuals and groups (excluding "corporation trust" funds) plus interest equivalent to 9.6 per cent of the cumulative amount of such loans is not, of course, to be passed over as significant. By the end of 1945, 45 per cent of the standard borrowers had paid up in full, 7 per cent had been dropped as having little hope of rehabilitation or of repaying any more on the loan, and 22 per cent were rated as being capable of making further repayments but could not be considered as rehabilitated in agriculture.

Although rehabilitation goals cannot be achieved without financial solvency, it is equally true that every dollar loaned might be collected and yet not a family be rehabilitated. Success in rehabilitation is better shown by families who have better living, improved health, more capital resources with which to earn an income so that debts can be retired, more secure tenure, debt-payment capacity improved farming and home management, better work habits, higher morale, an increased sense of "belonging" and "being somebody".

Failure in rehabilitation is better illustrated by families whose debts have increased faster than their ability to repay, whose frustrations have been multiplied by programme changes and by requirements and objectives they have not fully understood, whose basic problems have not been met because they were not recognised or, being recognised, were not corrected by the supervisors and families, or whose ways of doing after leaving the programme revert to the old, and by the establishment, in some instances, of group activities without regard to the natural social processes of reorganisation.

Beyond

Unfortunately, neither the successes nor failures in many important aspects of rural rehabilitation have been adequately measured.

Without doubt, the very existence of the standard-loan programme has meant much to the families who have participated. To some, the end result was achievement of the goals held out for them, to others the experience was one flop. Effects of the programme also "spilled over" to influence neighbours, local institutions, and organizations. Again, these spilling-over effects have not been measured. But they can be seen in many forms. Pressure cookers and live-at-home practices have changed buying habits. Old patterns of borrowing, buying and selling have been broken and replaced by new ones. Sanitary facilities and housing improvements of borrowers have been imitated by others. Group action has taught families how to recognize, analyze, and solve some of their own problems. Health measures to help these families have led to action on health problems of other rural people. Loans and grants which put a floor under the level of living of farm families during the depression years also increased their purchasing power, bailed out landlords and other creditors, and protected the strength of the Nation's manpower resources.

The Lessons

A good many lessons are taught by this experience in rehabilitating low-income farm families. First, it was soon learned that rural poverty was not simply a new depression-born or drought-caused phenomenon but had been growing over a long period and was deeply rooted in a multiplicity of causes. In a sense "rehabilitation" is not an apt word because many families in their generation never were previously at a higher level. A corollary of this first lesson is that many of poverty's causes are outside the direct control of the individual so handicapped. Another is that a complex of problem—not a single problem—is characteristic of families who seek rehabilitation

aid and therefore a full kit of tools must be available if the problems are to be met.

Second, the lesson follows that the real meaning of rehabilitation is the attainment of a cluster of interrelated economic and social goals. It is not just paying off the loan, just canning so many quarts of home-produced food per person, just acquiring more working capital, or just getting to participate in community affairs.

Third, one of the most important lessons is the understanding that has been gained of the nature of the rehabilitation process. All families do not start from the same point and all do not have the same problems; therefore flexibility is required in the rehabilitation tools and techniques and in their use. One family may need nothing more than a small loan for a short time, with a minimum of guidance. The rehabilitation of another may be a two-generation job, costly in time and money. The speed of the process is decided by (a) family characteristics and resources, (b) rehabilitation aids, (c) the culture—especially as expressed by attitudes, social values, class structure, social institutions and social and economic facilities—within which the family lives, (d) impersonal forces—such as war, flood, or depression—outside the control of the family or the programme agency.

Fourth, loans plus supervision, with associated techniques, constitute an invention which can be a powerful instrument of rural social change for the welfare of low-income farm people.

Fifth, several principles have been established concerning the use of the various rehabilitation tools and techniques. A few may be enumerated. A loan must be large enough and for such purposes as will establish the borrowers' debt-paying ability if repayment is to be expected. The lower the economic level from which a borrower comes, the more flexible must be repayment schedule. The lower the status and the more complex the problems of a family, the greater the need for the individualized method of supervision. Families should understand the programme before making the decision to participate. Families who have lived under depressed circumstances and in inferior status for a long time are more likely to need continued supervision than are those whose plight is of recent origin.

Possibilities

Looking ahead, a standard-loan type of rural habilitation activity has two possible major roles as a national programme. In one role, the programme would continue to be a positive instrument of social and economic improvement on behalf of the low-income segment in American agriculture. That there is a tremendous need for such a service is indicated by the fact that a substantial number of existing

full-time farms are not adequate, as to either size or organization of farm enterprises, to provide reasonably efficient use of the family's labour, or to support a healthful and desirable level of living for the operating family. Advances in technology, the return of veterans to civilian employment and other factors in the present situation foretell many adjustments in agriculture in the years ahead. Many farmers cannot make these adjustments without assistance.

In the other role, the programme could stand by, ready to help farm families who fall into crisis situation because of depression, flood, drought, or other disasters which deplete their resources. It would help them get back on their feet. This is a job which some agency should be ready to do at all times.

In the first role, certain hard facts must be faced—for agriculture and for the rural society as a whole. As pointed out by BAE economists, technology has advanced so fast that foreseeable demand for agricultural products can be met without an increase in farms or farm workers. Yet the rates of farm-population replacement by natural increase are so great that 67 per cent more young farm men are reaching the age of 25 during the present decade than are needed to maintain the working force of farm men at 140 levels; not all could stay on the farm even with no further technological advances. These facts, coupled with the large number of existing inadequate farm units, add up to mean that the agricultural programme needs to be supported by broad gauge industrial and educational measures if the problems are to be adequately met. Any such positive programme has to face tough problems of family selection. It might find work with part-time farmers to be of increasing importance.

If agriculture plays its historical function of shock-absorber for industry, a depression would bring a back-to-the-land movement and a piling up of people on the land through delaying the migration of so-called surplus farm youth. This would create pressures that might cause a repetition of the mistakes and shortcomings of the early rehabilitation programme. On the other hand, a full-employment era would provide an opportunity for constructive work of the type outlined for the first role. Such work could benefit a large segment of our rural population and advance the general welfare of our nation as well.

24. REHABILITATION RELIEF IN U.S.A.*

Farmers' Home Administration

This agency provides a system of agricultural credit to farmers including veterans experienced in farming—who are not able to get the credit they need anywhere else. It offers the family-type operator of limited resources, whose assets do not qualify him for the ordinary types of credit an opportunity to get on his feet. Loans are supplemented by supervision where needed to assure successful farming and thus protect the Government's interest.

The Farmers Home Administration Act of 1946, approved August 14, made this programme a permanent part of the Department's work and provided that it be carried on by a new agency created through a merger of functions of the Farm Security Administration and the Emergency Crop and Feed Loan Division of the Farm Credit Administration. The merger took place on November 1.

Both veteran and nonveteran demand indicates that supervised credit for the small farmer—an idea first developed during the depression—is valuable in times of prosperity as well as in times of economic distress. A period of high farm prices and general prosperity gives the small operator a chance to work out changes that are essential for permanent success and to strengthen his position against possible depression later on. "Scratch starters" including veterans and other young men who have some experience but no equity in land or chattels frequently need this kind of credit.

Types of Credit Provided

Credit provided is of three general types. Operating loans are made at 5 per cent interest for the purchase of livestock, equipment, feed, seed and other essential items, and are repayable in from 1 to 5 years. Farm ownership loans are made at 3½ per cent for farm purchase, enlargement or development, and repayments may be spread over 40 years. Veterans have preference. Water-facilities loans are made in the West at 3 per cent for periods up to 20 years.

About 270,000 families actively participated in the operating loan programme during the year. Those making basic adjustments in their farming developed farm and home plans, frequently with provision for such changes as reorganization of the farm unit, develop-

* Report of the Secretary of Agriculture (1947) U.S.D.A.

ment of livestock enterprises, and adoption of crop rotations. Supervisors visited the farms to advise in carrying out the practices agreed on.

An example will show how supervised credit leads to better farming and higher income. Records kept by a Missouri borrower in 1943 showed his income from each dairy cow was about \$3 less than the cost of feeding and housing it. The supervisor advised him, step by step, on a course of action to improve production. The farmer disposed of some of his old cows, bought good yearling heifers and bred them to purebred bulls. He added protein supplement to the feed, used more fertilizer on pasture and hay, and lengthened the pasture season by growing sweetclover. By 1945 his income per cow was \$69 more than his costs, and by 1946 the profit had risen to \$91 per cow.

Flexible Allocation of Loan Funds

The Farmers Home Administration Act allows greater flexibility than existed previously in the allocation of real estate loan funds to States where the need is greatest and land is available at reasonable prices. It also established a new method of setting maximum loan limits for individual counties. Since 1941, the programme had been virtually shut out of many counties where loan limits were too low to permit a family to buy an adequate farm. These changes, and the heavy demand from veterans and others, were the principal factors in the increase.

The number of families that pay off their loans years ahead of time continued to increase; by the end of the fiscal year 7,598 families had paid in full from income. About 16 per cent of the borrowers have reached the goal of debt-free ownership in a comparatively short time. As a group, the active borrowers have paid 56 per cent more than the amounts due.

Funds had not been appropriated for the insured-mortgage programme authorized by the act; it will begin in the 1948 fiscal year. The agency will insure 40-year loans by private lenders; such loans must have the same purposes as those financed by the agency's direct farm ownership loans. The amount borrowed can be up to 90 per cent of the investment in the farm and necessary improvements. The policy will be to insure mortgages when private funds are available, rather than to make direct loans. Only when an applicant is unable to get an insured mortgage loan or lacks the funds to make the required down payment will a direct loan be made.

Water-Facilities Programme

Except in the water programme, the agency's work in the 1948 fiscal year will be curtailed because of smaller appropriations. Fewer new borrowers can be served with supervised operating credit, and the number of direct farm ownership loans will be considerably reduced. The mortgage-insurance programme, however, will enable many prospective borrowers to start on the road to ownership. The number of full-time employees for 1948 is 38 per cent below the 1947 minimum, and there are about 450 fewer county offices than in June.

25. THE FOOD STAMP PLAN*

Norman Leon Gold, A. C. Hoffman and Frederick V. Waugh

The study here reported shows that farmers, low-income consumers, and food dealers would all benefit substantially from an expansion of the Food Stamp Plan. If the plan were made available to all relief and Works Projects Administration families in the United States, the cost of the Federal Treasury would be about 400 million dollars a year. A plan of this size would be very effective in moving surplus foods into consumption and in improving the diets of low-income families. The authors believe that a 400 million-dollar annual subsidy for a National Food Stamp Plan could increase the income of farmers by at least the amount of the subsidy, and possibly somewhat more.

These findings do not mean that the Food Stamp Plan is necessarily a substitute for other methods of farm relief nor that it should be considered to the exclusion of other methods of domestic surplus disposal, such as the school-lunch programme and the Direct Purchase and Distribution Programme. The report shows that in some respects full benefits of the plan were not being realised in the early stages of its operation and suggests some possibilities for improvement. On the whole, however, the plan seems to be working satisfactorily from the standpoint of all groups concerned, and a number of changes have been made to improve its operation.

Objectives of the Food Stamp Plan

Price-depressing farm surpluses are co-existent with a situation in which millions of American families are receiving inadequate diets. The purpose of the Food Stamp Plan is to raise the dietary standards of low-income consumers. In the distribution of food surpluses, it utilizes existing channels of food distribution, with whatever benefit this may bring to those engaged or employed in the food industries.

The stamp plan seeks to achieve its objective by means of a Federal subsidy paid to low-income consumers in the form of blue stamps. These stamps can be used for the purchase of specified surplus foods in any retail food outlet. As a condition for receiving the free blue stamps, consumers are usually required to buy minimum quantities of orange-coloured stamps, which can be used for the purchase of any food product. The purpose of this requirement is to maintain the out-of-pocket food expenditures of participants, so that

* Special Report—Economic Analyses of The Food Stamp Plan—U.S.D.A. (1940)

the surplus products brought with the free blue stamp will represent a net addition to their food consumption.

Theory of the Plan

It is generally agreed that the demand for foods as a whole by high-income consumers is more inelastic than that of low-income consumers since they respond less to price changes and may spend considerably more for a small supply than for a large one. What the Food Stamp Plan does in effect is to divert a larger share of the available supply from high-income to low-income consumers by means of the blue stamp subsidy. To the extent that the demand of the former group is more inelastic than that of the latter, the effect of this diversion is to increase the combined food expenditures of both groups for any given supply. It is this increase in total food expenditures, rather than the amount of the subsidy as such, which is important in determining the increase in farm income.

The effect of the Food Stamp Plan on farm income will depend primarily on four things: (1) The amount of the blue-stamp subsidy; (2) The extent to which this subsidy represents a net addition to the preplan food expenditures of the participants; (3) the elasticity of the demand of medium and high-income consumers who do not participate in the plan; and (4) changes in marketing charges.

The more inelastic the demand of high-income consumers, the greater will be the price increase and the effect of the plan in raising farm income. If however, the demand of nonparticipating consumers is highly inelastic, the price increase will be such that low-income families will be unable to obtain much additional food even with their blue-stamp subsidy. Actually, the benefits of the plan are shared by both farmers and low-income consumers; but for any given subsidy, the greater the benefits to one group, the smaller the benefits to the other.

If the total supply of the commodity is fixed and would be marketed through regular commercial channels in the absence of the plan, then the total marketing bill is not greatly affected by diverting part of the supply from one group of consumers to another. If there is no increase in charges for processing and marketing, the farmer will receive all of the increase in consumer expenditure attributable to the Food Stamp Plan, even though his average share of the consumer's dollar is only 40 to 50 per cent. This increase in consumer expenditure may be greater under certain circumstances than the blue-stamp subsidy itself.

The farmer will not receive all of the subsidy, however, when the effect of the plan is mainly to increase the supply marketed rather

than to raise farm prices—as may actually occur when prices are so low that part of the crop would otherwise be left unharvested. In this case, the plan will benefit low-income consumers by enabling them to obtain more food, but farmers will not be greatly helped unless the subsidy is sufficient to affect market prices. On the additional part of the supply which farmers will be able to market as a result of the plan, they will receive only that part of the subsidy left after the deduction of marketing costs.

In the long run, operation of the Food Stamp Plan on a national scale should make possible increased total production as well as higher prices. If operated in conjunction with the production-control programme, the effect of the plan would be to divert a larger part of whatever supply was produced to low-income families, with increased prices to farmers.

With any given amount of funds, will the Food Stamp Plan raise farm income as much as, or more than, the same amount of funds used under the Direct Purchase and Distribution Programme of the Surplus Marketing Administration? The answer to this depends on two things: (1) The quantity of food surpluses that can be bought; and (2) the extent to which the foods thus bought represent a net increase in the food consumption of participants. More surplus food can be bought with a given amount of money under the Direct Purchase and Distribution Programme than under the Food Stamp Plan because under the former, purchases are made direct from farmers or whole sale assemblers rather than from food retailers. But the benefit to agriculture depends on the effect on total food sales. No matter how cheaply a surplus-disposal programme can be operated, the farmer gains nothing if the free food is merely substituted for food purchases which the recipients would have made without the programme.

Where relief assistance is given in the form of grocery vouchers rather than cash, so that the preplan food expenditures of participants can be maintained under either plan, the direct distribution programme may be expected to increase farm income directly more than stamp plan with any given subsidy, because of its cost advantage. For the same reason, the direct distribution programme would probably raise farm income by more than the stamp plan where cash relief payments are so small that the orange stamp requirement must be dispensed with. Neither plan, however, is altogether satisfactory from the farmer's standpoint if no method is provided for maintaining the normal food expenditure of participants. Where the orange-stamp requirement can be applied, the advantage of the stamp plan in maintaining normal food expenditures of participants is likely to

outweigh its cost disadvantages from the standpoint of raising farm income.

Scope of the Plan

As of July 1, 1940, the Food Stamp Plan was operating in 83 areas, with a total of about 1,500,000 consumer participants. The total cumulative value of the blue stamps issued up to that date was \$16,538,000. In areas where the plan is operating, the value of the blue stamps amounts to about 4 or 5 per cent of total food sales.

Thus far, participation in the plan has been limited to persons receiving relief (including W.P.A. workers) except in Shawnee, Oka, where low-income employed families are participating on an experimental basis. In the first six cities where the plan was operated, ordinarily called experimental stamp cities, from 9 to 17 per cent of the total population is eligible to participate, depending on the relief load. The experience to date indicates that about 75 per cent of the eligible consumers may be expected to participate in the plan.

Commodities Purchased with Blue Stamps

The proportion of blue stamps spent for the various commodities on the surplus list obviously determines the distribution of benefits among the various groups of producers involved. Up to December 15, 1939, approximately one-fourth of the stamps were used for butter and one-fourth for eggs. Cereal products (flour, corn meal and rice) accounted for 10 to 17 per cent and fruits and vegetables for about 33 per cent. When pork was added to the list in December, it took about one-fourth of the stamps, apparently at the expense chiefly of butter, eggs, and lard. The proportion of blue stamps spent for each commodity will obviously vary with the number and type of commodities on the surplus list.

The average per capita consumption of surplus commodities by participating families appears substantially higher than the consumption of these foods that has been reported for comparable nonparticipating groups.

Problem of Substitution

For reasons already made clear, it is essential from the standpoint of the farmer that as much of the blue-stamp subsidy as possible shall represent a net increase over the former food expenditures of participants. The Food Stamp Plan seeks to maintain these expenditures in two ways: By requiring that participants buy a minimum of \$1 to \$1.50 worth of orange stamps per person per week as a condition for receiving the free blue stamps and (2) by giving larger quantities of free blue stamps with increased purchases of orange stamps. The

minimum orange stamp requirement was set at \$1 on the assumption that this was the average per capita food expenditure of low-income families.

Because of the way in which relief is handled in some cities, it was not desirable to use the orange-stamp requirement for all participants. As of January 1940, 60 per cent of the participants were required to buy orange stamps; 18 per cent were receiving their relief in the form of grocery vouchers rather than cash, so no requirement was necessary; and 22 per cent (mostly in the South) were simply given the blue stamps because their cash-relief payments were so low that they could not buy the orange stamps.

The majority of the people required to buy orange stamps were purchasing more than the required minimum. In May 1940, participants of 12 "stamp cities" were spending an average of \$1.06 to \$1.29 per person per week for orange stamps, with this figure tending to increase as the plan went along. In addition, they were, of course, receiving free blue stamps equal to 50 per cent of the value of the orange stamps bought, which made a total per capita food expenditure of \$1.60 to 1.95 per week. There is reason to think, however, that the average preplan food expenditure of many of these participants was somewhat above the amount of the orange stamp purchases, so that not all the value of the blue stamps may have represented a net increase in their food consumption.

Efforts were made in this study to measure the extent to which blue stamps were substituted for out-of-pocket food expenditures of participants, but the results were not such as to warrant any precise conclusion. In the judgment of the writers, based on first-hand information of the working of the plan as well as on the available statistical evidence, a conservative estimate would be that about 75 per cent of the blue-stamp subsidy represented a net increase in the food expenditures of participants. This percentage might be increased with certain modifications in the operation of the plan, some of which are already under consideration by administrative officials and are discussed later in this report.

Costs under the Food Stamp Plan

A criticism sometimes made of the Food Stamp Plan is that it costs the Federal Government more to distribute surplus foods in this way than by possible alternative methods, such as the direct Purchase and Distribution Programme. Under the stamp plan, the purchases of surplus foods are made by consumers in their neighbourhood stores. Under the Direct Purchase and Distribution Programme, commodities are bought by the Government at farm or whole sale points and transported to the State welfare agencies. Dis-

tribution to consumers is carried out by State and local relief agencies with the help of relief and P.W.A. labour. The difference, therefore, between the out-of-pocket costs to the Government under the stamp plan and the direct purchase programme will be roughly equal to the difference between the retail price and the wholesale landed price in carload lots. For some commodities this cost difference may be as low as 15 per cent and for others as high as 45 per cent. Margin studies made by the Federal Trade Commission and others made in connection with this analysis indicate that for commodities on the surplus list thus far the commodity costs under the direct purchase programme will average about one-third less than under the stamp plan. The cost difference is of course due mainly to the fact that the direct purchase programme utilizes relief labour in lieu of the services of the wholesaler and retailer; and, as this labour would have to be maintained at public expense in any case, its employment does not represent an additional cost from a budgetary standpoint.

There is a rather widespread misunderstanding as to how the costs of the stamp plan are related to its effect in raising farm income. Because the farmer gets only about 40 to 45 per cent of the consumer's dollar, many people have assumed that less than half of any Federal subsidy used for the stamp plan would go to the farmer. This is incorrect. What the stamp plan does in the case of most commodities is to divert a part of the supply from one group of consumers to another without any large immediate increase in the total supply marketed or in the total marketing bill. If the total supply of the commodity is fixed and if there is no increase in unit margins with the increase in prices, all of the increase in consumers' expenditures goes to the farmer, regardless of how small his share of the consumers' dollar may be.

Effect of the Plan on Retailers, Retail Margins, and Employment.

Blue-stamp sales have amounted on an average to about 4 to 5 per cent of total food sales in the experimental cities. Even if these sales represented a net increase in food sales, it is evident that their volume is not large in relation to total food sales and hence would not be expected greatly to influence marketing costs or employment in the regular food channels.

The business done by means of the blue stamps is confined primarily to retail stores located in low-income neighbourhoods. In the experimental cities, 5 per cent of the stores are receiving about one-third of the blue stamps. For at least half the retailers the blue-stamp business amounts to less than \$60 per month; for others it greatly exceeds this amount.

The stamp plan does not seem to have led to any significant change in the margins charged for surplus commodities. In the case of "long-margin" items of which large quantities are not commonly sold, there does appear to have been some reduction in margins by some retailers when these were added to the surplus list. But on the basis of the experience thus far, it seems that the effect of the plan on margins has been negligible.

No significant increase in the number of persons employed in the regular food channels appears to have accompanied the operation of the stamp plan. Most retail and wholesale firms have been able to handle increase in business as large as those usually occasioned by the plan without hiring additional labour or adding to their physical facilities.

Effect on Dietary Standards of Low-Income Consumers

In August and September 1939, the Bureau of Home Economics conducted a study among 1,500 families in Dayton, Ohio, to discover what differences exist in the content and nutritive value of diets of families participating in the Food Stamp Plan as compared with those of their low income neighbours not included in this plan.

The significant differences in the content of diet of participants and non-participants were due to the higher consumption of eggs, butter and fruit by participants, with a tendency toward slightly higher consumption of practically every item on the surplus list and of each major class of food.

The nutritive value of the diets of participants was significantly higher than that of non-participants for vitamin A and vitamin C and was more generous in every nutrient considered. The diets of participants and non-participants both needed reinforcement in calcium. The August-September surplus list did not include foods that make a significant contribution to the calcium content of diets; this could be obtained if the surplus list included milk in some form or more green leafy vegetables.

Public Reaction to the Food Stamp Plan

Since the expansion of any programme in a democracy must depend upon the reaction of the people, the attitude of various segments of the population are particularly important. A number of investigations by various agencies indicate that the stamp plan is meeting with widespread public approval. This attitude is not confined to any particular group; the programmes appear to have the support even of those people not directly benefiting.

National Potentialities of the Food Stamp Plan

At present, nearly 20 million persons, including the families of W.P.A. workers, are receiving or are eligible to receive public assistance in some form. Assuming that 75 per cent of these people would participate if given an opportunity, it would cost the Federal Treasury about 375 to 400 million dollars annually to operate the plan on a national basis for public assistance cases.

If the plan were also to include employed families in urban areas with incomes of less than \$1,000 per year, additional expenditure of 200 to 400 million dollars would be required. A programme to make the plan available to all relief people and all employed low-income families (that is, those with less than \$1,000 per year) in both rural and urban areas would cost about a billion dollars.

A 400-million Dollar Food Stamp Plan would by conservative estimate, increase farm incomes by 240 to 444 million dollars, depending on the elasticity of nonparticipants' demand for food. This represents a 4 to 7 per cent increase in farm income from food crops.

These figures are based on the assumptions that participants substitute as much as 25 per cent of their blue-stamp subsidy for normal food expenditures and that increases in marketing charges due to the increase in prices take one-fifth of the increase in total consumer's food expenditures, leaving only four-fifths to be reflected to farmers. If the degree of substitution is reduced or if marketing charges are not increased—both of which appear possible—the farm benefits would be higher than these estimates and in the opinion of the writers, would be likely to equal or perhaps exceed the amount of the subsidy. Under the same assumptions, a 125-million-dollar Food Stamp Plan programme would increase farm income from food crops by 1 to 2 per cent.

For the commodities on the surplus list, larger percentage increases in growers' incomes would be expected in general. Estimates based on past distribution of blue-stamp purchases among the surplus commodities as compared with presumed "normal" consumption by low-income consumers suggest that under a 400-million-dollar plan, participants' expenditures would increase by at least 3 to 5 per cent of the value of normal domestic consumption for rice and cabbage, 6 to 8 per cent for butter and eggs, 9 to 14 per cent for beans, lard, and various fresh fruits and vegetables, and 23 to 26 per cent for prunes and raisins. The exact benefits to growers cannot be estimated since they depend on the elasticities of demand of nonparticipants, a point on which there are no reliable data.
