

COMMISSION OF THE EUROPEAN COMMUNITIES

INTERNAL INFORMATION
on **AGRICULTURE**

Credit to agriculture

V. United Kingdom

COMMISSION OF THE EUROPEAN COMMUNITIES

DIRECTORATE-GENERAL FOR AGRICULTURE

Directorate Agricultural Economics – Division «Balance-sheets, Studies, Statistical Information»

*The contents of this report may be reproduced, in whole or part,
only with acknowledgement of source*

COMMISSION OF THE EUROPEAN COMMUNITIES

INTERNAL INFORMATION
on **AGRICULTURE**

Credit to agriculture

V. United Kingdom

F O R E W O R D

The present study on Agricultural Credit in the United Kingdom has been carried out within the framework of the study-programme of the Directorate-General for Agriculture, Commission of the European Communities, by

Prof. J.S.G. WILSON,
Professor of Economics and Commerce,
University of Hull.

The results of similar studies for Belgium, France and the G.D. of Luxemburg (1), the F.R. of Germany (2), Italy (3) and Denmark have already been circulated.

The divisions "Balance-sheets, studies, statistical information" and "Conditions of competition and market structures" of the Directorate-General for Agriculture have participated in this project.

*

*

*

The present study does not necessarily reflect the opinion of the Commission of the European Communities and does in no way prejudice its future standpoint on this subject.

-
- (1) Informations internes sur l'agriculture n° 102 (french, german)
 - (2) Informations internes sur l'agriculture n° 104 (german)
 - (3) Informations internes sur l'agriculture n° 113 (italian, french)

N O T E

The present study relating to agricultural credit in the United Kingdom as one of the New Member States has been prepared along the lines of the initial study carried out for the original six Member States. This was done to ensure a degree of comparability between the relevant chapters of the several country studies, though at times this has been difficult because of differences in institutional structure and statistical collection. There may be some degree of overlap between chapters.

S u m m a r y

	page
Foreword	(i)
Note	(ii)
Introduction	1
A. <u>The current situation with regard to Agricultural Credit</u>	2
Chapter 1: The relative importance of Agricultural Credit with respect to the Capital Market	2
Chapter 2: The Indebtedness of Agriculture	17
Chapter 3: Influence of State Agencies on the Availability of Credits in General and of Agricultural Credits in Particular	35
Chapter 4: The Structure and Costs of Agricultural Credit	59
Chapter 5: External Variables Influencing Availability of Credit to Agriculture	152
B. <u>Future Evolution in the field of Agricultural Credit</u>	185
Chapter 6: Future Developments in the Capital Market and Possible Legislative Changes	185
C. <u>Conclusions</u>	231
Chapter 7: Conclusions	231
Appendices	

Introduction:

The present study of the availability of agricultural credit in the several new Member States of the European Economic Community is to be related as far as possible to similar studies already completed for the original six Member States. In addition, structural changes have been taking place in agriculture (and policies have been favoured to encourage the acceleration of such changes - e.g. the amalgamation of small farming units into larger units) and it is pertinent to enquire whether the amounts of capital and credit available to agriculture are in fact likely to be adequate to finance the investments consequent upon structural change, be it on the production or on the marketing side. In particular, it is proposed to summarise the sources of capital and credit available to agriculture in the United Kingdom - e.g. the commercial banks; the Agricultural Mortgage Corporation (and in Scotland, the Scottish Agricultural Securities Corporation); the agricultural merchants and machinery dealers; the co-operatives; and auctioneers; as well as private and supplementary sources. It is also proposed to describe some of the methods of making the relevant finance available. Finally, it will be necessary to consider ways in which the institutional provision and/or the techniques of lending might be appropriately modified in the future.

A. The Current Situation with regard to Agricultural Credit

Chapter 1: The Relative Importance of Agricultural Credit with respect to the Capital Market

It is not clear how in this context one should define 'capital market', but presumably the intention is to discover the relative importance of finance made available to agriculture, as compared with that made available to all sectors in the economy. On the basis of United Kingdom statistics, this is not very easy to establish and one must therefore be content with approximations. We know (on the basis of the sample survey carried out for the years 1967/68 to 1969/70 and published in 1973 as Availability of Capital and Credit to United Kingdom Agriculture) that bank advances represent one important source of credit both for owner-occupiers and tenants.¹ For England and Wales, see Table 12 at p. 16 of the Report quoted above, reproduced at p. 18 of present Report, where bank credit represented on average 34 per cent. of owner-occupiers' funds and 24 per cent. of tenants' total borrowings, to which on the institutional side should be added the finance made available by the AMC (to owner-occupiers, an average of 9 per cent. over the relevant years; amounts lent to tenants are necessarily very small, since they have no real estate to mortgage), the other important sources being private (e.g. family and relatives) - in total 23 per cent. and 21 per cent. respectively - and the agricultural merchants and dealers, co-operatives and auctioneers - in total 32 per cent. and 53 per cent. respectively. It should be noted that a proportion - probably significant - of this third group (trade credit) would itself derive from bank advances. Somewhat similar relationships applied for Scotland (see Report, Tables 53 to 55, pp. 59-60) and for Northern Ireland (see Report, Tables 68 and 69, p. 71), though in Northern Ireland the

1. The sample did not include that large sector of farming in the United Kingdom where farms are partly owner-occupied and partly tenanted.

figures relate to owner-occupiers only.

Figures are published for Bank Advances in Great Britain - also for the Scottish Clearing Banks and Northern Ireland Banks. To the extent that the other lending sectors behave in a similar fashion, the relation between advances to agriculture and total advances (see Tables I, III and IV) will be indicative of the wider experience. Separate figures can also be given of lending by the AMC and the SASC.

At the same time, it should be remembered that for the purpose of these statistics of bank advances "Agriculture, Forestry and Fishing" includes only farming and stock rearing, agricultural contracting, and market and nursery gardening. Advances to agricultural merchants and other agricultural businesses (e.g. horse and livestock dealers), which would in part be concerned with the marketing of agricultural products, are included elsewhere (under the heading 'other distribution') and are not susceptible to further breakdown. Figures for Fishing (but not Forestry) are collected separately, but are not published. They are believed to be very small (less than 2 per cent. of the total category).

Finance made available by the deposit banks to Agriculture, Forestry and Fishing in Great Britain is one of the larger categories in the distribution of bank loans by economic sectors.¹ In absolute terms, and for Great Britain as a whole, it exceeded £800 million by November 1973. Experience back to February 1960 is given in Table I (but note that there was a change in the basis of classification in February 1967). Table I also indicates the percentage that advances to agriculture bear to total advances. From these figures, it can be seen that since (say) 1964 and, until the increases that began in 1971 (allowing for some seasonal fluctuation) bank advances to agriculture in absolute terms had not changed very much. Moreover, as a percentage of total bank advances, there had

1. See Table "Analysis of advances by banks in the United Kingdom" in Bank of England Quarterly Bulletin.

Table 1
Bank Advances in Great Britain

	Total Advances by Banks in Great Britain to Agriculture	² Total Advances by Banks in Great Britain	1 as a percentage of 2
	£m	£m	%
1960 Feb	325	3,243	10.02
May	350	3,457	10.13
Aug	368	3,516	10.46
Nov	372	3,570	10.43
1961 Feb	371	3,718	9.98
May	388	3,886	9.99
Aug	397	3,917	10.14
Nov	376	3,691	10.20
1962 Feb	367	3,850	9.54
May	381	3,912	9.73
Aug	411	4,035	10.19
Nov	415	4,006	10.36
1963 Feb	412	4,325	9.52
May	422	4,504	9.37
Aug	449	4,587	9.79
Nov	457	4,565	10.01
1964 Feb	458	4,817	9.51
May	478	4,912	9.74
Aug	502	5,120	9.80
Nov	515	5,247	9.82
1965 Feb	505	5,327	9.48
May	513	5,473	9.37
Aug	526	5,505	9.56
Nov	524	5,362	9.78
1966 Feb	523	5,590	9.35
May	529	5,750	9.21
Aug	530	5,656	9.37
Nov	512	5,391	9.51
1967 Feb	474	6,223	7.62
May	477	6,303	7.57
Aug	504	6,487	7.77
Nov	511	6,681	7.64
1968 Feb	490	6,926	7.07
May	508	7,105	7.15
Aug	528	7,072	7.46
Nov	533	7,020	7.60
1969 Feb	528	7,522	7.01
May	519	7,759	6.70
Aug	543	7,900	6.88
Nov	527	7,595	6.94
1970 Feb	504	7,927	6.36
May	505	8,290	6.09
Aug	538	8,643	6.23
Nov	536	8,602	6.23
1971 Feb	528	9,268	5.70
May	537	9,446	5.68
Aug	566	9,658	5.86
Nov	591	10,110	5.85
1972 Feb	575	11,010	5.22
May	608	12,433	4.97
May*	608	13,358	4.55
Aug	659	14,974	4.40
Nov	690	15,935	4.33
1973 Feb	708	16,172	4.38
May	748	18,580	4.03
Aug	793	21,059	3.77
Nov†	795	22,791	3.49
Nov	806	24,789	3.25
1974 Feb	837	27,106	3.09
May	892	28,135	3.17
Aug	973	30,128	3.23
Nov	965	30,986	3.11

*In May 1972 there was a change in the basis of calculation of total advances when £734 million fixed rate credits for exports and domestic shipbuilding were included for the first time. Other revisions increased total advances by £192 million. As neither revision affected the figures for lending to agriculture, this caused a drop in the percentage shown as going to agriculture.

†In November 1973 advances by six former finance houses were included for the first time.

note.—A new quarterly classification of advances to cover all banks in Great Britain was introduced by the Bank of England in February 1967 to replace the more limited one previously published by the British Bankers' Association. The biggest effect of the change on the figures listed above derives from the fact that the banks reporting for the first time lent a much smaller proportion of their funds to agriculture than those included in the earlier series, thus causing a sharp drop in the percentage in column 3. The figures listed above exclude advances by banks in Northern Ireland (see Table 1W), but include those for Scotland.

Source: Bank of England *Statistical Abstract and Quarterly Bulletin*.

Bank advances in Great Britain

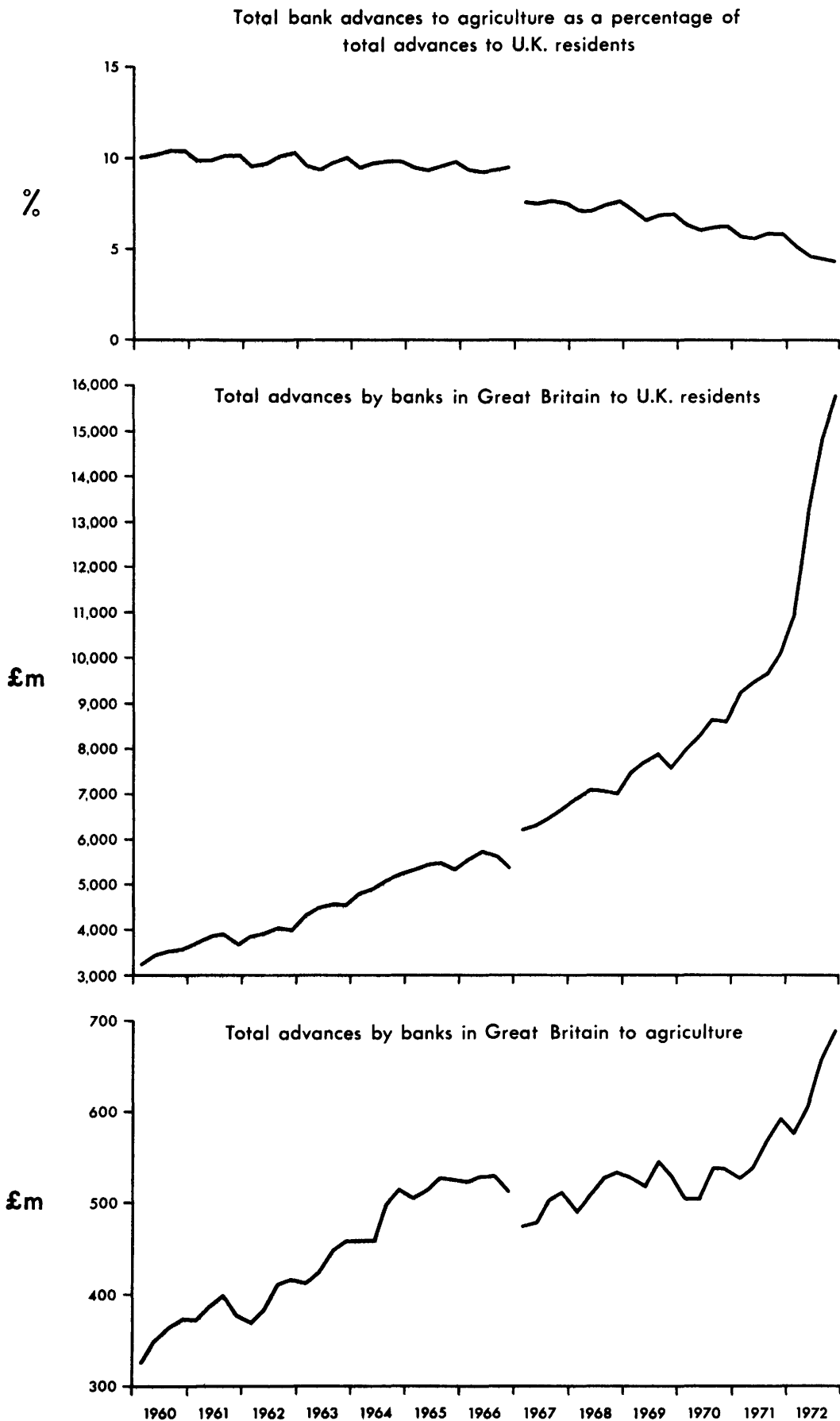


Table II
Agricultural Output and Employment for the United Kingdom

	Agricultural output at factor cost		Employees in employment in agriculture, forestry and fishing*	
	£m	as % of GDP	000	as % of total employees
1962	992	3.9	552	2.4
1963	986	3.7	554	2.4
1964	1,019	3.5	528	2.3
1965	1,050	3.4	486	2.1
1966	1,088	3.3	467	2.0
1967	1,135	3.3	433	1.9
1968	1,139	3.1	413	1.8
1969	1,194	3.1	392	1.7
1970	1,261	3.0	370	1.7
1971	1,363	2.9	345	1.6

* These series are not strictly speaking continuous as there have been various changes in the compilation of the statistics. These occurred in 1964, 1966 and 1969, the effects being to change the number of employees in agriculture, forestry and fishing by about 1,000 to 2,000 each time.

Source: *National Income and Expenditure Blue Book. Department of Employment Gazette.*

Table III
Advances by Scottish Clearing Banks*

	Total Advances by Scottish clearing banks to agriculture	Total Advances by Scottish clearing banks to UK residents
	£m	£m
1967 Feb	78	484
May	78	502
Aug	81	496
Nov	81	518
1968 Feb	77	510
May	75	527
Aug	78	503
Nov	78	511
1969 Feb	78	532
May	78	568
Aug	82	566
Nov	80	539
1970 Feb	77	557
May	77	591
Aug	83	596
Nov	83	604
1971 Feb	82	630
May	81	639
Aug	88	626
Nov	91	646
1972 Feb	92	717
May	95	793†
Aug	107	911
Nov	112	1,023
1973 Feb	116	1,219
May	119	1,172
Aug	131	1,331
Nov	132	1,399
1974 Feb	142	1,500
May	150	1,585
Aug	173	1,698
Nov	171	1,771

* The Scottish figures also include advances by branches of the Scottish banks in England.

† See footnote to Table I. On a revised basis, this figure was increased by £37 million, i.e., on the old basis it was £756 million.

Source: Bank of England *Statistical Abstract* and *Quarterly Bulletin*.

Table IV Advances by Northern Ireland Banks

	Total Advances by Northern Ireland banks to agriculture*	Total Advances by Northern Ireland banks*
	£m	£m
1968 Feb	18	110
May	18	116
Aug	19	122
Nov	18	127
1969 Feb	19	129
May	20	137
Aug	21	144
Nov	21	145
1970 Feb	19	146
May	†	†
Aug	†	†
Nov	†	†
1971 Feb	22	174
May	21	152
Aug	22	153
Nov	23	147
1972 Feb	24	154
May	25	155
Aug	26	169
Nov	30	170
1973 Feb	32	188
May	35	202
Aug	37	241
Nov	40	254
1974 Feb	43	276
May	46	283
Aug	45	317

* In the Northern Ireland banks' figures, advances to overseas residents are included indistinguishably with UK residents under the appropriate categories. Hence, for Northern Ireland, it has been necessary to list the figures for total advances.

† Figures for May, August and November 1970 are not available, because of the effects of a bank strike in the Republic of Ireland, where two of the Northern Ireland banks have their head offices.

Source: Bank of England *Statistical Abstract and Quarterly Bulletin*.

been a distinctly declining trend since about 1966 (before that - back to 1960 - it had been rather static). At the same time, it should be remembered that since 1962 agricultural output at factor cost had declined as a percentage of Gross Domestic Product from 3.92 to 2.9 in 1971. For the rest, the declining trend was most obviously due to the relatively greater expansion of bank lending to other economic sectors. In part, this may have been due, too, throughout much of the 1960s to the relative unprofitability of agriculture.

Separate figures for bank advances for the Scottish clearing banks (included in the Great Britain total) and additional figures for Northern Ireland are given in Tables III and IV.

In addition to the largely short-term lending of the deposit banks,¹ the AMC, which is regarded as being in the private sector, lent relatively large sums to agriculture in England and Wales - as at March 31, 1973 outstanding loans were £205.76 million - mainly at medium- and long-term. To some extent, the breakdown of AMC lending between short-, medium-, and long-term can be established from Table VII where loans made to finance working capital may be regarded as being short-term; those granted to finance improvements as medium-term; and those to finance the purchase of a farm, to repay a bank or a private mortgage, to defray death duties, or to finance purchase by a sitting tenant may be regarded as long-term. Other relevant statistics are set out in Tables V, VI, VIII and IX. As will be seen, much smaller sums were lent by the SASC in Scotland.

1. For some indication of the extent to which bank loans to farmers may be at medium-term see Table ~~XXI~~ in Chapter 2.

Table V AGRICULTURAL MORTGAGE CORPORATION
Loans Granted as Per Published Balance Sheet Figures

Year ended 31 March	Mortgage Loans Granted	*Improvement Loans Granted	Total Loans Granted
	£	£	£
1930	4,168,590	8,781	4,177,371
1931	2,884,488	10,524	2,895,012
1932	1,764,391	10,755	1,775,146
1933	1,353,367	5,811	1,359,178
1934	363,944	11,942	375,886
1935	589,303	8,924	598,227
1936	466,830	10,291	477,121
1937	377,496	16,570	394,066
1938	447,809	21,034	468,843
1939	473,522	12,434	485,956
1940	409,170	4,725	413,895
1941	315,315	6,392	321,707
1942	283,303	3,183	286,486
1943	395,556	263	395,819
1944	199,628	918	200,546
1945	440,685	1,317	442,002
1946	1,109,728	1,185	1,110,913
1947	1,746,024	13,330	1,759,354
1948	2,115,162	7,340	2,122,502
1949	2,731,022	15,064	2,746,086
1950	3,521,505	17,611	3,539,116
1951	4,120,788	13,040	4,133,828
1952	4,934,856	17,837	4,952,693
1953	4,474,819	14,871	4,489,690
1954	1,930,416	14,187	1,944,603
1955	2,852,151	4,134	2,856,285
1956	3,498,513	7,753	3,506,266
1957	4,104,697	11,488	4,116,185
1958	4,010,110	4,682	4,014,792
1959	2,715,786	19,017	2,734,803
1960	5,036,582	40,605	5,077,187
1961	7,599,148	30,434	7,629,582
1962	9,620,040	14,225	9,634,265
1963	6,047,420	22,339	6,069,759
1964	10,602,367	7,552	10,609,919
1965	11,337,673	6,071	11,343,744
1966	11,301,600	2,517	11,304,117
1967	19,934,525	—	19,934,525
1968	21,300,781	—	21,300,781
1969	31,377,242	—	31,377,242
1970	31,726,173	—	31,726,173
1971	24,125,826	—	24,125,826
1972	19,060,342	—	19,060,342
1973	39,474,678	—	39,474,678
1974	47,894,791	—	47,894,791

*To Landowners for Improvements to Agricultural Land under the provisions of the *Improvement of Land Acts*, 1864 and 1899.

Source: Agricultural Mortgage Corporation.

Table VI **AGRICULTURAL MORTGAGE CORPORATION**
Loans Outstanding 31 March as Per Published Balance Sheet Figures

	Mortgage Loans Outstanding	*Improvement Loans Outstanding	Total Loans Outstanding
	£	£	£
1930	4,151,431	8,781	4,160,212
1931	6,928,001	18,986	6,946,987
1932	8,491,205	29,162	8,520,367
1933	9,451,837	33,637	9,485,474
1934	9,363,348	43,538	9,406,886
1935	9,317,213	50,119	9,367,332
1936	9,247,200	59,127	9,306,327
1937	8,868,921	68,580	8,937,501
1938	8,673,546	82,869	8,756,415
1939	8,636,118	87,699	8,723,817
1940	8,579,900	84,498	8,664,398
1941	8,360,062	80,860	8,440,922
1942	7,974,728	76,071	8,050,799
1943	7,640,190	69,058	7,709,248
1944	7,118,401	63,738	7,182,139
1945	6,883,963	56,159	6,940,122
1946	7,169,881	51,282	7,221,163
1947	8,205,842	54,253	8,260,095
1948	9,483,263	55,913	9,539,176
1949	11,169,301	66,045	11,235,346
1950	13,746,844	80,237	13,827,081
1951	16,893,632	86,900	16,980,531
1952	20,743,256	97,079	20,840,335
1953	23,982,498	107,159	24,089,657
1954	24,370,776	117,198	24,487,975
1955	25,773,180	111,576	25,884,756
1956	27,726,885	108,824	27,835,709
1957	30,412,491	115,553	30,528,044
1958	32,614,078	108,409	32,722,487
1959	33,101,854	116,501	33,218,355
1960	35,495,024	140,016	35,635,040
1961	40,616,512	168,026	40,784,538
1962	47,706,201	173,069	47,879,270
1963	50,461,877	180,444	50,642,321
1964	57,422,985	164,034	57,587,019
1965	64,043,572	149,015	64,192,587
1966	71,336,244	126,182	71,462,426
1967	86,946,893	103,299	87,050,192
1968	103,057,164	89,205	103,146,369
1969	127,986,833	76,441	128,063,274
1970	153,411,232	64,964	153,476,196
1971	170,283,913	59,932	170,343,845
1972	178,853,962	54,087	178,908,049
1973	205,716,691	65,496	205,782,187
1974	244,142,626	41,405	244,184,031

*To Landowners for Improvements to Agricultural Land under the provisions of the *Improvement of Land Acts*, 1864 and 1899.

Source: Agricultural Mortgage Corporation

Table VII

The Agricultural Mortgage Corporation Limited—Loans Granted: Purposes

Year	Purchase of Farm		Repay Bank		Repay Private Mortgage		Working Capital		Improvements		Provide Conversion Fees (ii)		Death Duties		Purchase by Sitting Tenant (i)	
	No.	£	No.	£	No.	£	No.	£	No.	£	No.	£	No.	£	No.	£
1948	280	1,222,549	73	465,648	(Included in Col. 3)	66	250,978	157	222,627	27	13,360	27	31,500			not known
1949	347	1,409,476	98	687,614		84	284,016	229	315,411	20	3,005	1	15,600			" "
1950	358	1,541,901	158	1,195,062		79	351,926	310	505,701	12	1,315	1	15,600			" "
1951	377	1,884,322	138	1,021,730	37	331,991	73	368,267	341	419,448	2	430	5	94,600	75	318,815
1952	454	2,253,269	134	1,102,503	68	423,344	107	533,112	394	622,628					117	546,345
1953	362	1,814,823	152	1,281,445	49	369,684	116	581,850	282	427,017					89	441,710
1954	240	1,160,665	62	253,890	29	129,470	78	207,844	160	178,547					56	246,260
1955	274	1,272,937	108	619,315	67	419,725	64	233,910	260	306,264						not known
1956	351	1,810,375	111	725,090	64	328,471	60	211,580	235	383,297						" "
1957	466	2,025,290	237	1,242,714	90	331,672	128	216,290	255	288,731						" "
1958	443	2,410,935	172	718,318	103	417,825	94	174,907	200	273,579			4	14,546		" "
1959	324	1,871,011	58	226,300	49	182,180	44	237,715	132	198,580			2	5,000	111	610,940
1960	390	2,765,650	111	705,400	111	557,043	114	301,652	249	508,587			4	197,250	118	760,070
1961	480	3,653,240	192	1,098,610	130	621,442	161	1,144,301	460	1,049,430			6	32,125	103	868,450
1962	616	5,272,543	294	2,164,535	112	562,260	165	732,325	368	844,977			7	43,100	127	965,700
1963	359	3,507,410	221	1,342,160	92	402,450	98	276,470	290	490,730			5	28,200	85	909,700
1964	507	6,035,122	324	2,564,842	124	617,765	188	669,646	317	649,742			8	65,250	174	2,196,650
1965	478	6,871,338	317	2,681,405	89	491,130	162	479,280	222	665,870			7	148,650	134	1,906,333
1966	440	6,405,975	325	3,199,296	82	490,530	179	532,014	193	673,785					90	1,256,500
1967	679	10,855,258	578	5,914,050	118	766,535	323	1,030,221	327	1,277,591			10	90,830	125	2,258,550
1968	645	12,657,398	470	5,022,277	141	1,011,100	334	1,257,938	278	1,212,367			12	139,700	103	1,942,785
1969	954	18,514,622	601	6,890,099	213	1,812,484	453	2,084,476	345	1,910,674			14	164,887	194	4,417,276
1970	1,022	17,973,900	763	8,184,522	222	1,483,771	464	1,901,256	383	2,039,837			13	142,887	179	3,170,884
1971	775	14,144,372	548	5,786,217	158	1,307,692	363	1,426,985	269	1,395,017			12	65,534	107	2,232,635
1972	691	11,458,660	404	4,148,756	133	1,137,302	284	1,117,426	213	1,091,307			13	106,891	152	2,361,155
1973	1,019	19,554,448	716	10,191,176	225	2,159,747	516	3,058,221	431	3,179,819			21	515,767	214	3,348,054
1974	842	25,746,943	597	11,151,324	193	1,967,405	462	4,019,643	524	4,373,841			16	243,635	119	3,046,054

The above Statistics include many multiple purpose loans (broken down according to purpose).
 (i) Also included under 'Purchase of Farm'.
 (ii) Loans made available to enable farmers to pay the 5 per cent. fee charged for the conversion of loans to a 3½ per cent. basis as a result of falling interest rates.

Table VIII SCOTTISH AGRICULTURAL SECURITIES CORPORATION

Loans

As at 31 March	Year	Secured on	Under the
		Agricultural Subjects	Improvement of Land Acts 1864 and 1899
		£	£
	1960	2,621,358	38,395
	1961	2,849,019	41,062
	1962	3,369,312	38,550
	1963	3,612,401	40,697
	1964	4,425,544	40,571
	1965	5,566,699	39,767
	1966	5,904,331	45,269
	1967	6,263,495	50,661
	1968	6,565,421	52,588
	1969	7,774,678	55,400
	1970	8,771,733	48,967
	1971	10,032,864	39,200
	1972	10,313,755	35,705
	1973	10,947,570	33,449
	1974	11,661,257	36,721

Table IX SCOTTISH AGRICULTURAL SECURITIES CORPORATION
Purpose of Borrowing—New Loans 1973/74

Purchase of Property	1,183,000
Repayment of Bonds	74,000
Buying out of Relatives and/or Partners	62,000
Purchase of Stock	60,000
Improvements	57,000
Repayment of Overdraft	65,000
Miscellaneous	11,000
	<u>£1,473,000</u>

Table X SCOTTISH AGRICULTURAL SECURITIES CORPORATION
Purpose of Borrowing—'Additional' Loans 1973/74

Purchase of Land	50,000
Repayment of Overdraft	67,000
Improvements	123,000
Stock	3,000
Miscellaneous	6,000
	<u>£249,000</u>

On the basis of the Enquiry published in 1973 for the United Kingdom (Availability of Capital and Credit to United Kingdom Agriculture referred to above), it is known that merchants and dealers provide agriculture with an amount of finance comparable to that supplied by the commercial banks. Thus, for England and Wales, they provided 33 per cent. of farmers' total borrowings in 1967/68 (compared with 34 per cent. for the banks) and, in 1968/69, 34 per cent. (32 per cent. from the banks). For Scotland, the relevant figures were 31 per cent. (25 per cent.) and 26 per cent. (30 per cent.) and, for Northern Ireland, it greatly exceeded the provision made by the banks - 50 per cent. from merchants and dealers in 1967/68 (27 per cent. from all banks) and, for 1968/69, 41 per cent. (27 per cent.). It should be noted that the figures are likely to vary over the course of the year, because of the incidence of seasonal factors. On the whole, these figures seem to be rather higher than one would have expected and it is clear (by comparing the declared percentages from other evidence) that they are inflated by the inclusion

of figures that should have related to 'co-operatives' and also of items that should more properly have been classified under 'auctioneers'. Nevertheless, even if we deduct the figures for the co-operatives, which are known (see below), the credit provided by merchants and dealers is still very considerable. Later figures for merchants and dealers as such are not available, though an indication will be given under short-term loans - 'creditors' in Table XXII (Chapter 2). These figures, however, relate only to a sample survey (details given in Chapter 2) and are in £s per farm. Hence, they can again only give one an indication about relative shares and the trend. But, to the extent that the figure for 'creditors' does in the main represent 'merchants and dealers', it is clear that this source of credit is approximately as important as bank loans (short- and medium-term) for tenants, though rather less important for owner-occupiers and farms with mixed tenure.

Additional finance is provided by the 'requisite' co-operative societies to finance inputs and by the marketing co-operatives to finance marketing. Figures are available under both these heads (see The Plunkett Foundation for Co-operative Studies: Agricultural Co-operation in the United Kingdom Summary of Statistics 1970/71 and 1972/73). For 'requisite' societies (Table 11), total creditors for 1968, 1969, 1970, 1971 and 1972 were respectively £21.37 million, £21.69 million, £23.08 million, £22.74 million and £28.00 million. For marketing societies (Table 19) the relevant figures were £7.53 million, £8.26 million, £9.46 million, £9.38 million and £9.07 million. To the extent that 'requisite' societies market produce, which they do to a considerable extent, or marketing societies handle 'requisites', which they do to a much lesser extent, these figures cannot be taken as a precise indication of credit extended to farmers or to the trade, but they can be regarded as a fair guide. It should be noted, too, that societies aim to close their books at the point in the year when trading

activity is at its lowest; to that extent therefore the debtors' figure may be on the low side. A further factor to be taken into account is that these totals do not include the figures of agricultural co-operatives registered under the Companies Act. There are not so many of these and the business which they do, though significant, is a good deal smaller than that of co-operative societies. Most of these co-operative companies are engaged in marketing.

To a not inconsiderable extent, the agricultural sector is self-financing. This may take place in four different ways. (1) Family and relatives, which is the most important means whereby the agricultural sector finances itself. On the basis of the sample used in the Enquiry referred to above and averaged over the three years 1967/68 to 1969/70, this source provided 17 per cent. of total borrowings by owner-occupiers in England and Wales and 19 per cent. in the case of tenants (see Report, Table 12). It was much lower in Scotland - depending on the type of farming, 3 to 4 per cent. for owner-occupiers and 4 to 5 per cent. for tenants (see Report, Table 49). It was negligible in Northern Ireland (Table 65). (2) There are the credit balances carried by farmers with their banks. In the sample covered by our Enquiry, for owner-occupiers in England and Wales, bank balances approximated 3 per cent. of total assets and this should be compared with average borrowings from the banks - 7 per cent. of total liabilities (including net worth) - clearly indicating that in our sample owner-occupiers borrowed much more heavily from the banks than they deposited with them. (However, on the basis of our sample, there were more farmers - owner-occupiers and tenants - who had no borrowings from the joint stock banks on the basis of overdraft than had borrowed from these institutions. There were also a number of farmers with no outside debts of any kind and who completely financed themselves.) For tenants, cash at bank amounted to 8 to 9 per cent. of total assets compared with borrowings from the banks equal to 7 per cent. of total liabilities, so that to some

extent tenants did finance themselves in this way. In Scotland, for owner-occupiers, cash at bank was small but, for tenants, it was relatively high for upland farming (7 per cent.); about 4 per cent. for rearing and arable and only 2 per cent. for dairying. For Northern Ireland, in dairying, bank balances exceeded borrowings from the banks; for livestock, they were virtually in balance. (3) The sale of agricultural land for redevelopment purposes is a further means of self-financing and, moreover, there has been no capital gains tax on the difference between agricultural value and development value, provided the moneys were reinvested in agricultural land within a period of 12 months. But, in 1974, the 'development ingredient' in such sales became liable to income tax and this has had the effect of reducing the importance of this source as a means of finance, though it might be argued that it was less a source of self-finance than a means of persuading industry or (in the case of roads and housing demands) the rest of the community to help finance investment in agriculture. Only the 'agricultural element in the land sold could be rolled over'.² This could mean a loss to agriculture of some £150 million a year. (4) On the basis of the Farm Management Survey (details are given in Chapter 2), it was estimated that for 1969/70 26 per cent. of total funds available to owner-occupiers for investment in England and Wales derived from retained farm earnings (25 per cent. in 1970/71) - this would be substantially due to higher valuations and take the form, for example, of an increase in the number and value of livestock or in crops in store; the relevant figures for tenants were 15 per cent. and 24 per cent. respectively.

-
1. It is only an indication, because assets other than land are regularly sold by farmers, but for owner-occupiers in England and Wales in 1969/70 9 per cent. of total funds available derived from sale of assets (11 per cent. in 1970/71); for tenants, the figure was 12 per cent. in each case. (Farm Management Survey - Farm Liabilities and Assets - England and Wales.)
 2. But for present position, see p.216, Chapter 6.

Other private sources include solicitors (2 per cent. of total borrowings in England and Wales; and 11 per cent. for hill sheep and upland farming in Scotland).

Ancillary finance is provided for agriculture by finance companies (e.g. by way of hire purchase and loans); other assistance is provided by means of contract hire and leasing. And in Northern Ireland special arrangements are offered by the Department of Agriculture (formerly the Ministry of Agriculture) as DANI loans (formerly MANI loans). Some facilities are also provided by the Milk Marketing Board in England and Wales to assist dairy farmers.

So far as hire purchase is concerned, for England and Wales, it only accounts for 1 per cent. of total borrowings by agriculture. 'Others' (which would include the Milk Marketing Board) provided 2 per cent. on the basis of our Enquiry. These figures are approximately consistent with estimates made by the trade, which suggested that finance companies might have been providing over the period of our Enquiry credit of the order of £15 million (whereas our survey suggested a figure of approximately £17 million in 1967/68 and £19 million in 1968/69). For Scotland, the relevant figures were 1 per cent. of total borrowings for both years; 'others' were as high as 7 per cent. and 8 per cent., but there was no information about the make-up of these figures. And in Northern Ireland, hire purchase finance was quite significant, being 5 per cent. of total borrowings in 1967/68 and 10 per cent. in 1968/69. This was markedly higher than for other parts of the United Kingdom. MANI loans were also significant, amounting to 6 per cent. and 8 per cent. respectively.

It is also relevant to recall that in both England and Wales and in Scotland more use seems to have been made of hire purchase by tenants

than by owner-occupiers. Averaged over the three years of our Enquiry, for England and Wales, the figures were 3 per cent. of total borrowings for tenants and 1 per cent. for owner-occupiers. For Scotland, the relevant figures were 3 per cent. and less than 1 per cent. For all practical purposes, there are only owner-occupiers in Northern Ireland. Of the several types of farm in England and Wales, the sectors that used hire purchase finance most were mainly tenants (the exception was pigs and poultry owner-occupiers) and, of these, mixed farming used it most; dairying, too (if we include other); also, livestock and cropping to some extent.

Only small amounts are lent to agriculture by the insurance companies and building societies.

Chapter 2: The Indebtedness of Agriculture

As a means of indicating the distribution of indebtedness, the distribution of farmer borrowings for All Farms in England and Wales is given in Table XI, which was included as Table 12 at p. 16 in our Report on Availability of Capital and Credit to United Kingdom Agriculture. This is based on the sample used in our Enquiry and breaks the figures down between owner-occupiers and tenants.

Similar information is given for Scotland - Tables XII, XIII, and XIV and, for Northern Ireland in Tables XV and XVI.

Complete balance sheets are given for England and Wales at Table XVII, for Scotland at Table XVIII, and for Northern Ireland at Table XIX.

The only balance sheet for United Kingdom agriculture, which also gives us an approximate idea of the extent of the industry's indebtedness is that prepared for June 1970 by the Ministry of Agriculture in the United Kingdom as a once for all exercise in connection with the Report on the Availability of Capital and Credit to United Kingdom Agriculture

Table XI

Distribution of Farmer Borrowings—All Farms—England and Wales

	Owner-Occupiers				Tenants			
	67/68 %	68/69 %	69/70 %	Avg. %	67/68 %	68/69 %	69/70 %	Avg. %
Institutional								
AMC ¹	7	10	11	9	—	1	1	...
Joint stock banks—loans	8	8	5	7	1	1	1	1
overdrafts	28	27	26	27	23	24	23	23
Other banks ²	—	—	—	—	...	...	...	...
Lands Improvement Company	...	...	...	...	—	—	—	—
Other	...	...	...	...	...	...	...	...
Insurance companies	1	...	...	1	—	...	...	...
Building societies	1	2	1	1	1	1	—	...
ICFC ³	—	...	...	...	—	...	...	...
Sub-Total 1	45	46	43	45	25	26	26	26
Private								
Family and relatives	16	16	19	17	19	18	21	19
Others	—	—	—	—	—	—	—	...
Solicitors	3	3	2	2	...	...	...	...
Other	4	3	3	3	1	1	...	1
Landlords ⁴	...	...	...	...	...	1	1	1
Sub-Total 2	23	21	24	23	21	21	22	21
Trade								
Hire purchase	1	1	2	2	3	3	3	3
Merchants and dealers	29	30	29	29	48	46	44	46
Auctioneers	...	...	—	...	...	—	—	...
FMC ⁵	—	—	—	—	...	...	...	...
Co-operatives	...	—	—	...	...	...	...	...
Syndicates	—	—	—	—	—	—	—	—
Other farmers and growers	...	...	...	...	...	...	...	...
Other	1	1	1	1	3	4	4	4
Sub-Total 3	32	32	32	32	54	53	52	53
TOTAL	100	100	100	100	100	100	100	100
No.	173	177	154	168	173	179	147	166

Footnotes to Table XI

- ¹ Agricultural Mortgage Corporation.
- ² Includes merchant banks.
- ³ Industrial and Commercial Finance Corporation.
- ⁴ For owner-occupiers, this is a surprising item. The sample that was selected was based on returns in the Census and were owner-occupiers pure and simple. It is possible that the returns were not completely accurate. Alternatively, these farmers may have rented land subsequent to the Census.
- ⁵ Fatstock Marketing Corporation.

Table XII

Scotland

Distribution of Borrowings—Rearing and Arable (Non-Coys)

	Owner-Occupiers				Tenants			
	67/68	68/69	69/70	Avg	67/68	68/69	69/70	Avg
	%	%	%	%	%	%	%	%
Institutional								
SASC	9	9	9	9	—	—	—	—
Joint stock banks— loans	—	—	—	—	2	—	—	1
overdrafts	24	33	24	27	33	41	35	36
Insurance companies	9	8	8	8	—	—	—	—
ICFC	4	3	4	4	—	—	—	—
Sub-Total 1	46	53	45	48	35	41	35	37
Private								
Family and relatives	19	16	13	16	20	15	15	17
Others	—	—	—	—	4	4	3	3
Landlords	2	2	2	2	—	—	—	—
Sub-Total 2	21	18	15	18	24	19	18	20
Trade								
Hire purchase	...	...	...	...	4	3	1	3
Merchants and dealers	23	17	28	22	30	27	37	31
Auctioneers	...	—	—	...	...	1	1	1
Co-operatives	2	3	3	3	...	3	...	1
Syndicates	—	—	—	—	—	—	—	—
Other farmers and growers	2	...	2	1	1	2	2	2
Others	6	8	7	7	6	4	6	5
Sub-Total 3	33	29	40	34	41	40	47	43
TOTAL	100	100	100	100	100	100	100	100
Number of Respondents	20	20	20	20	28	28	28	28

Table XIII

Scotland

Distribution of Borrowings—Hill Sheep and Upland Farming (Non-Coys)

	Owner-Occupiers				Tenants			
	67/68	68/69	69/70	Avg	67/68	68/69	69/70	Avg
	%	%	%	%	%	%	%	%
Institutional								
SASC	—	—	—	—	—	—	—	—
Joint stock banks— loans	—	—	—	—	—	—	—	—
overdrafts	12	9	9	10	26	28	27	27
Others	14	14	14	14	—	—	—	—
Insurance companies	6	5	5	5	—	—	—	—
Sub-Total 1	32	28	28	29	26	28	27	27
Private								
Family and relatives	6	8	7	7	25	31	33	30
Solicitors	11	11	11	11	—	—	—	—
Sub-Total 2	17	19	18	18	25	31	33	30
Trade								
Hire purchase	—	—	—	—	—	—	—	—
Merchants and dealers	37	43	40	40	38	24	27	29
Auctioneers	—	—	—	—	—	—	—	—
Co-operatives	—	—	—	—	...	...	—	...
Syndicates	—	—	—	—	—	—	—	—
Other farmers and growers	10	6	12	9	1	3	2	2
Others	5	4	2	4	10	14	11	12
Sub-Total 3	51	53	54	53	49	41	40	43
TOTAL	100	100	100	100	100	100	100	100
Number of Respondents	7	7	7	7	14	14	14	14

Table XIV
Scotland
Distribution of Borrowings—Dairying (Non-Coys)

	Owner-Occupiers				Tenants			
	67/68	68/69	69/70	Avg	67/68	68/69	69/70	Avg
	%	%	%	%	%	%	%	%
Institutional								
SASC	—	—	—	—	—	—	—	—
Joint stock banks— loans	—	—	—	—	—	—	—	—
overdrafts	18	14	15	16	33	26	27	28
Insurance companies	3	3	3	3	—	—	—	—
Sub-Total 1	21	17	18	19	33	26	27	28
Private								
Family and relatives	20	27	19	22	15	22	21	19
Others	2	2	2	2	—	—	—	—
Sub-Total 2	22	29	21	24	15	22	21	19
Trade								
Hire purchase	...	2	3	2	8	8	7	8
Merchants and dealers	46	40	47	44	38	40	36	38
Auctioneers	—	...	...	...	—	—	—	—
Co-operatives	1	1	1	1	—	—	—	—
Syndicates	—	—	—	—	—	—	—	—
Other farmers and growers	...	...	...	...	—	—	—	—
Others	10	11	10	10	6	4	9	7
Sub-Total 3	57	54	61	57	52	52	52	53
TOTAL	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Number of Respondents	20	20	20	20	4	4	4	4

Table XV
Northern Ireland
Distribution of Borrowings—Dairying (Non-Coys)

	Owner-Occupiers				Tenants			
	67/68	68/69	69/70	Avg	67/68	68/69	69/70	Avg
	%	%	%	%	%	%	%	%
Institutional								
Joint stock banks—loans	—	—	8	3	—	—	—	—
overdrafts	36	31	30	32	—	—	—	—
Other banks	5	1	2	3	—	—	—	—
MANI	6	4	2	4	—	—	—	—
Sub-Total 1	47	36	42	42	—	—	—	—
Private								
Family	4	4	3	4	—	—	—	—
Solicitors	—	10	8	6	—	—	—	—
Sub-Total 2	4	14	11	10	—	—	—	—
Trade								
Hire purchase	8	8	3	6	—	—	—	—
Merchants and dealers	41	42	41	41	—	—	—	—
Co-operatives	—	—	—	—	—	—	—	—
Syndicates	—	—	—	—	—	—	—	—
Other	—	—	2	1	—	—	—	—
Sub-Total 3	49	50	47	48	—	—	—	—
TOTAL	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Number of Respondents	20	23	28	24	1	1	1	1

Table XVI

Northern Ireland

Distribution of Borrowings—Livestock (Non-Cows)

	Owner-Occupiers				Tenants			
	67/68 %	68/69 %	69/70 %	Ave %	67/68 %	68/69 %	69/70 %	Ave %
Institutional								
Joint stock banks—loans	15	10	7	11	—	—	—	—
overdrafts	4	13	31	16	—	—	—	—
Other banks	4	3	2	3	—	—	—	—
Other	—	—	6	2	—	—	—	—
MANI	6	10	6	7	—	—	—	—
ICFC	2	1	1	1	—	—	—	—
Sub-Total 1	31	37	53	40	—	—	—	—
Private								
Family	12	12	9	11	—	—	—	—
Sub-Total 2	12	12	9	11	—	—	—	—
Trade								
Hire purchase	4	10	8	7	59	—	—	20
Merchants and dealers	53	41	30	42	41	100	100	80
Co-operatives	—	—	—	—	—	—	—	—
Syndicates	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—
Sub-Total 3	57	51	38	49	100	100	100	100
TOTAL	100	100	100	100	100	100	100	100
Number of Respondents	20	21	28	23	2	2	2	2

Table XVII

Balance Sheet for England and Wales
(Average for 3 years—1967/68 to 1969/70)

Based on sample in Wilson Report

Assets	Owner-Occupiers	Tenants
	%	%
Value of land, buildings, etc.	70	—
Land purchases, improvements, etc.	3	5
Net machinery, etc.	7	29
Tenant's valuation	15	51
Outstanding debtors	2	7
Cash at bank	3	8
Cash in hand	...	...
TOTAL	100	100
Liabilities		
Institutional:	%	%
AMC	2	...
Joint stock banks—loans	2	...
overdrafts	6	6
Others	...	...
Private:		
Family	4	5
Solicitors	1	...
Others	1	1
Trade:		
Hire purchase	...	1
Merchants	6	13
Others	...	1
Net worth (residual)	78	73
TOTAL	100	100
Mean value of assets	£47,602	£12,490
Mean value of liabilities	£10,294	£3,416
Average net worth	£37,309	£9,074
Liabilities as % of assets	22	27
Net worth as % of assets	78	73

Table XVIII

Balance Sheet for Scotland

(Average for 3 years—1967/68 to 1969/70)

Based on sample in Wilson Report	All Tenants %	All Owner-Occupiers %	All Scotland %
Assets			
Value of land	3	67	50
Land purchases, improvements, etc.	—	1	1
Improvements brought forward	4	—	1
Improvements during year	1	—	...
Net machinery, etc.	19	6	10
Tenant's valuation	63	21	32
Outstanding debtors	5	2	3
Cash at bank	5	3	3
Cash in hand	...	...	...
TOTAL	100	100	100
	%	%	%
Liabilities			
Institutional:			
AMC	—	—	—
SASC	—	1	1
Joint stock banks—loans overdrafts	...	—	...
Other banks	7	4	4
Others	—	1	1
Private:			
Family	4	3	3
Solicitors	—	...	...
Others	1	...	...
Trade:			
Hire purchase	1	...	...
Merchants	6	5	6
Others	2	2	2
Net worth	79	84	83
TOTAL	100	100	100
Mean value of assets £	19,279	11,266	35,606
Mean value of liabilities £	3,954	8,342	6,194
Average net worth £	15,325	12,924	29,412
Liabilities as % of assets	21	16	17
Net worth as % of assets	79	84	83

Table XIX

Balance Sheets for Northern Ireland

(Average for 3 years—1967/68 to 1969/70)
Based on sample in Wilson Report

	Owner-Occupiers		
	Dairying Non-Co	Livestock Non-Co	All Farms in the Sample
Number of Respondents	24	23	47
	%	%	%
Assets			
Value of land	73	72	73
Land purchases, improvements, etc.	2	4	3
Improvements brought forward	—	—	—
Improvements during year	—	—	—
Net machinery, etc.	7	5	6
Tenant's valuation	14	15	14
Outstanding debtors	...	...	...
Cash at bank	3	3	3
Cash in hand	1	1	1
TOTAL	<u>100</u>	<u>100</u>	<u>100</u>
Liabilities			
Institutional:	%	%	%
AMC	—	—	—
SASC	—	—	—
Joint stock banks—loans	...	1	...
overdrafts	1	2	2
Other banks	...	...	...
MANI	...	1	...
Others	—	...	...
Private:			
Family	...	1	...
Solicitors	...	—	...
Others	—	—	—
Trade:			
Hire purchase	...	1	...
Merchants	2	5	3
Others	...	...	...
Net worth	<u>96</u>	<u>89</u>	<u>93</u>
TOTAL	<u>100</u>	<u>100</u>	<u>100</u>
Mean value of assets £	23,052	24,344	23,569
Mean value of liabilities £	899	2,687	1,614
Average net worth £	22,153	21,657	21,955
Liabilities as % of assets	4	11	7
Net worth as % of assets	96	89	93

published in 1973. This appears as Table XX and should be read in conjunction with the Note prepared by the Ministry (attached). It is highly approximate. As at June 1970 and, on this basis, the total amount of debt of United Kingdom agriculture amounted to about £1,320 million. By the end of 1973, taking into account the rise in prices that had occurred this may possibly have been of the order of £1,800 million.

Table XX

A Balance Sheet for United Kingdom Agriculture
Estimated balance sheet of agriculture (including horticulture) in
the United Kingdom June 1970—all commercially significant holdings

	£ million
ASSETS	
<i>Physical</i>	
Land, buildings, dwellings and fixed equipment	5,800
Machinery, vehicles and movable equipment	800
Livestock	1,300
Crops, cultivations, stores	570
<i>Financial</i>	
Debtors	200
Cash in hand and at bank	200
Total Assets	8,870
<hr/>	
LIABILITIES	
<i>Debts</i>	
Agricultural Mortgage Corporation, SASC & LIC, etc.	170
Building Societies, Insurance Companies, etc.	30
Bank Credit	500
Private Credit	350
Hire Purchase	20
Trade Credit	250
Total Debt	1,320
Net Worth	7,550
Total Liabilities	8,870

Note by Ministry

Estimates of the approximate aggregate value of the main assets and liabilities of United Kingdom agriculture have been published from time to time. In recent years, some of the statistics used for such estimates have been improved or become more readily available. For example, for England and Wales, the information on land sales returned to the Inland Revenue, and the statements of assets and liabilities for some 550 farms collected in the Farm Management Survey. The estimates in the table above have been prepared by the Ministry from all such basic statistics now available including the new information collected by Professor Wilson. The quality of these basic statistics varied and different sources of information for some items in the balance sheet sometimes yielded different figures. Thus the estimates depend partly on judgement, and are reliable as broad indications rather than precise calculations.

METHOD AND SOURCES

This balance sheet is designed to show the approximate aggregate break-up or realisation value of total agricultural assets in the United Kingdom at prices ruling in mid-1970 and the value of the claims that each major supplier of funds has on these assets.

COVERAGE

The estimates relate to all commercially significant holdings, that is, for Great Britain, all known agricultural and horticultural holdings with at least 26 standard man-days or 10 acres of crops and grass or one regular whole-time worker; for Northern Ireland, all holdings of 1 acre or more.

The estimates relate, in principle, to the combined business interest in agriculture and horticulture of the three groups owner-occupiers, tenants, and landlords. They are intended to exclude assets and liabilities held on private or domestic account, and liabilities of one group to another, e.g., arrears of rent owed to a landlord. However, because of inadequate data some private debts of farmers may be included, and the business debts of landlords may be understated.

LAND, BUILDINGS, FIXED EQUIPMENT, DWELLINGS

The owner-occupied acreage returned in the June 1970 Agricultural Census has been valued, by acreage size group and region, by the average sale prices realised for land sold with vacant possession during 1970. Tenanted acreage has been valued at sale price of land sold without vacant possession. The average sale prices for each acreage size group and region are derived from returns made to the Inland Revenue. These exclude sales of less than 10 acres and of land sold for development. The sale values include buildings, fixed equipment sold with the land, farm houses and cottages. Both farm houses and farm cottages let with holdings are business assets from the landowner's point of view; farm houses, to a minor degree, and farm cottages are business assets from the farmer's point of view. In the context of the national economy as a whole, they are part of the sector 'All Dwellings' rather than 'Agriculture' and as such are excluded from the assets of agriculture. Their market values with vacant possession and unconnected with the agricultural business exceeds their value as part of the business, or tied value. This calculated as 25 years purchase of the current rent, attributable to them, is estimated at about £900 million.

MACHINERY, VEHICLES AND MOVABLE EQUIPMENT

Current replacement costs for new assets written down by depreciation provisions to represent current market value. The life assumed for depreciation varies between machines, but is on average about 12 years. The number of machines is based on returns in the Agricultural Census. Costs are based chiefly on information about ex-factory values supplied to the Department of Trade and Industry by manufacturers, and on information about distributive margins between the factory and the farm-gate from the Census of Distribution.

LIVESTOCK, CROPS AND CULTIVATIONS

The estimates for livestock are based on average market prices ruling in May, June and July *minus* estimated costs of marketing. The estimates for crops and cultivations are valued at cost of production to the farmer, plus an addition for farmer's net income.

STORES

This item comprises fertilizers, purchased feed and stocks of hay and harvested cereals.

DEBTORS, CASH IN HAND AND AT BANK

The Farm Management Survey and Professor Wilson's field enquiry supply average ratios of debtors to total annual receipts, and of cash holdings to total annual expenditure. These ratios have been applied to the estimates of receipts and expenditure prepared in the calculation of aggregate farming net income for the Annual Review.

LIABILITIES

AGRICULTURAL MORTGAGE CORPORATION, SCOTTISH AGRICULTURAL SECURITIES CORPORATION AND LANDS IMPROVEMENT COMPANY, ETC.

Total loans at June 1970 by these bodies, and loans by smaller bodies, such as the ICFC and the Agricultural Finance Federation.

BUILDING SOCIETIES, INSURANCE COMPANIES, ETC.

Based on the Farm Management Survey and Professor Wilson's field enquiry.

BANK CREDIT

Based on returns by the commercial banks; excludes loans to agricultural merchants and auctioneers, and loans to farmers and landlords for private purposes. It includes medium- and long-term lending for purchase and improvement of land.

PRIVATE CREDIT

This comprises loans from private persons, including relatives. It is based on the Farm Management Survey and Professor Wilson's field enquiry.

HIRE PURCHASE

Based chiefly on returns by hire purchase finance houses to the Department of Trade and Industry.

TRADE CREDIT

The margin of error of this figure is probably larger than for other items. It is based on the estimates of annual aggregate farming expenditure prepared for the Annual Review, and on an annual enquiry to a small sample of agricultural merchants about farmers' average delay in paying bills. The figure represents all unpaid bills.

TAXATION

No provisions have been made in the balance sheet for liability for income or capital gains tax or for estate duty.

SOURCE: *Ministry of Agriculture, Fisheries and Food.*

For an analysis of the sources and disposition of funds in agriculture at the aggregate level, see Table XXI, which provides figures for the United Kingdom from 1965 to 1972.

Table XXI

Analysis of the Sources and Disposition of Funds in Agriculture at the Aggregate Level

Calendar years	United Kingdom—£ million							
	1965	1966	1967	1968	1969	1970	1971	1972
<i>Sources of Funds</i>								
1. Net Income ⁽¹⁾ (⁴)	466	476	509	504	535	597	669	755
2. Net Rent ⁽²⁾ (⁴)	46	48	51	53	54	55	53	51
3. Depreciation provision ⁽³⁾	130	140	148	158	173	189	213	241
4. Government grants on fixed assets ⁽⁵⁾	19	18	23	35	39	45	61	71
5. (of which investment incentives) ⁽⁶⁾			(2)	(11)	(11)	(14)	(21)	(12)
6. Additional commercial credit ⁽⁷⁾	34	17	26	34	14	6	31	54
7. TOTAL	695	699	757	784	815	892	1,027	1,172
<i>Disposition of Funds</i>								
Investment in:								
8. Plant, Machinery and Vehicles	105	107	111	123	113	118	136	180
9. Buildings and Works	67	65	75	88	99	114	140	167
10. Increased stocks and works in progress ⁽⁴⁾ (⁸)	40	35	37	52	70	116	158	164
11. Total Investment	212	207	223	263	282	348	434	511
12. Statutory National Insurance contributions ⁽⁹⁾	15	16	16	17	19	19	21	24
13. Income and Corporation Tax ⁽¹⁰⁾	55	61	66	75	79	525	572	637
14. Domestic expenditure, land purchase, and off farm use ⁽¹¹⁾	413	415	452	429	435			
15. TOTAL	695	699	757	784	815	892	1,027	1,172

Notes to Table

(1) Aggregate net farm income including the valuation of stocks and works-in-progress shown in row 10 and before making provision for depreciation.

(2) Gross rent less landowners' share of maintenance and depreciation.

(3) Depreciation, calculated at current replacement cost, on all fixed assets (row 8 plus row 9) on the 'national farm'.

(4) Estimated by taking $\frac{1}{12}$ and $\frac{7}{12}$ of consecutive June/May year estimates.

(5) Government Grants on all capital expenditure but excluding grants received for current expenditure (e.g., fertilizer subsidy) which are included in farm income.

(6) These were introduced at the end of 1966 and replaced investment allowances which reduced farmers' tax burden.

(7) Change in commercial borrowings from banks, including an amount for land purchases, from the Agricultural Mortgage Corporation (and similar bodies), excluding funds lent for land purchase, and from hire purchase companies; changes in credit obtained from merchants are excluded.

(8) Change in the valuation of crops and livestock stocks, and works-in-progress. In part represented by increasing unit values and in part by increased volume.

(9) Estimates of national health and national insurance contributions paid by farmers at the self-employed rate and not deducted as an expense before arriving at farm income.

(10) Estimates of income and corporation tax; *source*: 'Inland Revenue Statistics 1972'.

(11) This is a residual item obtained by subtracting rows 11 to 13 from row 7. It represents the money available to farmers for domestic expenditure, land purchase and other off farm uses.

SOURCE: Ministry of Agriculture, Fisheries and Food.

For more recent information relating to the distribution of indebtedness - specifically for England and Wales, which represents approximately 80 per cent. of agricultural activity in the United Kingdom - and also as a means of assembling appropriate balance sheet information, reference is made to the Farm Management Survey of Liabilities and Assets. This was begun in 1969/70, when 10 University Departments of Agricultural Economics in England and Wales began collecting data for the Ministry of Agriculture. This relates to some 600 farms (i.e., to about a quarter of the 2,500 farms in the Farm Management Survey) and the figures are averaged as £s per farm.

As will be apparent from the Tables, the sample varies slightly from year to year, though there is overlap. Thus, for 1970/71, balance sheets have been constructed for the beginning of the accounting year (1970) and the end of the accounting year (1971) for all types of farming (excluding horticulture). For this series of calculations, the numbers of farms in the samples were 210 for tenanted farms, 189 for owner-occupied, and 157 for farms with mixed tenure. For the 1971/72 calculations, the relevant figures were 238, 203, and 191 and, for 1972/73, 255, 222 and 208. The overlap is for 1971 and for 1972, but clearly one set of calculations is not fully comparable with another because of variation in the content of the sample.

The figures refer - as do all balance sheets - to a point in time. In these calculations, the average year ending date is about mid-February and it must be realised that this may not give a representative picture of the financial position as it would be for the year on average. For example, at mid-February, cropping farms have generally sold much of the previous year's harvests and more than usual of their assets will be financial rather than physical, such as growing or stored crops. This is also the position of those livestock farmers, who buy stores in the spring for subsequent fattening, but the reverse is true of most farm businesses dependent on breeding sheep.

It should be emphasised that every effort has been made to eliminate private or domestic liabilities or assets, so that figures refer only to the farming business. However, because of the element of judgement involved in valuing certain assets - in particular, land, buildings, and residential improvements, the absolute level of some of the figures should be treated with reserve and this remains true despite the attempt to value land, buildings, and fixed equipment at current market prices at the beginning of the trading year. Nevertheless, the figures do represent broad differences in the capital position of the three types of tenure (tenanted, owner-occupied, and partly owned/partly tenanted) and for the size of business indicated (275 to 4,199 SMDs or 'standard man days', where these represent 8 hours productive work by an adult male worker 'under average conditions'). Reference is to Table XXII. Separate calculations are made for farms under 275 SMDs and for horticulture (275 to 4,199 SMDs). (Tables XXIII and XXIV.)

Table XXII (i)

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES

Balance sheets for the beginning and end of 1969/70 accounting year for all types of farming (excluding horticulture) by type of tenure on farms 275-4,199 smd (average full-time)

£'s per farm

Type of Tenure	TENANTED			OWNER-OCCUPIED			FARMS WITH MIXED TENURE		
	1969	1970	Change	1969	1970	Change	1969	1970	Change
No. of Farms	231			174			144		
Average size of Business: smd	874			818			972		
Average size of Farm: acres	203			178			208		
ASSETS									
Fixed Assets									
Land & buildings	1,031	1,394	363	30,385	31,057	672	20,646	21,011	365
Machinery & equipment	3,390	3,409	19	3,037	3,133	96	3,701	3,853	152
Breeding livestock	2,803	2,993	190	2,803	3,047	244	2,900	3,062	162
Total fixed assets	7,224	7,796	572	36,225	37,237	1,012	27,247	27,926	679
Current Assets									
Trading livestock	1,702	1,874	172	1,592	1,721	129	2,072	2,221	149
Crops	1,504	1,649	145	1,455	1,604	149	2,176	2,313	137
Consumable stores	520	630	110	346	393	47	509	463	-46
Debtors	849	991	142	856	808	-48	1,022	984	-38
Cash at bank & in hand	764	717	-47	857	891	34	942	913	-29
Total current assets	5,339	5,861	522	5,106	5,417	311	6,722	6,895	173
TOTAL ASSETS ϕ	12,563	13,657	1,094	41,331	42,654	1,323	33,969	34,821	852
LIABILITIES									
Long & Medium Term Loans									
Agricultural Mortgage Corpn	-	-	-	836	996	160	805	959	154
Lands Improvement Co	-	-	-	3	3	-	-	-	-
Insurance Companies	4	4	-	40	39	-1	9	9	-
Building Societies	14	14	-	117	121	4	64	63	-1
Bank loans	191	233	42	1,303	1,143	-160	800	816	16
Loans from relatives	506	531	25	1,654	1,742	88	1,228	1,253	25
Other	214	298	84	600	638	38	752	722	-30
Total long & medium term loans	929	1,080	151	4,554	4,682	128	3,658	3,822	164
Short Term Loans									
Hire purchase	79	48	-31	22	25	3	39	44	5
Creditors	1,110	1,287	177	795	788	-7	894	837	-57
Bank overdraft	1,251	1,373	122	1,889	2,032	143	1,961	1,711	-250
Other	20	37	8	104	91	-13	38	29	-9
Total short term loans	2,469	2,745	276	2,810	2,935	125	2,932	2,621	-311
Net worth	9,166	9,832	.666	33,967	35,036	1,069	27,379	28,378	999
TOTAL LIABILITIES	12,563	13,657	1,094	41,331	42,654	1,323	33,969	34,821	852

ϕ After depreciation sales and government grants.

Table XXII (ii)

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES

Balance sheets for the beginning and end of 1970/71 accounting year for all types of farming (excluding horticulture) by type of tenure on farms 275-4, 199 and average full-time

Type of Tenure	TENANTED				OWNER-OCCUPIED				FARMS WITH MIXED TENURE				
	1970		Change 1970/71		1970		Change 1970/71		1970		Change 1970/71		
	Number of Farms	Average size of Business: and Average size of Farm: acres	1970	1971	1970	1971	1970	1971	1970	1971	1970	1971	
	210	887	189	810	157	933	217	157	933	217	157	933	
	153	153	162	162	157	217	217	157	217	157	217	217	
ASSETS													
Fixed Assets													
Land & buildings	1,386	1,594	208	363	26,182	26,980	798	672	24,465	25,445	980	365	
Machinery & equipment	3,168	3,263	95	19	2,774	2,904	130	96	3,853	3,991	158	152	
Breeding livestock	3,204	3,426	222	190	2,632	2,751	119	244	3,040	3,103	63	162	
Total Fixed Assets	7,758	8,283	525	572	31,583	32,635	1,047	1,012	31,338	32,539	1,201	679	
Current Assets													
Trading livestock	1,772	1,945	173	172	1,876	1,993	117	129	2,132	2,423	291	149	
Crops	1,525	1,630	105	145	1,198	1,252	54	149	2,448	2,457	9	137	
Consumable stores	514	596	82	110	374	463	89	47	519	690	171	176	
Debtors	840	913	73	142	761	840	79	-	1,013	1,176	163	163	
Cash at bank & in hand	633	761	128	-47	899	1,029	130	34	773	1,055	282	29	
Total Current Assets	5,284	5,845	561	522	5,108	5,577	469	311	6,895	7,801	916	173	
TOTAL ASSETS	13,042	14,128	1,086	1,094	36,696	38,212	1,516	1,323	38,223	40,340	2,117	852	
LIABILITIES													
Long & Medium Term Loans													
Agricultural Mortgage Corporation	-	-	-	-	657	664	7	160	1,255	1,378	123	154	
Lands Improvement Co	3	3	-	-	32	31	-1	-1	9	19	10	-	
Insurance Companies	-	-	-	-	159	153	-6	4	37	50	13	-	
Building Societies	-	-	-	-	431	460	29	-160	1,124	1,041	-83	16	
Bank loans	299	311	12	42	1,404	1,361	-43	88	1,495	1,574	79	25	
Loans from relatives	509	543	34	25	573	675	142	33	542	576	34	30	
Other	179	195	14	84	3,216	3,344	128	128	4,562	4,438	-124	164	
Total Long & Medium Term Loans	990	1,050	60	151	3,216	3,344	128	128	4,562	4,438	-124	164	
Short Term Loans													
Hire purchase	62	62	-	31	43	29	-14	3	44	51	7	5	
Creditors	1,311	1,543	232	177	806	859	53	7	781	1,094	313	313	
Bank overdraft	1,023	1,042	19	122	1,658	1,831	173	143	1,867	1,768	-99	-250	
Other	49	51	2	8	37	36	-1	-13	48	28	-20	9	
Total Short Term Loans	2,445	2,698	253	276	2,544	2,775	231	125	2,740	2,941	201	311	
Net worth	9,607	10,300	773	666	30,956	32,095	1,157	1,069	30,921	32,961	2,040	999	
TOTAL LIABILITIES	13,042	14,128	1,086	1,094	36,696	38,212	1,516	1,323	36,223	40,340	2,117	852	

6 After depreciation sales and government grants.

Table XXII (iii)

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES

Balance sheets for the beginning and end of 1971/72 accounting year for all types of farming (excluding horticulture) by type of tenure on farms 275-4199 and (average full-time)

£'s per farm

Type of Tenure	TENANTED				OWNER-OCCUPIED				FARMS WITH MIXED TENURE			
Number of Farms	238				203				191			
Average size of Business: and	897				847				1009			
Average size of Farm: acres	191				171				226			
	1971	1972	Change		1971	1972	Change		1971	1972	Change	
			1971/72	1970/71			1971/72	1970/71			1971/72	1970/71
ASSETS												
<u>Fixed Assets</u>												
Land & buildings	1158	1489	331	208	34424	30900	4476	798	26395	29979	3584	580
(of which valuation change)	-	-	-	-	-	-	3740	-	-	-	2312	-
Machinery and equipment	3287	3528	241	95	3089	3358	269	130	4111	4426	315	158
Breeding livestock	3174	3810	636	222	3026	3587	561	119	3185	3751	566	63
(of which valuation change)	-	-	599	-	-	-	637	-	-	-	627	-
<u>Total fixed Assets</u>	7619	8827	1208	525	40538	45845	5307	1047	33691	38156	4465	1201
<u>Current Assets</u>												
Trading livestock	2132	2689	557	173	2290	2861	571	117	2315	3181	866	291
Crops	1640	1849	209	105	1454	1697	243	54	2328	2628	300	9
Consumable stores	565	644	80	82	488	608	120	89	767	888	121	171
Debtors	928	1210	282	73	894	887	-7	79	1086	1319	233	163
Cash at bank and in hand	876	885	10	128	1062	1241	179	130	1125	1066	-59	282
<u>Total Current Assets</u>	6141	7277	1138	561	6188	7295	1107	469	7621	9082	1461	916
TOTAL ASSETS ϕ	13759	16105	2346	1086	46726	53140	6414	1516	41312	47238	5926	2117
LIABILITIES												
<u>Long & Medium Term Loans</u>												
Agricultural Mortgage Corporation	-	-	-	-	830	849	19	7	897	1044	147	123
Building Societies	-	-	-	-	37	36	-1	-6	57	92	35	13
Other institutional	5	3	-2	-	117	157	40	-1	142	149	7	10
Bank loans	206	209	3	12	651	661	10	29	864	859	-5	-83
Loans from relatives	510	457	-53	34	1424	1284	-140	-43	1393	1425	32	79
Other	107	113	6	14	789	814	25	142	322	373	51	-266
<u>Total Long & Medium Term loans</u>	827	782	-45	60	3848	3802	-46	128	3673	3941	268	-124
<u>Short Term Loans</u>												
Hire purchase	83	68	-15	-	25	36	11	-14	67	39	-28	7
Creditors	1359	1443	84	232	913	877	-36	53	1014	1111	97	313
Bank overdraft	1021	1261	240	19	1596	1761	165	173	1845	2197	352	-99
Other	48	65	17	2	50	53	3	19	36	53	17	-20
<u>Total Short Term Loans</u>	2510	2838	328	253	2586	2727	141	231	2962	3400	438	201
Net worth	10422	12486	2064	773	40292	46610	6318	1157	34677	39896	5219	2040
TOTAL LIABILITIES	13759	16105	2346	1086	46726	53140	6414	1516	41312	47238	5926	2117

ϕ After depreciation sales and government grants.

Table XXII (iv)

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES

Balance sheets for the beginning and end of 1972/73 accounting year for all types of farming (excluding horticulture) by type of tenure on farms 275-4, 199 and (average full-time)

Type of Tenure	TENANTED			OWNER-OCCUPIED			FARMS WITH MIXED TENURE		
	1972	1973	Change	1972	1973	Change	1972	1973	Change
Number of farms	255			222			208		
Average Size of Business: amd	911			854			969		
Average Size of Farm: acres	212			188			201		
£'s per farm									
ASSETS									
<u>Fixed Assets</u>									
Land and buildings (of which valuation change)	1313	1663	350	43329	53285	10656	26676	41159	14483
Machinery and equipment	3599	4296	697	3346	3791	445	3963	4538	575
Breeding livestock (of which valuation change)	4115	5197	1082	3779	4720	941	3727	4884	1156
Total fixed assets	9027	11156	2129	50454	62496	12042	34367	50581	16214
<u>Current Assets</u>									
Trading livestock	2725	3746	1021	2613	3518	905	3183	4416	1233
Crops	1709	2276	567	1863	2226	363	2533	3197	664
Consumable stores	650	829	179	595	710	116	697	866	169
Debtors	1073	1115	42	328	1110	182	1160	1161	1
Cash at bank and in hand	862	847	16	1374	1552	177	915	1060	144
Total current assets	7020	8812	1793	7372	9115	1743	8488	10699	2211
TOTAL ASSETS ϕ	16047	19969	3922	57826	71611	13785	42855	61280	18425
LIABILITIES									
<u>Long and Medium Term Loans</u>									
Agricultural Mortgage Corpn.	13	13	-	968	939	-29	1074	1141	68
Building Societies	-	-	-	27	51	24	160	155	-5
Other Institutional	11	16	5	33	30	-3	75	71	-4
Bank loans	105	154	50	716	855	139	548	535	-13
Loans from relatives	516	493	-23	1624	1567	-57	877	894	17
Other	65	65	-	855	818	-37	220	231	12
Total long and medium term loans	710	742	32	4223	4260	38	2953	3026	73
<u>Short Term Loans</u>									
Hire purchase	74	89	14	28	29	2	52	60	8
Creditors	1335	1508	173	1026	1104	78	949	1100	152
Bank overdrafts	1192	1507	315	1563	1860	297	2366	2956	591
Other	35	60	24	34	42	7	31	22	-9
Total short term loans	2637	3163	526	2651	3035	384	3397	4139	742
Net worth	12700	16064	3364	50952	64315	13363	36505	54114	17609
TOTAL LIABILITIES	16047	19969	3922	57826	71611	13785	42855	61280	18425
RATIOS									
Current assets as % of current liabilities	266.2	278.6	-	278.1	300.3	-	249.9	258.5	-
Liquid assets as % of current liabilities	73.4	62.0	-	86.8	87.7	-	61.1	53.6	-
Total assets as % of total liabilities (less net worth)	479.5	511.4	-	841.3	981.6	-	674.9	855.2	-
Long and medium terms loans as % of net worth	5.6	4.6	-	8.3	6.6	-	8.1	5.6	-

ϕ After depreciation, sales and government grants.

These balance sheets are analysed further in Tables XXV, XXVI, and XVII to show the main sources of funds and their disposition among the various classes of assets. The analysis shows that the main sources of funds for investment were either from within the farm business (retained farm earnings, depreciation provisions, sale of assets) or from new capital funds introduced; external sources of funds (loans and Government grants) generally represented less than a quarter of the additional investment. The composition of the investment varied according to the type of tenure and type of farming. Thus, for 1971/72, investment in land and buildings on owner-occupied farms was substantially higher than on tenanted farms, while tenanted farms put a greater proportion of investment into breeding livestock and liquid assets. Investment in machinery and equipment and physical working assets was however much the same. The total funds available for investment increased by about 40 per cent. on owner-occupied farms and 57 per cent. on tenanted farms between 1970/71 and 1971/72.

Finally, it should be observed that all averages have been calculated by weighting the sample results for England and Wales in each of the three size of business groups (275-599 and 600-1199 and 1200-4199 SMD) and each of the five types of farming (dairying, cattle and sheep, cropping, pigs and poultry, mixed) by the total number of holdings of that type and size recorded in the 1971 June Census.

A more detailed analysis of borrowing habits of farmers by type of tenure, and by type and size of farm, is given in Tables XXVIII, XXIX, and XXX. For purposes of interpretation, bank overdrafts might be regarded as short-term accommodation, i.e., normally repayable within a year; creditors (which would include credit made available by agricultural merchants and dealers) would again be substantially short-term in character; loans from

relatives would be almost certainly medium- and long-term; and bank loans would in general be medium-term, i.e., not usually liable to early recall and tending to run on for more than 12 months.

This is followed by a similar analysis - on the basis of profit and loss account - of those farmers who paid interest on borrowed moneys - from whatever source (see Table XXXI).

For the following Tables refer to Appendix A:

Table XXIII

Table XXIV

Table XXV

Table XXVI

Table XXVII

Table XXVIII

Table XXIX

Table XXX

Table XXXI

Chapter 3

Influence of State Agencies on the Availability of Credits in General and of Agricultural Credits in Particular

Except in Scotland, where grants and loans are provided both by the Highlands & Islands Development Board and the Crofters Commission and, in Northern Ireland, where the Department of Agriculture (formerly the Ministry) provides loans for a variety of agricultural purposes,¹ there are no State agencies supplying agricultural finance as such in the United Kingdom, that is, if we exclude the several grant schemes described below. The Agricultural Mortgage Corporation (see pp. 76 ff.), which might be thought of as in this category, is regarded as being in the private sector, though it does benefit to some extent by receiving an interest-free loan from the Minister of Agriculture with the approval of the Treasury to ensure that loans are made to borrowers on favourable terms (see p. 77). These advances provide the basis for the Guarantee Fund and this enlarged capital base serves as 'backing' for any debentures issued to the public. In consequence, it is hoped, money will be raised more cheaply.

Apart from the special regional institutions referred to above, the Ministry of Agriculture has over the years made a number of grants available to assist farmers in the United Kingdom and in a variety of ways. The range of these grants available over the years 1970-73 is summarised below:

Grants Available to Agriculture in the United Kingdom 1970/73

	Grant percentage rates			
	1970	1971	1972	1973
	%	%	%	%
Farm Improvement Scheme)	25)	Replaced by Farm Capital Grant Scheme		
Investment Supplement)	15)			
Investment Grants				
Buildings and Fixed Equipment	30	30-10	10	10 (ended 31.3.73)
Plant and Machinery	30)	Replaced by investment allowances		
Tractors and Harvesters	30)			

1. These arrangements will be discussed in Chapter 5.

Grants Available to Agriculture in the United Kingdom 1970/73 cont.

	1970 %	1971 %	1972 %	1973 %	
Hill Land Improvement Scheme	60)			
Field Drainage)			
Normal rate	50)			
Hill rate	60)			
Farm Water Supply		)	Replaced by Farm Capital		
Public (+ Investment Supplement)	40	)	Grant Scheme		
Private (+ Investment Supplement)	45)			
Ploughing Grant	£12 per)			
	acre)			
Farm Structure Schemes	60)			
Horticulture Improvement Scheme	33 $\frac{1}{3}$	33 $\frac{1}{3}$	33 $\frac{1}{3}$	33 $\frac{1}{3}$	closing to applicants
Farm Capital Grant Scheme					
Standard rate		40	40-30	30)
Hill Land rate (for hill land items)		60	60-50	50)
Drainage works:)
(a) in hill land		70	70	70)
(b) other areas		60	60	60)
Remodelling works		60	60-50	50)
Special Orchard Grubbing		100	100	100)

In addition, there are the grants made under the Agricultural and Horticultural Co-operation Scheme 1971. These are made by the State on the recommendation of the Central Council for Agricultural and Horticultural Co-operation. Since 1971, there has also been available to the Council a

special fund to give assistance to marketing, grants from which are made by the Council itself, as agent of the State. The main expenditure from this fund has so far been the financing of a loan guarantee scheme. Where a co-operative undertaking a marketing proposal has had difficulty because of lack of collateral security in obtaining adequate accommodation at the bank, it can apply to the Agricultural Credit Corporation Limited (ACC) or the Agricultural Finance Federation (AFF) for a Government-backed loan guarantee and the cost of that loan guarantee is met out of funds made available to the Central Council. The bulk of the co-operatives concerned have so far been cereal marketing groups; others have included co-operatives marketing potatoes, livestock, and horticultural produce. The scheme began as an experiment; because of its success, it has now been established on a permanent basis. (Future plans are indicated in Chapter 6 in Part B.)

Grants which operated from January 1, 1974 include: the Farm and Horticulture Development Scheme, the Horticulture Grant Capital Scheme, and the Farm Capital Grant Scheme. The first of these schemes is in implementation of Directive 72/159/EEC of April 1972 on the modernisation of agricultural holdings. The others are made under domestic legislation, viz., the Agriculture Act 1970.

As regards the former, the Minister for Agriculture said in the House of Commons on November 14, 1973:

"The Directive ... requires Member States to introduce schemes for the modernisation of farms and horticultural businesses on lines laid down in the Directive in pursuance of the Community's policy for the improvement of agricultural structure. It provides for a 25 per cent. contribution from FEOGA towards Government expenditure under the scheme. A draft statutory instrument will shortly be laid before Parliament for approval. The scheme covered by the main part of the Directive will be called the Farm and Horticulture Development Scheme. It will be open to farmers and growers who at present have an income per labour unit of less than

the national average income of workers in non-agricultural occupations, and who can submit a development plan showing that within six years their income will reach this level with the help of the plan. The present figure is £2,300 a year in England, Wales and Scotland; and £2,070 in Northern Ireland. Applicants whose plans are approved will be eligible for grants on the capital investments necessary for the implementation of their plans. The general rate of grant for agricultural investment will be 25 per cent, but field drainage will qualify for 60 per cent and certain other investments such as the purchase of livestock, plant and machinery, fencing and certain land surface improvements and the provision of facilities for freshwater fish farming will qualify for 10 per cent. The rates of grant for horticulture will be 30 per cent for buildings except additional production buildings, and 20 per cent for most plant and equipment; additional production buildings and minor equipment such as tractors will receive 10 per cent. Investments in poultry and egg production will not qualify for assistance and investments in pig production will qualify only if they amount to not less than £4,600 and not more than £18,500 and the farm unit is capable of providing 35 per cent of the feed. For other investments the maximum will be £118,500 per labour unit.

"Farmers and growers carrying out an approved development plan will also qualify for a grant towards the cost of keeping the farm records which must be submitted annually during the life of the plan. Farmers whose plan provides that more than half the farm income will be derived from the breeding or keeping of cattle or sheep suitable for the production of beef, mutton or lamb will also be eligible for guidance premiums totalling about £16 per acre subject to a maximum of £4,150 per holding.

"Under the Directive, Member States may also within specified limits provide national aids for capital investment on holdings not subject to a farm development plan. We propose for this purpose to seek Parliamentary approval for new Farm and Horticulture Capital Grant Schemes. In general, the Farm Capital Grant Scheme will be similar to the existing scheme, but there will be some new features. As under the Farm and Horticulture Development Scheme there will be no grants for investment in poultry and egg production and grants for investment in pig production will be subject to the limitations ... already mentioned. The maximum amount of investment eligible for grant on all holdings will be £18,500 for each labour unit. This will supersede the present limit of £10,000 per farm unit. It will be related to total investment attracting grant over a period of two years. The grant for field drainage will be a maximum of 55 per cent, but to meet an E.E.C. requirement that grants should not exceed 25 per cent of total investment, it will be necessary to take into account all capital investment on the unit of a type eligible for grant under the Farm and Horticulture Development Scheme over the preceding two years. The amount of grant payable for field drainage work will therefore represent 25 per cent of the cost of all such investment, less any grant already paid on that investment, subject to a maximum of 55 per cent of the cost of the field drainage work.

"The Horticulture Capital Grant Scheme will offer grants at five percentage points lower than for horticultural investment under the Farm and Horticulture Development Scheme except that those improvements grant-aided under the latter scheme at 10 per cent will not be grant-aided under the Capital Grant Scheme.

"Pending the adoption by the E.E.C. of a Less-Favoured Areas Directive, the capital grants for investments in hill land will continue unchanged."

The Farm and Horticulture Development Scheme is open to farmers and growers whose income per labour unit is below the level of the average income in non-agricultural industry. This is at present £2,300 in England, Wales and Scotland and £2,070 in Northern Ireland. Applicants will be required to submit a development plan designed to bring their income up to the comparable level over a period of six years. Approval of a plan will entitle the applicant to grants for capital investment on a wide range of items, and for record-keeping. Grant will not be payable for investment in poultry and egg production; and investments in pig production will qualify only if they amount to not less than £4,600 and not more than £18,500 and the farm unit is capable of providing 35 per cent. of the feed. Where the plan provides for at least 50 per cent. of the income to be derived from the breeding or keeping of cattle and sheep suitable for meat production, the applicant will also receive guidance premiums of about £16. per acre up to a maximum of £4,150. Government expenditure under this scheme will be assisted from FEOGA funds.

The national scheme to provide capital grants for horticulturalists was laid before Parliament on November 29, 1973 and came into operation on January 1, 1974. The new scheme, the Horticulture Capital Grant Scheme, succeeded the Horticulture Improvement Scheme 1970 and provided grants for those growers who could not, or did not wish to, apply for grant under the Farm and Horticulture Development Scheme. In many respects the new scheme resembled the Horticulture Improvement Scheme. In particular, it retained the same conditions of eligibility for grant, but it differed in some respects, reflecting the requirements of EEC Directive 72/159 on farm modernisation and the objectives of national policy for horticulture. It provided for a 25 per cent. grant for land improvements, buildings used for horticulture other than production buildings, and replacement or improved production buildings with their associated works and services. A 15 per cent. grant is now available for plant and equipment, except tractors and cultivators.

The range of items on which grant is offered under the Horticulture Capital Grant Scheme is broadly similar to that of the Horticulture Improvement Scheme except that no grant is available for additional or extended production buildings. Grant will continue to be available for their replacement and improvement. This is in accordance with the national objective that the scheme should encourage the modernisation of the industry rather than the further expansion of production, which could involve a risk of recurring surpluses.

Another new scheme introduced at the same time was the Farm Capital Grant Scheme, which was very similar to the then existing Farm Capital Grant Scheme, which was closed to new applicants other than hill farmers on December 31, 1973. Grants for buildings, etc. under the new scheme, will be at the rate of 20 per cent., but as in the Farm and Horticulture Development Scheme, investment in poultry and egg production will not be eligible for assistance and there will be the same limitations on grants for pig production. The grant for field drainage will be a maximum of 55 per cent., but to meet an EEC requirement it will be calculated as a 25 per cent. grant in respect of the combined cost of the field drainage and of all other capital investment on the holding of a type eligible for assistance under the Farm and Horticulture Development Scheme over the preceding two years; it will not, however, be less than 25 per cent. of the cost of the drainage work.

It should be noted that EEC Directive 72/159 requires a limit to be set on the total investment which may be grant-aided in any one business. The aggregate investment under the three new capital grant schemes implementing the Directive will be limited to a maximum of 40,000 units of account (currently about £18,500) per labour unit employed in any period of two years finishing with the date on which a claim for grant is received.

Details of the new schemes are summarised in tabular form below:

FARM AND HORTICULTURE DEVELOPMENT SCHEME

FARM CAPITAL GRANT SCHEME

HORTICULTURE CAPITAL GRANT SCHEME

Capital Grants

Item (1)	F H D S		FCGS	HCGS
	(a) Agricultural Businesses Rate of Grant %	(b) Horticultural Businesses Rate of Grant %	(3) Rate of Grant %	(4) Rate of Grant %
1. Permanent farm buildings (excluding living accommodation) silos, bulk dry stores.	25	-	20	-
2. Permanent horticultural buildings (except those shown in 3(i) and (ii) below)	-	30	-	25
3. (i) Provision of permanent buildings and frames designed for the production of horticultural produce	-	10	-	-
(ii) Replacement, improvement etc of permanent buildings and frames designed for the production of horticultural produce	-	30	-	25
(iii) Permanent thermal insulation vapour sealing or gas sealing in permanent horticultural buildings	-	30	-	25
4. Yards, loading platforms or banks	25	30	20	25
5. Disposal of agricultural waste	25	30	20	25
6. Provision of gas or electricity for agricultural purposes	25	30	20	25
7. Field drainage	60	60	Maximum 55 Minimum 25	25
8. Facilities for the supply of water	25	30	20	25
9. Farm flood protection works, protection or improvement of river banks	25	25	20	-

Item	F H D S		F C G S H C G S	
10. Roads, paths, permanent ways, hard-standings, fords, bridges, culverts, railway crossings, creeps, piers, jetties or slips	25	30	20	25
11. Sheep grids or cattle grids	25	30	-	25
12. Pens, dips, st lts, or other facilities (excluding in-wintering)	25	-	20	-
13. Fences, hedges, walls or gates	10	30	-	25
14. Shelter belts & shelter hedges	10	30	-	25
15. Clearance of scrub, land levelling or grading, removal of hedges tree roots, boulders & obstructions, bracken control	10	30	-	25
16. Claying, marling & soil mixing	10	10	-	-
17. Wirework for hop gardens	25	-	20	-
18. Orchard grubbing	25	30	20	25
19. Watercress beds	-	30	-	25
20. Plant or machinery for agricultural purposes	10	10	-	-
21. Plant or equipment for production or harvesting of horticultural produce	-	20	-	15
22. Plant or equipment for storage or preparation for market of horticultural produce	-	20	-	15
23. Plant or equipment, including tractors and ancillary equipment for the cultivation of horticultural crops and produce	-	10	-	-
24. Purchase of livestock	10	-	-	-
25. Facilities for farming of freshwater fish for food	10	-	-	-
26. Any work incidental to works carried out on items 1-25 and 28	as for appropriate item	as for appropriate item	as for appropriate item	as for appropriate item
27. Preparation of development plans	25	25	-	-
28. Arterial Drainage (Scotland only)	-	-	60	-

- NOTE:
1. Under the FHDS, businesses which have an income at or above the comparable level may qualify for assistance if the income is at risk of falling below that level. Such businesses will qualify for slightly lower rates of grant than those shown under col. 2 above.
 2. The EEC directive provides that no more than £18,500 of investment per labour unit may be grant-aided. This limit will apply to the aggregate investment under all three schemes.
 3. All applications for carrying out proposals for capital grant (including those provided for in development plans) will be subject to the prior approval rule.

Additional Grants under FHDS

Guidance Premium is payable over 3 years as follows:

Year 1 - £8.40 per acre up to a limit of £2,079 per holding.

Year 2 - £5.60 per acre up to a limit of £1,386 per holding.

Year 3 - £2.80 per acre up to a limit of £693 per holding.

Keeping of Accounts

Year 1 - £70, Year 2 - £46, Year 3 - £46, Year 4 - £46.

These means of making moneys available to agriculture may be compared with the financing of the nationalized industries in Britain,¹ which are more nearly like State agencies. Until 1955, most of the nationalized industries in Britain borrowed long-term on the London capital market by issuing fixed interest stock with the backing and guarantee as to capital and interest of the United Kingdom Treasury. These stocks were underwritten by the Bank of England and were managed and regarded as gilt-edged securities, in that they were formally 'issued' by prospectus in stated amounts. Some issues were made directly to the National Debt Commissioners, in which case the effect was to diminish the amount which the Commissioners could lend to the Exchequer, so that the Exchequer had to borrow an equivalent sum for its own purposes from the market and was therefore in effect borrowing to finance the nationalized industry concerned. Most issues were, however, made to the market, in which case amounts not subscribed by the public at the time of issue were taken into the portfolio of the Issue Department of the Bank of England and subsequently sold at market prices through the Government broker as opportunity offered. In proportion as unsold stock was taken up by the Issue Department, the Issue Department was obliged to reduce its lending to the Exchequer and the Exchequer was forced to borrow more from the market by the sale of Treasury bills. In effect, the authorities were obliged to increase the total of Treasury bills in order to finance the nationalized industries until such time as the Issue Department had sold the stock which it took up at the time of issue. In so far as the Treasury bills were taken up by the banking system, they replaced the nationalized industries' bank borrowings. Thus, the 'funding' of these bank advances made the banks more rather than less liquid.

1. See M.G. Webb, The Economics of Nationalized Industries, London, 1973, pp. 137 ff.

In 1955, however, the authorities experienced increasing difficulty in selling nationalized industries' stocks to the public and a succession of such issues had to be taken up almost entirely by the Issue Department. Not only did the Bank of England become alarmed lest the Issue Department might become "cluttered up with a lot of unsaleable stock", but the effect upon the liquidity of the banking system was directly contrary to the Government's declared aims of restricting credit and, for that purpose, keeping the liquidity of the banks as near to the conventional minimum as possible. It was therefore decided to suspend issues of nationalized industry stocks and finance the industries from the Exchequer. To this end, the Finance Act 1956 gave power for the Treasury to make advances of long-term capital to these industries, as it had done from the outset for the National Coal Board and other public corporations, and authorised the Treasury to borrow for the purpose of so doing.¹

Since 1956, therefore, British nationalized industries have not been permitted direct access to the London capital market, although in recent years a number of them (e.g. the Gas and Electricity Councils; also some of the local authorities) have been allowed to borrow on foreign capital markets (see also pp. 98-99) with the backing and guarantee of the Treasury. Under the Finance Act 1956, most of the capital required came from long-term advances made by the Treasury to these industries. These funds derived from the Consolidated Fund (now the National Loans Fund). The Exchequer makes the loans either from the proceeds of its own borrowings or from surplus revenue which would otherwise be used to redeem the National Debt. Interest is charged on these loans (except for Public Dividend Capital, see below) at rates based on those paid by the Exchequer for borrowings at comparable periods rounded upwards to the nearest $\frac{1}{8}$ per cent. to cover the costs of administering the debt. These borrowings are subject to statutory limits

1. See Committee on the Working of the Monetary System Report, Cm. 827, 1959. pp. 29-30.

though these may be revised from time to time.

The nationalized industries also have power to borrow short-term from the banks. Such advances are likewise guaranteed by the Government, which enables the borrowers to obtain a finer rate of interest than most commercial customers.

On occasion, it has also been possible in Britain to write off a proportion of the capital debt of a nationalized industry. Thus, under the terms of the Transport Act 1969, the capital deficit account of British Rail, which stood at £345 millions was written off completely and the book value of British Rail's fixed assets reduced by £709 millions.

In 1965, the concept of the Government's providing equity finance to nationalized industries was introduced for the first time. BOAC was the first beneficiary for an experimental period of six years, extended in the financial year 1970/71 for a further period of five years. This provision was known as Public Dividend Capital, on which a variable rate of return (like a dividend) is paid. It varied over the experimental period from as low as $7\frac{1}{2}$ per cent. to as high as 25 per cent. per annum.

The nationalized industries, like commercial concerns in the private sector, will also finance some proportion of their investment requirements from retained earnings and in the form of a provision for depreciation. Some economists have argued that the proportion should itself depend on commercial considerations such as pricing and investment policies and should not be predetermined. But when the Government was setting financial targets for the nationalized industries in 1961 the proportion was in fact predetermined. For example, the Electricity Boards' target was set at 12.4 per cent. This was divided approximately into depreciation $5\frac{3}{4}$ per cent., interest $4\frac{1}{2}$ per cent., and balance of revenue $2\frac{1}{4}$ per cent. Given the estimated capital investment programme for the quinquennium, this objective amounted to the achievement of a self-financing ratio of 51.2 per cent. in 1962/63, rising to 61.8 per cent.

in 1966/67, with an average of 56.5 per cent. over the period as a whole. Achieved ratios were rather lower. Latterly, the 1967 White Paper retained the use of financial targets, but recognised that they must be made more flexible in order to reflect sound investment and pricing policies.

As a proportion of the nationalized industries' fixed investment programmes, Government loans are of major though apparently declining importance. Thus, for 1961/62, the percentage was 71; for 1966/67, it was 64; and for 1970/71, it was 47. At the same time, although the percentage of total funds provided in this way has declined, the absolute amounts required for investment by the nationalized industries have increased quite considerably.

But to return specifically to the financing of agriculture, the provision of credit can also be assisted by providing a supplementary guarantee. The only agency in the United Kingdom actually providing this service is the Agricultural Credit Corporation Limited (also referred to at p. 64 and note); with Britain's entry into the Common Market, resort to this technique may become more frequent and important. The ACC was originally set up in 1959 and provided with financial backing by the National Farmers' Union Mutual Insurance Company. Farmer borrowings from the banks totalling £5 million were guaranteed in the first three years, but the NFU Mutual then withdrew its support after a run of bad debts.

Eventually the Government agreed to support the operations of the Corporation, the new scheme commencing in 1964 for horticulture and in 1965 for agriculture. This was to operate on a loss-sharing basis, with the Corporation standing a proportionate increase as its reserves were built up. From the beginning, the banks agreed to stand 5 per cent. of any loss under guarantee and the residual loss was shared according to an agreed schedule, which in recent years has been as follows:

Period	Proportion of Expenditure Incurred	
	by Ministry %	by ACC %
Year ending 31 March, 1972	84 $\frac{1}{4}$	15 $\frac{3}{4}$
Year ending 31 March, 1973	81 $\frac{1}{2}$	18 $\frac{1}{2}$
Year ending 31 March, 1974	79	21
Year ending 31 March, 1975	76 $\frac{1}{4}$	23 $\frac{3}{4}$

When the Government took the relevant powers under the Agriculture and Horticulture Act 1964, it also made provision for guaranteeing agricultural co-operatives and arranged that in this context a second organisation - the Agricultural Finance Federation Limited - should be included in the scheme. In fact, AFF has intervened much less frequently than the ACC, though under the later scheme described at p. 50 it has powers to do so.

The role of ACC is to provide a specialised service by combining technical assessment of farm programmes with guarantees to the banks for agriculture and horticulture throughout the United Kingdom in order to assist farmers to obtain loans from their own bank on the basis of a guarantee provided by the ACC. The object was 'to improve the efficiency and profitability' of the farm by helping to provide the finance for the purchase of farm buildings, machinery and equipment, or livestock, even working capital, and the service was to be made available 'to the competent and progressive man who is prepared to seek and follow the best management advice'. In addition, such support was expected to be useful to a new farmer, for amalgamation projects, and the takeover of extra acreage. Where assistance is given, this is based on 'a development programme, agreed between the farmer, his adviser and the Corporation's technical staff'. The programme will outline the appropriate system of farming, specify the additional money required, and the purposes for which it should be used. The objective will be to increase profits sufficiently to justify the borrowing and to meet interest and repayment terms. The agreed programme must be followed and, to that end, a degree of supervision is exercised, based on the keeping of adequate records (including audited accounts) and an annual farm visit. The sum guaranteed would usually include the existing facilities, the total then becoming the new limit, and a repayment schedule over a maximum period (normally 10 years) would be agreed between the farmer, his bank, and the Corporation. This is based on the ability of the business to repay the loan, but although the farmer is expected to abide strictly by its terms it is sometimes alleged by critics of ACC that the Corporation tends to be too lenient and does not in fact exert sufficient pressure to reduce outstanding borrowings. On the other hand, it is claimed that a degree of flexibility is essential to meet exceptional circumstances or to enable capital to be ploughed back for further development subject to specific approval of the arrangements by the ACC and the bank.

The ACC guarantee is particularly useful where the security readily available to the bank does not match the degree of development required by an otherwise viable enterprise. Nevertheless, at the time of the Wilson Enquiry,¹ and taking the country as a whole, the ACC guarantee did not seem to be greatly used. But following a series of area meetings with bankers, the ACC then progressively improved its image with branch bank managers, who now had a much clearer understanding of the facilities that were being offered by ACC.

So far as charges are concerned, there is a single 'initiation' fee of $\frac{1}{4}$ per cent. of the value of the guarantee to cover the preliminary work (this is very reasonable) and the annual charge (additional to the rate of interest payable to the bank) will normally be a minimum rate of 2 per cent., which can be varied between individuals depending on the degree of risk and the value of other securities held by the bank in support of the borrowing. This charge relates, however, to the value of the guarantee at the beginning of each guarantee year and the amount, therefore, reduces as repayments are effected year by year. The use of overdraft facilities on a day-to-day basis remains the cheapest source of available credit and, although the addition of around 2 per cent. to the cost of that borrowing may appear something of a deterrent, the aggregate charge to the farm business still works out in practice at considerably less than the rate required by outside sources such as hire purchase.

Over recent years, new guarantees of the order of £750,000 per annum have been provided and the Corporation is steadily developing the scope of its services to farmers, growers and co-operatives. Of farmers and growers with guarantees,

1. Availability of Capital and Credit to United Kingdom Agriculture, HMSO, 1973.

tenants (70 per cent. of the total) use the facilities more than owner-occupiers. By mid-1974, total guarantees provided by ACC exceeded £9.5 million, of which nearly £2.5 million was still outstanding. Of these, 90 per cent. would apply to England and Wales and the remainder to Scotland.

In April 1972, the Central Council for Agricultural and Horticultural Co-operation and the Government's Agricultural Departments agreed that for an experimental period of one year the Council might use £50,000 from its special fund (see p. 37) to assist with the provision of guarantees in support of borrowing to undertake worthwhile developments in marketing by co-operatives. Any co-operative wishing to start, improve or extend its marketing operation and which had difficulty in obtaining the full extent of the required finance might apply to the Central Council and ACC for support in obtaining guarantee facilities. It was subsequently agreed as from April 1, 1974 that the Central Council might support by a payment out of its special marketing fund any guarantee provided by the ACC (or AFF) to a co-operative, federal or joint venture engaged in marketing which through an insufficiency in collateral security had difficulty in arranging an adequate overdraft facility. In other words, in suitable cases, the Central Council will itself pay the ACC charge. An application from a co-operative for this support is made in the first instance to the Central Council; all the necessary information must be provided to allow the Council to examine the eligibility, worthwhileness and viability of the applicant and the proposal. The Central Council immediately passes this information to the ACC so that both organisations can pursue their enquiries simultaneously and thus reduce the time taken to approve loan guarantee support. In fact, the ACC will not give approval to a loan guarantee where Council support is involved, unless the Council itself recommends support.

The information sought by the Council is as follows: Is the applicant a bona fide co-operative which would be eligible for grant aid from the Council?

Is the assistance required to help finance a marketing development?

It should be pointed out that no assistance will be given for guarantees sought for activities other than marketing, nor will assistance be considered to finance existing operations. Significant expansion of existing operations may be considered. The Central Council will also require the balance sheets and accounts of the co-operative, from which an idea of current worth can be determined; a revenue forecast for the number of years until the proposal is implemented and contributing fully to the profits of the co-operative; a cash flow forecast for the same period, showing the overdraft position at monthly, quarterly or periodic intervals as suitable; and confirmation of bank lending (subject to guarantee) and proof of adequate additional finance to implement the proposal.

The Central Council will require the co-operative to enter into a written contract to which the three Ministers of Agriculture are a party. This contract requires that the co-operative comply with a list of annexed conditions, which are those normally associated with grant aid, and includes a limitation on the use of the money raised by the guarantee to the purpose described in the contract. If the co-operative agrees to abide by these conditions, the Central Council pays the costs of the ACC in furnishing the loan guarantee.

Another way in which the State - or, in this case, the monetary authorities - can play a role that is relevant in the present context is by providing the policy framework within which capital and credit is made available to agriculture. In the United Kingdom, it is pertinent to consider this matter for two periods - the first before and the second after the introduction of Competition and Credit Control.

All the deposit banks are subject to a degree of regulation by the monetary authorities in the United Kingdom, which in this context means primarily the Bank of England. As is well known, throughout the 1960s the United Kingdom was subject to recurrent crises in its balance of payments and a range of measures was employed in an attempt by monetary means to limit increases in bank advances and thereby in the supply of money and the levels of expenditure in the economy.

In general terms, these measures were three-fold in character:

- (1) They might be quantitative. Under this head, the main weapon employed during these years with a view to regulating the increase in bank advances was the imposition of a ceiling on such advances, which ceiling related to the level during a base period. In effect, there was a series of 'credit squeezes'. More generally, an influence was exerted over the monetary flows in the economy by buying and selling Government securities (so-called 'open market operations'). The calling of 'special deposits' which had to be placed by the London clearing banks and the Scottish banks with the Bank of England could also be resorted to.
- (2) A degree of regulation could be exercised by varying Bank rate (the minimum rate at which the Bank of England was prepared to lend to the discount houses or to discount first-class bills of exchange). By this means, the Bank of England could exert a direct influence on the rates at which the deposit banks lent to their customers, since until September 1971 Bank rate remained the conventional basis to which rates on advances (and on deposit accounts) were linked. As from September 1971, each of the deposit banks set its own Base Rate (which reflected movements in market rates) and to which each bank's lending rates were related. In October 1972, the Bank of England introduced its Minimum Lending Rate (in place of Bank rate). The new rate was calculated by adding $\frac{1}{2}$ per cent. to the Treasury bill rate and rounding the result up to the nearest $\frac{1}{4}$ per cent. This formula was temporarily suspended on November 13, 1973, when the rate was raised from $11\frac{1}{4}$ per cent.

to 13 per cent. A change in Minimum Lending Rate triggered off by the change in Treasury bill tender rate again occurred on January 4, 1974. (Movements in the relevant rates are indicated in Table XXXII, which also shows the minimum lending rates of the clearing banks (see column for 'blue chip' rate) in England and Wales, which were raised $\frac{1}{2}$ per cent. in October 1969;¹ also Bank rate and, latterly, the Minimum Lending Rate of the Bank of England and the deposit banks' Base Rate.) Actual rates charged to agricultural borrowers would be at least 1 per cent. and possibly $1\frac{1}{2}$ to 2 per cent. higher for the general run of loans (over 1973/74, the margin may have been as high as 2 to $2\frac{1}{2}$ per cent). Prior to September 1971, the minimum lending rates were fixed by collective agreement. After that date the banks became rather more competitive, since although Base Rates still tend to keep more or less in line, there is competition with regard to the margins beyond Base Rate. However, as compared with other European countries, rates charged on bank advances² in the United Kingdom have tended to be net and relatively lower than charges levied elsewhere (on the basis of rate of interest plus other charges);³ despite some edging up of rates in recent years, this has broadly speaking remained true, though in a number of instances on the Continent of Europe rates on loans to agriculture are subsidised and, for this purpose, Continental rates on loans available to farmers may well be lower.⁴

(3) Credit controls may be qualitative. In this context, the Bank of England issued directives, which indicated the directions in which the banks could

-
1. The 'blue chip' rate was more obviously a minimum lending rate prior to the publication of the Bank of England's document on Competition and Credit Control. After September 1971, cartel arrangements relating to interest rates were ended and the situation with regard to the minima at which the several banks would lend became much more fluid, as was in part reflected by the (largely temporary) differences that occurred from time to time in Base Rate itself.
 2. This is not always true of prime commercial bills.
 3. See "The Cost of Bank Finance - a Comparative Study", Midland Bank Review, August 1971. But the position can change. For example, at end-1972, it was reported by Williams & Glyn's Bank that 'from being the cheapest country in Europe for bank loans only 12 months ago Britain is now the most expensive', Financial Times, 23/12/72.
 4. An additional reason for this is the fact that the banks on which agriculture largely relies are themselves of 'agricultural' origin; farmers and their co-operatives therefore tend to receive special treatment; also, in part, farmers are subsidised by non-agricultural lenders. Furthermore, these institutions have been able to maintain a higher ratio of lending in relation to the capital contributed by the borrowers than would be considered commercially justified in the United Kingdom.

lend and the degree of restriction that might, or might not, apply when lending to particular sectors. So far as agriculture was concerned, throughout much of this period the industry was regarded as a sector enjoying some degree of priority (this was explicitly recognised in 1966),¹ particularly in its role as a saver of imports,² though there did seem to be a measure of restriction, especially of farmers' longer term borrowings, to which a specific reference had been made by the authorities.

These several forms of restriction continued until April 1970, when it was announced by the Chancellor of the Exchequer in his Budget Speech that 'a gradual and moderate increase, of the order of 5% over the 12 months to March 1971, in lending which has hitherto been subject to ceiling restrictions would be consistent with the main economic objectives.'³ This appeared to result in freer lending, even to what had been regarded as a 'priority' sector like agriculture. The position was further relaxed in March 1971, when it was announced - again in a Budget Speech - that it would not be inconsistent with current general objectives if, for the present, lending subject to restriction were to grow at a rate of about 2½% a quarter.'⁴ But the guidance relating to the direction of lending remained unchanged.

Following the publication of a Bank of England paper on Competition and Credit Control, a somewhat different system of regulation was introduced as from September 1971, when all existing ceilings and guidance of the direction of lending were withdrawn. Under the new arrangements,

1. After exports, priority was given to 'productive investment by manufacturing industry and agriculture' (Bank of England announcement 1/11/66). A Treasury Note on the announcement explained that what was 'productive investment' in agriculture deserving priority treatment was primarily for the banks to decide, but replacement of old machinery, purchase of entirely new equipment, etc., was what the Treasury had in mind. It was also explained that 'long-term finance for the purchase of land may continue to be restricted by the banks .

2. This was specifically referred to in a Government announcement on November 18, 1967 and, again in a Bank of England Notice of May 23, 1968. It was reaffirmed on November 25, 1969.

3. See Bank of England Notice 14/4/70.

4. See Bank of England Notice 30/3/71.

the deposit banks (slightly different arrangements applied to finance houses) were required to observe day-to-day a uniform minimum reserve ratio of $12\frac{1}{2}$ per cent. of their 'eligible liabilities' (basically sterling deposits of two years or less from outside the banking system, plus any foreign currency switched into sterling). Previously, the requirement for the clearing banks in England and Wales had been a minimum liquid assets ratio (in relation to deposits) of 28 per cent. (of which 8 per cent. had to be held in cash), though these arrangements did not apply to the Scottish banks. In addition, when called upon to do so, the banks both north and south of the border could be required to hold special deposits with the Bank of England. The 'reserve assets', which comprised the $12\frac{1}{2}$ per cent., included balances with the Bank of England, other than special deposits (for the London clearing banks, balances with the Bank of England were required to be on average $1\frac{1}{2}$ per cent. of eligible liabilities); Treasury bills; company tax reserve certificates; money at call with the London discount market, eligible brokers and (if secured on certain public sector investments) with jobbers on the stock exchange; local authority bills eligible for rediscount at the Bank of England; similar commercial bills (up to a maximum of 2 per cent. of eligible liabilities); and the British Government securities with one year or less to final maturity. It did not include cash in till, which may be of the order of another 5 per cent. Maintenance of this minimum reserve asset ratio was intended 'to provide the authorities with a known firm base for the operation of monetary policy'.

As one would expect, there has been some modification of the workings of Competition and Credit Control since its introduction. So far as the banks are concerned, this has taken two main forms: the reintroduction of qualitative credit controls, on the one hand, and, on the other, resort to a new method of restraining the growth of the banks' interest-bearing resources.

Under the first head, the authorities did not revert to direct control of the level of bank lending, but they have decided to exercise a selective

influence on it. Thus, in August 1972, the banks were asked to 'make credit less readily available to property companies and for financial transactions not associated with the maintenance and expansion of industry.'¹ In September 1973, the request was made in even stronger terms, because of the need to ensure the availability of credit to 'finance a higher volume of exports and for industrial investment and for other essential purposes'. In addition to further restraint on lending for property development and financial transactions, there was to be 'significant restraint on the provision of credit for persons (other than for house purchase)'.² As it happened, personal demand for bank credit began to slacken of its own accord about this time, so that the last part of the request proved in fact to be unnecessary.³ When controls on instalment credit were re-imposed in December 1973, the banks were asked not to provide credit for similar purposes on easier terms than those laid down in the official controls.

However, there was nothing in these restrictions that would affect directly the amount of bank credit made available to agriculture. To the extent that agricultural land may have been sold for development, restrictions on loans to property companies might be relevant, but planning permission would first be required and the amount of truly agricultural land that would be affected would be limited. Moreover, since September 1971, the banks have only gradually felt themselves to be under an increasing degree of restraint and, while this could be expected to affect agriculture quite as much as other 'essential' purposes, the effects cannot have been very marked. It is "perhaps the banks' understanding of the general climate of opinion that makes them feel less free to lend now than they did a year ago, ...".⁴

-
1. Letter sent to the banking system by the Governor of the Bank of England on August 7, 1972.
 2. Letter sent to the main banking associations by the Governor of the Bank of England on September 11, 1973.
 3. See Midland Bank Review, May 1974, 'Annual Monetary Survey - No. 25', p. 9.
 4. See Midland Bank Review, loc. cit., p. 10.

More relevant might have been high rates of interest, which must have made a significant impact on the costs of farmers who were heavily borrowed.

Another measure of general application was the new arrangements announced on December 17, 1973 with a view to improving the authorities' control over the money supply and bank lending. The new arrangements for credit control provided for non-interest-bearing special deposits to be made with the Bank of England in respect of growth of the interest-bearing resources of each bank and deposit-taking finance house over and above a specified rate. These arrangements were to be activated immediately.

The Bank of England may now specify a maximum rate of growth for the interest-bearing eligible liabilities, to apply to every bank and deposit-taking finance house. Any institution whose interest-bearing eligible liabilities grow faster than this must place non-interest-bearing special deposits with the Bank of England, to an extent related to their excess interest-bearing eligible liabilities. To judge from the first activation of the scheme, this rate of call for special deposits will be progressive, to a point at which it quickly becomes virtually prohibitive.

As already indicated, this scheme was activated immediately, the banks being told that their interest-bearing eligible liabilities should not grow by more than 8 per cent. over the first six months, this being measured by the average for April, May and June 1974 over that for October, November and December 1973. At the end of April it was announced that, over the second half of 1974, interest-bearing eligible liabilities could grow at the rate of $1\frac{1}{2}$ per cent. of the base figure per month, reckoned on a three-monthly moving average. The rate of special deposits is only 5 per cent. for an excess growth of 1 per cent., but rises sharply to 25 per cent. for an excess of between 1 and 3 per cent., and 50 per cent. for any higher excess. By making several releases of special deposits to ease the liquidity situation,

without modifying the new control, the authorities have given the impression that it is the main weapon on which they are now relying for their restriction of the growth of bank activities.

In May 1974, the Bank of England announced that it was maintaining its strict control over the growth of bank deposits and the money supply introduced in December 1973 ¹ and that the limits it was setting on the growth of interest-bearing eligible liabilities at the banks and deposit-taking finance houses for the second six-month period of the new restraint was in effect an extension of the basis set for the first six-month period, which was to end in June 1974. ² However, the scheme was now applied on a more flexible monthly basis, which meant that non-interest-bearing special deposits would be repaid, when a bank which had incurred a penalty came back within the limits.

-
1. One way in which this control might be evaded to some extent was by the issue of bills of exchange, which are 'accepted' by financial institutions and then sold in the discount market. There was said to have been a significant recent increase in acceptance business which had enabled certain large companies to escape the impact of the Bank of England's supplementary deposits scheme. See The Times (London), 1/7/74.
 2. In fact, by end-June 1974, it was found that the majority of the banks had kept within the interest-bearing deposit limit laid down. Banks which failed to meet the requirement were among the smaller groups in the industry; several of these had to pay the full 50 per cent. penalty on excess deposit growth. See The Times (London) and The Financial Times, 10/7/74.

Chapter 4: The Structure and Costs of Agricultural Credit

The significance of the several types of credit institutions as sources of borrowing by the agricultural industry is indicated in Tables XI (for England and Wales), XII, XIII, and XIV (for Scotland), XV and XVI (for Northern Ireland). These figures are based on the sample survey relating to the years 1967/68, 1968/69, and 1969/70, the results of which were published in Availability of Capital and Credit to United Kingdom Agriculture, HMSO, 1973. A balance sheet figure for the United Kingdom as a whole is given in Table XX. This was prepared by the United Kingdom Ministry of Agriculture, and partly based on the Wilson Report. The general picture here outlined is confirmed by the Farm Management Survey of Farm Assets and Liabilities (see Tables XXII to XXXI).

On these bases, it is clear that a significant quantum of short-term loans comes from the banks, on the one hand, and the agricultural merchants and dealers, on the other. The latter accommodation is itself partly derived from bank sources. (For tenants, merchants and dealers is the more important source; this was also the result in the Wilson Enquiry.) At medium- and long-term, loans from relatives is the most important source (though here we have only statistical evidence and very little knowledge of the bases on which money is lent). For owner-occupiers and farmers with mixed tenure, the AMC is the next important source for medium- and long-term loans (SASC in Scotland, though formerly rivalled there by the insurance companies).¹ On the evidence of the Farm Management Survey, bank loans are also quite an important source of medium- and long-term credit, though the banks

1. Largely because of yield considerations, the insurance companies have virtually dropped out of mortgage lending, though a certain quantum of such loans is still outstanding.

would not generally regard themselves as willing lenders in the latter category. Hire purchase finance companies and building societies - in England and Wales, even insurance companies - are relatively unimportant as sources of loan capital.

An attempt will now be made to describe the sources of funds and the methods of granting credit to agriculture under the several relevant headings. In addition, some indication will be given of approximate costs.

The Clearing Banks are the most important source of institutional lending to agriculture in the United Kingdom. These include, in England and Wales, Barclays Bank Ltd., Lloyds Bank Ltd., Midland Bank Ltd., National Westminster Bank Ltd., and, on a much smaller scale, Williams and Glyn's Bank Ltd. and Coutts and Company. In Scotland, there are three clearing banks - The Bank of Scotland, The Clydesdale Bank Ltd., and The Royal Bank of Scotland. (The Clydesdale Bank is a wholly-owned subsidiary of the Midland Bank and the other banks have links with London clearing banks.) The four main banks in Northern Ireland are the Bank of Ireland, Allied Irish Banks Ltd., the Northern Bank Ltd. (Midland Bank group), and the Ulster Bank Ltd. (National Westminster Bank group).

All these banks have developed branch systems - the clearing banks, which may also be described as deposit banks, operate just over 12,000 branches (including sub-branches) in England and Wales, some 1,730 (including mobile branches) in Scotland and 319 branches in Northern Ireland. In England and Wales, the several banks decentralise their control of operations to some extent to local, regional, or area offices, although bank managers have a degree of autonomy; managers of Scottish bank branches also seem to operate with a measure of autonomy. Even where they are part of an Irish banking group, the Belfast offices of the Northern Ireland banks would be responsible for operations throughout the province.

The deposit banks derive their resources - as their name implies - from deposits received from the public, whether on current account, on deposit account (at seven days notice), or against Certificates of Deposit. On current account, no interest is paid, so that this is a relatively cheap source of funds, even when allowing for the cost of clearing customers cheques, the issue of statements, the use of computers and highly paid staff. Deposit accounts and Certificates of Deposits do of course attract interest and latterly at quite high rates, though the rate on deposit accounts under £10,000 has since November 1973 been limited to $9\frac{1}{2}$ per cent. in order not to compete too actively with the building societies' need of funds to finance house purchase.

Banks throughout the United Kingdom consider applications for advances in much the same way. Usually, they lend by way of overdraft (see below) and, especially where applications come from established farmers, there will generally have been a continuing relationship with the bank, possibly for a long period of years. The 'connection' may go back for several generations. In summary, the banker when evaluating an application looks at a whole package of considerations, including the man himself and what they know about him; whenever possible and when desirable the banker will 'walk the farm' from time to time and meet the farmer on his home ground, in this way maintaining some contact with the actual farming operation; again, the banker will want to know what is the purpose of the credit facilities sought, for how long the farmer wants the money, and how much he wants; in this context, too, the banker will obviously be concerned to establish whether the proposition is likely to be sufficiently profitable to provide the means of paying off the advance over a defined period; on the other hand, it is equally important to ensure that the farmer is seeking to borrow sufficient finance to see the project through to a successful conclusion. Not only will the banker wish to see the farmer's cash flow projections and his audited accounts,¹ but he will also study the previous behaviour of the account

1. For a more up-to-date picture the banker may draw up with the farmer a statement of the farmer's current assets and liabilities.

in order to form a judgment of the farmer's capacity to repay. There may well also be a seasonal pattern to be accommodated. More generally, and this is the relevance of cash flow analysis, the banker will be concerned that the farmer has access to adequate working capital and himself generates sufficient liquidity to ensure that the farming operation remains viable and the emergence of a 'hard core' is avoided. To this end, moreover, he is less interested in a particular set of figures than in the trend. This is one of the benefits that accrues from a continuing banker-customer relationship, namely, a set of records going back over a period of years. On the basis of an assessment of these several sets of figures and a projection of cash flows, the banker will attempt to establish whether the proposition is viable in the sense that the proposed operation will generate sufficient profits fully to service the accommodation that is sought. In other words, the additional income must be adequate to cover not only the regular payment of interest but also provide a margin out of which the farmer can reduce the extent of his indebtedness. In addition, one hopes that there will be something left for the farmer by way of profit, which usually shows as an addition to his net asset position in the form of additional buildings, machinery, or stock. At the same time and no matter how careful the banker is in vetting the proposition, there must always be - and the banker knows this from experience - a degree of flexibility in the repayment programme. Bad seasons, disease, and a host of unforeseen contingencies are liable to upset the best laid schemes and, very frequently, repayment periods have to be extended, sometimes indefinitely, with borrowings 'going solid' and developing a hard core.

Similarly, with a customer coming to the bank for the first time. In this case, the obvious difficulty is the relative dearth of information and the bank's lack of experience with that particular borrower. Hence the degree of risk is greater. But, if the account is coming from another bank, the very first question to ask is why does the customer wish to leave the other bank and,

in particular, is it a hard core loan? For the rest, the banker concentrates on finding out as much as possible about 'the man' and he will certainly keep his ears open for relevant comment. But, for the most part, in assessing 'the man', the banker must depend on his own judgement. This is a time when he should visit the man's farm, meet his wife (if any), and examine his balance sheets and bank statements. Another source of information, if the man is an established farmer, is his audited accounts, in addition to which the banker can build up a farmer's statement of assets and liabilities. He can also ask for a cash flow forecast, when the banker must assess the figures. Again, he is working partially in the dark, because he lacks the experience of a period of years and an intimate knowledge of the man, though he will as a matter of course have asked to see previous bank statements and thereby satisfy himself with regard to the operation of the account previously held at the other bank.

Even more difficult to consider is an application from a new farmer. In this case, the banker will be concerned first to investigate whether in fact there is a 'farming connection'. The applicant may be the son of a farmer. Has he any practical experience and training? What is the nature of that training and experience? It is moreover difficult to judge the character of a man who is just starting out and it is important, therefore, for the banker (with the customer's permission) to attempt to get worthwhile opinions about him from outside persons competent to judge both his integrity and his farming experience (e.g. a previous employer). It is also pertinent to make a judgement (especially when lending to smallholders) about the calibre and competence of the farmer's wife (if any), since a lot will depend on her. If the applicant is a new college graduate of limited practical experience, the banker would hesitate to back him, unless the application is supported by the guarantee of a wealthy friend or relative. Alternatively, resort might be made to an ACC guarantee (see below). Again, it is the 'connection' that influences the decision.

Bankers regard the viability of any proposition placed before them as of prime importance; nevertheless, a proportion would take security where this is available and particularly when lending to a new customer. For owner-occupiers and farms with mixed tenure, land was the most common form of security available. Usually, a full legal mortgage over land was employed (a 'standard' security in Scotland¹); in the past, an equitable mortgage (with the deeds lodged under a Memorandum of Deposit) might be resorted to, but with the end of stamp duty there is now no advantage. But it is still not uncommon for bankers only to require the deposit of the deeds. Frequently, bankers also lend against a second mortgage (e.g. where the first mortgagee is the AMC). Other forms of security that are employed (virtually throughout the United Kingdom) include the assignment of a life insurance policy (especially important in parts of Scotland), third party guarantees² (especially as a supplementary form of security), the ACC guarantee,³ stocks and shares (e.g. under a Memorandum of Deposit⁴), and (from smaller men) the deposit of National Savings Certificates, Premium Bonds, even the lodgment of a building society pass book, (in Scotland) deposit account or savings account pass books, or parcels of whisky (which may have been bought by a bank customer as an investment). In England and Wales, an agricultural charge over livestock, implements, or crops may sometimes be taken (e.g. in the case of the tenant) under the Agricultural Credits Act 1928. In the case of farming companies, the bank may arrange to

-
1. For details of the special situation in Scotland (which has its own legal system), see Availability of Capital and Credit to United Kingdom Agriculture, pp. 119-122.
 2. Father (or mother) for son; uncle for nephew; also a director's guarantee to support a loan to a farming company.
 3. Guarantees provided by the Agricultural Credit Corporation Limited in consideration of a fee. See Availability of Capital and Credit to United Kingdom Agriculture, pp. 108-9; for help to marketing co-operatives, see scheme referred to at p. 109.
 4. In Scotland, a letter of pledge/hypothecation.

take a debenture incorporating a floating charge, with the right - if necessary - to put in a receiver. This form of security would be taken especially where the bank does not hold a mortgage over the farm, the ownership of which may still vest in one of the directors, when it is also usual to take a director's guarantee (see above). Alternatively, the bank may take a collateral charge over the deeds of the property. Sometimes, too, where a director has himself made a loan to a farming company, a bank may request a 'letter of postponement' in favour of the bank, whereby the director ranks after the bank as a creditor (in effect, directors' loans are regarded as capital). Finally, it should be noted that in certain cases for both tenants and owner-occupiers the bank may have to depend on composite security. Where the farmer owns a good acreage of fertile land and has a sizeable equity, a mortgage will be sufficient, but in many cases (e.g. where money has been borrowed beyond the security lodged or there is an excessive element of risk) the primary security may require support by charging a life policy or requesting a guarantee from a third party, even by taking an agricultural charge. Indeed, in the case of a tenant or young farmer, these may well constitute the primary security itself.

But bankers by no means always lend on a secured basis to farmers and in many bank branches throughout the United Kingdom (though perhaps less so in Northern Ireland) unsecured lending tends to be quite a significant proportion of the whole. In addition, just as there will often be a seasonal fluctuation in the total amount lent on a farm, so will there often be a seasonal fluctuation in the proportion of it which is unsecured. For example, moneys might be lent unsecured to buy the cattle in the autumn to be inwintered on the farm, with a sharp rise in unsecured lending at that time of year. In areas devoted to sheep, seasonal accommodation to finance buying will begin in August/September, just after the sale of the lambs. Not infrequently, these accounts go into credit after the seasonal accommodation has been repaid. Again, very

often tenant farmers borrow wholly or in part on an unsecured basis (against the net worth of the farmer as shown in his balance sheet). Many of these tenants may be small men who have little formal security to offer. In addition, where there is a good surplus on the balance sheet, a banker may lend unsecured to finance the seasonal requirements of an arable farmer. It is also quite common to lend unsecured to a man of substance (who may not necessarily be an owner-occupier but a tenant farmer) against 'evidence of means', provided only that he has a viable proposition. Alternatively, a loan may be only partially secured. Thus, the small man may have pledged a life policy to provide partial security, supported by a third-party guarantee. The large farmer may already have mortgaged his land to the bank, though before he is prepared to lend partially unsecured the banker would require that the farmer should have at least as big a stake as the bank itself. In this context, so-called 'current assets' (stock and/or growing crops) would be considered in relation to other balance sheet figures, as providing evidence of future cash flow.

In summary, security is not always regarded as essential; even when it is available, the bank may not require it (e.g. where a man is well and favourably known to the bank, having maintained a good account with it for some years). But sometimes the amount required may be relevant - a banker may be prepared to lend unsecured for up to a certain amount, but require security for amounts larger than this¹ (that does not always follow because wealthy individuals on large estates may at times borrow very large amounts on an unsecured basis). More generally relevant is the term for which money is required. A good proportion of the unsecured lending would be to provide seasonal finance, particularly where the unsecured moneys only bore a modest relationship to the total finance committed. However, where money was required for a longer term (e.g. in order to buy land) it would be customary to take security.

1. The branch manager's lending limit is also a relevant consideration. If within his limit, a branch manager may well be prepared to lend unsecured to a known customer. If, however, the proposed borrowing is above his personal lending limit, an acceptable proposition has to be submitted to a regional, local or area office, which may then require the lodgment of tangible security.

The most common way in which banks lend money in the United Kingdom is by way of overdraft, whereby a limit is fixed by the bank up to which the customer can overdraw, paying interest only on the amount of the debit outstanding day by day. Advances made in this form are in theory repayable on demand (and in fact repayable after due and reasonable notice has been given), but in practice they run on sometimes for quite long periods, though always subject to review, usually annually but also at shorter intervals should this prove to be necessary, as when a new proposition is being considered (e.g. seasonal borrowing to finance purchase of store cattle), or when the account runs into difficulties giving rise (say) to excesses beyond the agreed limit.

Although attitudes are changing, bankers in the United Kingdom still retain a strong preference for short-term lending of a self-liquidating character. This preference is firmly rooted in past history - British bankers traditionally regard themselves as properly engaged in financing working capital, particularly the 'seed-time to harvest' kind, 'bridging transactions', and (within cautious limits) the temporary financing of fixed capital development pending the raising of long-term finance through other channels. In addition, the banks trade largely on the basis of short-term deposits (though to some extent this is less true than it was). As a rule, British bankers seek to avoid more than the minimum of formal long-term commitments. Nevertheless, there does seem to be a good deal of lending even by way of overdraft that might reasonably be described as medium-term and this is particularly true of farming branches, since farm projects not infrequently require a period of years to mature and to produce the means of paying off the moneys borrowed. In addition, there is the incidence from time to time of disease and/or bad weather, which may considerably disrupt any agreed programme of repayment.

But there is an alternative means of lending that is frequently employed by the banks, though in terms both of number of accounts and volume of

moneys lent it would account for a much less important part of the business than that done on the basis of an overdraft. This is the loan account technique, whether the advance is in fact made through a loan account or separated off into a No. 2 current account (which is sometimes done). When an advance is made on loan account, a specific amount is placed to the debit of this account, which amount pending its disbursement may be transferred to the credit of the current account that may itself be overdrawn. Although technically repayable on demand (excluding the special arrangements that will be described below), there is an understanding that, subject to an annual review and provided that the account has been operated in a satisfactory manner, the loan will be allowed to run on for a period of years. There will also be an arrangement whereby the outstanding debit balances will be reduced periodically. If the borrower is a dairy farmer, part of the monthly milk cheque could be so applied. A pig farmer may repay his loan in a similar way, since he will tend to market his product regularly, and the same will apply with eggs and poultry. An arable farmer, on the other hand, would normally be expected to effect his reductions annually. Moreover, the arrangement for a regular reduction is probably as common as (if not more common than) the stipulation that the loan be repaid over a specified number of years, since, farming being what it is, retention of a degree of flexibility will be desirable, even when lending is done by way of loan account. Obviously, an agreed arrangement regularly to reduce the indebtedness amounts to a term of years. Equally, if for whatever reason repayments are less regular than agreed, this will in effect be the same thing as an extension of the term.

The purposes for which loan account is thought to be appropriate include most obviously the purchase of capital equipment¹ (such as tractors and combines, beet harvesting machinery, bulk milk tanks, silos, and farm buildings like milk parlours or grain storage). Occasionally, the purchase of dairy cows might be financed in this way. Although during the credit squeeze

1. Some banks have also catered for the financing of such equipment by providing a leasing service through the agency of a subsidiary.

of the late 1960s, banks were much less able to lend for the purpose of land purchase, they still in fact did so - usually for the purpose of buying contiguous land in order to round off the property,¹ possibly an adjoining farm which could be operated together with the existing farm as a more viable unit; alternatively a 'bridging loan' might be arranged to provide finance while the possibility of the loan's being passed on to a term lender was being negotiated. The final group of purposes relates to the imposition of discipline in order to ensure ultimate repayment by insisting on regular reductions, whether that discipline is required because of the emergence of 'hard core' or not.

The terms of these loans depend in part on the purpose. Thus, capital expenditure can take different forms and while two to three years may be appropriate when financing the purchase of a tractor, five to six years may be necessary in the case of a combine.² Financing the purchase of dairy stock may be done on the basis of a term of five years. Even buying in beef stores for fattening may be done on this basis (say) for six months - bought in spring and sold off in the autumn; or they may be bought in the autumn for inwintering and sale in the spring. Probably the most common terms average about five years, though there is a continuing progression out to seven or eight years and, indeed, the most common single term quoted at the time of the Wilson Enquiry was 'up to ten years' and loans beyond ten years are not unknown. As one banker put it, 'stretching the term helps to cover the gap between bank lending and medium-term lending'. In short, by whatever means, many bank managers would prefer to find the finance for their farmer customers rather than see them pay high rates to a hire-purchase finance company or have to depend on their merchants.

-
1. In Northern Ireland, the Government launched a scheme to finance long-term (e.g. over 20 years) the purchase of contiguous or 'marching' land to encourage the build-up of viable units.
 2. But note that a number of bank managers would still prefer to provide finance for these purposes (and also for drainage) by lending by way of overdraft.

Quite frequently and even for a relatively short-term loan, the farmer himself will request that it be put on loan account in order to force him to apply the necessary degree of discipline to ensure that the loan is paid off within a reasonable time. More commonly, it is the banker who will suggest this arrangement and particularly when the account begins to 'go solid' and to develop 'hard core'. In these circumstances, the banker 'has to exercise a lot of patience and some degree of pressure'. Admittedly, hard core is a little difficult to define. It may be due - and often is due - to the bank's having financed land purchase in the past and with rises in costs (including machinery, improvements, and interest rates) the farmer has been unable both to meet service charges on the account and to pay off the loan. In these circumstances, the bank is in effect providing permanent or semi-permanent capital, which is not regarded as its main function and the bank may therefore attempt to persuade the farmer to transfer this type of indebtedness to a term lender like the Agricultural Mortgage Corporation. Alternatively, the farmer may be under-capitalised and, although it is really additional working capital that the bank is providing, it has nevertheless become built-in and is again in the nature of a semi-permanent provision of capital. Thus, a dairy farmer may run an overdraft over a period of years with virtually no more than a monthly fluctuation and no effort made to secure a reduction. At the same time, he may gradually be building up an improved stocking position or purchasing other additional assets and it is a nice point of definition whether such a loan represents true 'hard core' or not. Indeed, many bank managers would regard this as good farming and may be willing to support it by permitting a continuation of the 'hard core'. More obviously, hard core may appear where a farmer is always buying again before he pays off the last purchase - 'trying to develop too quickly'. Again, the development

of a solid core may be due to poor farming or past losses (or both). For example, a farmer may have had two or three poor seasons and find himself sinking into the mire, unable to pull himself out again. This situation could apply particularly to an arable farmer, but also to stock raising, or even to dairying. Death duties could occasion a similar burden.

In addition, the several clearing banks in England and Wales and in Scotland (but not in Northern Ireland) have developed formal term lending schemes. Of the present schemes, one to finance the 'development of sound productive investment in agriculture' goes back to 1966. The others were introduced in 1971. Not all were launched specifically to assist agriculture. The big advantage to the farmer of the formal term loan is that under normal circumstances and within the agreed term of years it cannot be called in, i.e., not unless the borrower defaults in paying his instalments by due date, or supplies false information, or fails to use the loan for the purposes stated. These loans, which are usually secured, are more expensive than finance provided by way of overdraft¹ - the interest rate would generally be at least one or two percentage points above that which the customer would pay for a fluctuating overdraft - but they are intended to provide a facility that comes somewhere between proposals suitable for overdraft and proposals where hire purchase or leasing arrangements might be more appropriate. It is understood that the demand from farmers for these loans was not at first very large and some banks report that there is

1. Sometimes the rates are quoted as Base Rate + x per cent. and therefore vary with the level of Base Rate, but for longer-term loans of more than modest amount it is the current practice to quote a rate of interest linked not to Base Rate but rather to inter-bank rate and to look for a margin of (say) 2 per cent. above that rate. In other cases, the rate may be fixed or can be negotiated on that basis, though latterly - although it still remains open - it is not perhaps a very real option. If pressed, a bank would still concede a fixed rate, but in those circumstances because of the recent volatility of rates it would tend to quote a rate that was sufficiently high to be unattractive to the customer.

still a relative lack of interest by the farming community.¹ Even where some increase in term lending to agriculture has taken place, the total of such loans has remained a very small proportion of aggregate advances to farmers. In appropriate circumstances, too, a loan account (or even an overdraft) on normal banking terms and conditions might still be preferred as a more flexible means of lending for a period of years. Alternatively, part of the facility might be put on a term loan, in order to provide the farmer with an assurance that even in the event of a credit squeeze the money would continue to be available. At the same time, there might be occasions when the financing programme would be revised and an existing term loan be substituted by a new arrangement perhaps comprising both a term loan and an overdraft.

It was on October 1, 1971 that the London clearing banks introduced Base Rate (the Scottish clearing banks also introduced it at about the same time). It was to this base that rates actually charged on loans were related. Previously, it had been Bank rate. For the movement of bank interest rates since 1961, see Table XXXII. For quotation of rates on bank advances, the usual formula is Base Rate + x per cent. On advances to agriculture (in early 1974, when Base Rate was 13 per cent.), the minimum rate charged by the English clearing banks to first-class agricultural borrowers was generally Base Rate + 1½ per cent. per annum (this rate might also apply in addition to borrowers who over part of the year maintained very good credit balances); average rates were usually + 2 per cent. to 2½ per cent. and, effectively, the maximum rates charged were +3 to 4 per cent.,² with + 4 per cent. the exception rather than the

-
1. It is possible that the position may be rather different in Scotland, where it is reported that farmers have tended to make increasing use of business term loans, though because of the difficulties involved in projecting with any degree of accuracy future profits in agriculture the business term loan is of less interest to farmers than it is to industrial and commercial customers. One interesting development in Scotland is that since these loans were introduced (with terms usually ranging up to seven years) the Scottish banks seem to have been rather less inclined than they were in the past to refer medium-term (even longer-term) propositions to the SASC.
 2. Rates are also said to vary somewhat around the country, being slightly higher in the south-west of England and somewhat lower in the east and north-east. Bank managers have a lot of autonomy in determining the rates charged; also in some parts of the country competition may be more intense than elsewhere.

Table XXII

Interest Rates 1962 to 1974

	Bank rate	Clearing bank Base Rate	Clearing bank 'blue chip' rate
	%	%	%
1961			
2 November	6		6½
1962			
8 March	5½		6
22 March	5		5½
26 April	4½		5
1963			
3 January	4		4½
1964			
27 February	5		5½
23 November	7		7½
1965			
3 June	6		6½
1966			
14 July	7		7½
1967			
26 January	6½		7
16 March	6		6½
4 May	5½		6
19 October	6		6½
9 November	6½		7
20 November	8		8½
1968			
21 March	7½		8
19 September	7		7½
1969			
27 February	8		8½
			9 (1 October)
1970			
5 March	7½		8½
15 April	7		8
1971			
1 April	6		7
2 September	5		6
26 November		4½*	5½*
1972			
9 June		5+	6+
22 June	6		
30 June		6+	7+
24 July		7+	8+
	Minimum		
	Lending Rate		
13 October	7¼		
27 October	7½		
1 December	7¾		
8 December	8		
13 December		7½ ^S	8½ ^S
22 December	9		

Table XXXII cont.

1973			
3 January		$8\frac{1}{2}/$	$9\frac{1}{2}/$
19 January	$8\frac{3}{4}$		
14 February		$9\frac{1}{2}^{**}$	$10\frac{1}{2}^{**}$
23 March	$8\frac{1}{2}$		
4 April		9^{***}	10^{***}
13 April	8		
19 April	$8\frac{1}{4}$		
11 May	8		
18 May	$7\frac{3}{4}$		
22 May		$8\frac{1}{2}^{++}$	$9\frac{1}{2}^{++}$
22 June	$7\frac{1}{2}$		
26 June		$8\frac{1}{4}$	$9\frac{1}{4}$
20 July	9		
27 July	$11\frac{1}{2}$		
2 August		10	11
23 August		$11 \emptyset$	$12 \emptyset$
19 October	$11\frac{1}{4}$		
13 November	13		
14 November		13	14
1974			
4 January	$12\frac{3}{4}$		
1 February	$12\frac{1}{2}$		
5 April	$12\frac{1}{4}$		
11 April	12	$12\frac{1}{2}$	$13\frac{1}{2}$
13 May		$12\frac{1}{4}$	$13\frac{1}{4}$
24 May	$11\frac{3}{4}$		
20 September	$11\frac{1}{2}$		

NOTES TO TABLE XXXII

- * Barclays Bank rate reduced as from 15 October.
- + Barclays Bank change made 13 June.
- ‡ National Westminster change made 21 July and Lloyds 25 July. Williams & Glyn's Base Rate raised only to $6\frac{3}{4}$ but to 7 on 12 September.
- § National Westminster change made 12 December.
- / The move was led by Barclays with Midland close behind. Lloyds and Williams & Glyn's followed on 4 January 1973. National Westminster (and Coutts) did not raise their rate until 9 January 1973, but then only to $8\frac{1}{4}$ per cent. They came into line with the other banks on January 25.
- ** Midland, Barclays, and Williams & Glyn's raised rates on 15 February 1973.
- *** Midland Bank rate reduced 5 April 1973.
- ++ Midland and Lloyds rate change made 23 May 1973.
- ‡‡ National Westminster rate reduced 15 June 1973.
- ∅ Lloyds rate raised 22 August 1973.
- // The move was led by Lloyds. Barclays and National Westminster followed on 23 May 1974 with Midland and Williams and Glyn's close behind on 24 May 1974.

rule. One bank might occasionally have gone to + 5 per cent., but this would be very unusual. Also, where a relatively high margin was applied, it would tend to relate to a rather more risky venture and, in these instances, there might well be a 'split' rate, the normal rate being applied to the farmer's main account and the higher rate to a particular venture. Formerly, a minimum rate below which the rate charged could not go, was also quoted for each advance, but this seems to be no longer the case. For the most part, rates on the loan account would tend in England and Wales to be $\frac{1}{2}$ to 1 per cent. higher than the equivalent rate on overdraft and, on term loans, 1 to 2 per cent. higher. One bank charged a flat rate on term loans, but in effect charges current in early 1974 came out much the same as for the other banks. In Scotland,¹ rates still seem to be slightly higher than in England and Wales - the minimum rate charged would be as in England and Wales Base Rate + $1\frac{1}{2}$ per cent. and the maximum Base Rate + $4\frac{1}{2}$ per cent. or thereabouts, but the vast majority of farming advances would now be charged within the range of Base Rate + $2\frac{1}{2}$ to $3\frac{1}{2}$ per cent., with Base Rate + 4 per cent. a much more common rate than it would have been two or three years ago. In Northern Ireland, where rates are related to those obtaining in England and Wales, interest rate arrangements have in the past been rather less flexible and the rates charged were slightly higher than in England (say, an additional $\frac{1}{2}$ per cent.).² Since September 1971, when the policy of Competition and Credit Control was introduced in the United Kingdom, the tendency has been towards parity, when calculating the true lending rate to the customer.

So far as comparisons with other industries are concerned, most (if not all) of the British banks actively seek the borrowing accounts of farmers

-
1. Scottish banks have usually charged an extra $\frac{1}{2}$ per cent. on unsecured lending. While this may be less common than it used to be, the practice is still prevalent. More generally, the banks are now inclined to relate rates of interest to the time factor involved, rather than to the security position alone and to charge a higher rate on longer term and hard core borrowings, even to 'shade it' when dealing with the temporary bridge.
 2. See Availability of Capital and Credit to United Kingdom Agriculture, pp. 127-128.

and pride themselves on treating the farmers (if anything) slightly better than other customers. Hence, it is thought that on average farmers may be granted advances at rates approximately $\frac{1}{2}$ per cent. lower than (say) industrial customers. Likewise, there appear to be no extra costs applying specifically to farmers (other than the commission charged on ACC guarantees) when arranging security - solicitors' fees would be essentially similar; there is now no stamp duty on mortgages; and, in the case of agricultural valuations, these may often in the case of farmers be done by bank staff, whereas valuations of industrial properties may require outside specialist treatment and therefore be rather more expensive.

The Agricultural Mortgage Corporation (as was indicated in Chapter 1 at pp. 8 and 11) lends mainly at medium- and long-term. As at March 31, 1974, outstanding loans were £244.18 million, the sharp rise that had occurred in 1973 being due to the increased price of land and the rising cost of inputs. The AMC was set up in January 1929 under the Agricultural Credits Act 1928 to make loans for agricultural purposes (i) on the basis of mortgages of agricultural land or (ii) against rent charges (under the Improvement of Land Acts 1864 and 1899). It commenced business with a capital originally of £650,000, later increased to £750,000 subscribed by all the large joint stock banks in the country¹ and by the Bank of England. Reserves in the amount of £750,000 have now also been capitalised, raising the total share capital to £1.5 million. The maximum dividend payable on the AMC's capital was originally 5 per cent. non-cumulative, later restricted to $3\frac{1}{2}$ per cent. Originally, one of the eight directors was to be nominated by the Treasury; this was later

1. Currently, Barclays Bank Limited, Lloyds Bank Limited, Midland Bank Limited, National Westminster Bank Limited, and Williams & Glyn's Bank Limited. (Note that two of these banks - National Westminster and Williams & Glyn's - are the result of recent amalgamations; Martins Bank has also been absorbed by Barclays Bank.)

altered to two to be nominated by the Minister of Agriculture and one by the Treasury. It was further laid down that the Corporation's Memorandum and Articles of Association could be altered only with the Minister's consent.

The Corporation was given powers, inter alia, to raise money on the London capital market by means of debenture issues to be re-lent to farmers on the security of first mortgages on agricultural land and buildings. Debentures were to be long-term and at fixed rates of interest (debentures bearing variable interest rates are not generally issued in the United Kingdom). It was for this reason also (and because it was expected to be of advantage to the farmer) that it was decided by the Board that the Corporation's lending should initially be at fixed rates. In addition to authorising certain grants towards the cost of running the Corporation during its early years, the 1928 Act empowered the Minister, with the approval of the Treasury, to advance loans to the Corporation free of interest for 60 years and up to £750,000, the intention being to ensure that loans would be made to borrowers on favourable terms.¹ Subsequent legislation increased this amount in several stages after 1944² to £17 million (as at 31 March, 1974, £12.68 million was outstanding). The Corporation also has a Marginal Fund, which consists of its paid-up share capital, its reserves, and a Guarantee Fund. The Guarantee Fund consists of the Minister's interest-free advances (as above)³ and is the balancing part of the Marginal Fund, which on the occasion of each new debenture issue must be brought up to 10 per cent. of the first £50 million of the Corporation's outstanding debenture borrowing plus 7½ per cent. of outstanding debenture

-
1. Thus, the interest-free loan could be reinvested and the relevant income so applied.
 2. As a result of additional assistance given (by way of grant) in 1944, most of the 5 per cent. and 4½ per cent. loans to then existing borrowers were converted by arrangement to the new 3½ per cent. rate.
 3. The terms and conditions of these advances are set out in agreements between the Minister and the Corporation and are in turn reflected in the Corporation's Memorandum and Articles of Association. They are referred to in the prospectus when a debenture issue is made.

borrowing in excess of £50 million. The Guarantee Fund is intended to provide a larger capital base as 'backing' for any debentures issued to the public. By this means, it was hoped that the AMC would be able to borrow and consequently to lend more cheaply.

The Corporation did not in fact do a great deal of business in its early years, largely because it was caught by the fall in interest rates in the early 1930s and the money it had borrowed against fixed rate debentures eventually had to be re-lent at a loss. For the purpose of easing the Corporation's problems, Section 32 of the Agricultural Development Act 1939 introduced a subsidy, which was later extended.¹ The arrangement was that each year until 31 March, 1974 the Minister might grant up to £100,000 to the Corporation in order to cover: the loss shown (if any) by the profit and loss account; the sum transferred to the Special Reserve (a sinking fund for the purpose of repaying, if required, the Government Loans to the Guarantee Fund); the year's proportion of the written-off costs of debentures;² bad debts written off; and the cost of compounding for stamp duty.³ The grants were to become repayable after March 1974, provided the Ministry and the Treasury were of the opinion that the Corporation could afford to pay. Meanwhile, repayments were only required if the Corporation's reserves (including the Special Reserve) totalled £1.25 million or more and the Corporation

1. By Section II(ii) of the Agricultural (Miscellaneous Provisions) Act 1944 and Section I(b) of the Agricultural Mortgage Corporation Act 1958.

2. Within the terms of the subsidy agreements, there is a write-off of the costs of debenture issues. These relate to the annual sums required to write off these costs over the minimum life of the stock (the normal accounting basis). In addition, there have been special write-offs over and above the minimum required. In other words, the AMC writes off the costs of debenture issues as quickly as possible, depending on how much they can afford in any one year.

3. On the majority of the secured loan capital issued (debenture stock and bonds) and on all that issued since July 1956, the AMC compounds the transfer stamp duty. These stocks can therefore be dealt with in the market free of transfer duty. It is understood that the AMC thereby gets a finer rate, i.e., it can borrow more cheaply.

decided to pay a dividend (as it has in some years); then an amount equal to the net dividend¹ had to be repaid, the General Reserve being reduced by a like amount. No annual grant had been taken since 1959. Allowing for the repayment in connection with the 1974 dividend, the total of past grants now outstanding amounts to £1.574 million. The agreement under which these grants were made expired on 31 March, 1974 and AMC is not seeking a renewal thereof. Negotiations are taking place regarding the repayment of the balance of these grants.

The Corporation's business remained at comparatively low levels - below £5 million of new lending annually - until the 1960s, when as a result of a combination of factors such as the credit squeeze and the increase in land values there was a sharp rise in the Corporation's business, some of it being diverted from the banks. The amount of loans granted annually to repay the banks increased from just under £250,000 in 1959 to over £8 million in 1970. Latterly, it fell to about half that, but rose again to £13.5 million by 1974. As a percentage of loans granted annually, it varied from a low of 8 per cent. in 1959 to a high of 28 per cent. in 1974. Meanwhile, loans granted annually increased to £47.9 million in 1974, of which £25.8 million or 54 per cent. (it was 57 per cent. in 1970) of the total was granted for the purchase of land.

The majority of the funds that the Corporation has available for lending are raised by long-term debenture issues (for issues to date, see Table XXXI). In addition, since June 1969, smaller sums have been raised (again see Table XXXI) by issuing short-term 'bonds' (though legally these are a form of debenture). The Corporation also has an overdraft facility with the banks in order to provide additional funds on a temporary basis in

1. I.e., net of income tax.

Table XXXIII

THE AGRICULTURAL MORTGAGE CORPORATION LIMITED

DEBENTURES AND BONDS ISSUED

Date of Issue	Amount	Terms of Issue	All Up Cost to AMC	Value of Government Accretion	Minimum Lending Rate Required
DEBENTURES					
May 1930	£8.5M	5% 1959/80 @ par	5.27		
Apr. 1932	£2.0M	4½% 1961/91 @ £95%	5.16		
Sept. 1948	£2.0M	3% 1966/69 @ par	3.53	(Redeemed 1969)	
Dec. 1949	£3.0M	3½% 1965/67 @ £99%	4.18	(" 1967)	
Oct. 1950	£3.5M	3½% 1975/78 @ par	3.94		
Sept. 1951	£3.25M	3½% 1961/63 @ par	4.25	(" 1963)	
Aug. 1952	£5.0M	4½% 1977/82 @ £96.5%	5.34		
July 1956	£5.0M	5% 1979/83 @ £97%	5.82		
Aug. 1958	£5.0M	5½% 1980/85 @ £98%	6.24		
Sept. 1960	£6.0M	6% 1982/87 @ £99%	6.64		
Nov. 1971	£10.0M	6½% 1975/77 @ £99.5%	7.09		
July 1963	£10.0M	5½% 1993/95 @ £98.5%	6.15		
July 1964	£12.0M	6¼% 1992/94 @ par	6.74		
Oct. 1965	£12.0M	6¾% 1985/90 @ par	7.19		
Sept. 1966	£17.0M	7¾% 1981/84 @ £99.25%	8.52		
<hr/>					
May 1968	£20.0M	7¾% 1991/93 @ par	8.354	.546	7.808
Apr. 1969	£20.0M	9½% 1983/86 @ £99.5%	10.304	.617	9.687
Mar. 1970	£25.0M	9¼% 1980/85 @ £98.5%	10.337	.675	9.662
Mar. 1971	£20.0M	9½% 1981/83 @ £98.25%	10.597	.620	9.977
Sept. 1971	£10.0M	9% 1979/82 @ par	9.930	.630	9.300
Nov. 1972	£12.0M	9¾% 1985/87 @ £99.5%	10.670	-	10.670
June 1973	£12.0M	10¼% 1992/95 @ £98.5%	11.070	-	11.070
May 1974	£20.0M	14¼% 1984 @ £99.5%	15.420	1.080	14.340
OTHER BORROWINGS SECURED BY DEBENTURES					
June 1973	£10.0M	June 1982 @ 100 (Var. 2% above syndicated base rate)			
Feb. 1974	£10.0M	Jan. 1983 @ 100 (var. 2% above syndicated base rate)			
BONDS					
June 1969	£1.0M	10% June 1970 @ 99 15/16	11.45	.62 (Redeemed 1970)	10.83
Jan. 1970	£2.0M	9% Feb. 1971 @ 99 15/16	10.46	.63 (Redeemed 1971)	9.83
Jan. 1970	£2.0M	9½% Jan. 1972 @ par	9.89	.35 (Redeemed 1972)	9.54
Feb. 1971	£2.0M	7¾% Feb. 1972 @ 99 15/16	8.38	.35 (Redeemed 1972)	8.03
Jan. 1972	£1.0M	5½% Feb. 1973 @ 100	5.75	.35 (Redeemed 1973)	5.4

/cont...

Table XXXIII cont.

Date of Issue	Amount	Terms of Issue	All Up Cost to AMC	Value of Government Accretion	Minimum Lending Rate Required
BONDS					
Jan. 1972	£1.0M	7 $\frac{1}{4}$ % Jan.1977 @ 100	7.54	.35	7.19
Feb. 1972	£1.0M	5 $\frac{3}{4}$ % Feb.1974 @ 99 15/16	6.24	.35 (Redeemed 1974)	5.89
Feb. 1972	£1.0M	6 $\frac{3}{4}$ % Feb.1976 @ 99 $\frac{3}{4}$	7.22	.35	6.87
Oct. 1972	£2.5M	9 $\frac{1}{8}$ % Oct.1977 @ 100	9.59	-	9.59
Feb. 1974	£1.0M	14 $\frac{3}{4}$ % Feb. 1975 @ 100	15.53	.35	15.18
Mar. 1974	£5.0M	14 $\frac{1}{2}$ % Mar. 1979 @ 100	15.52	.96	14.48

Note:

All figures from 1968 onwards are definitive, being based on contemporary calculations still in the files.

The all-up cost figures for preceding years are approximations being based on current data - i.e., present rates of taxation and net administrative costs.

between issues of debentures. The overdraft facility is normally negotiated annually on a syndicated basis with the Clearing Bankers' Committee and the Bank of England, the limits for 1971 and 1972 being £25 million. For 1973, it was raised to £30 million, which remained the amount available in 1974. To the extent that this is utilised, interest at Base Rate + 1 per cent. is charged. Latterly, too, the AMC has arranged to take up term loans from the clearing banks in the amount of £10 million on each of two occasions to mature in 9 years. The rate charged has been 2 per cent. above Base Rate. A commitment fee is also charged on the unused balance of the facility. These loans are secured by placings of debentures to bring them within the ambit of AMC's Marginal Fund.

The volume and frequency of debenture borrowing is controlled by the Bank of England, which until recently has preferred that the Corporation should not go to the market more frequently than about once a year and that any increase in the size of the issues should be progressive. However, in 1971, the AMC was permitted to issue £20 million of debentures in March and a further £10 million in September. It is understood that subject to market conditions the Bank of England sees no reason in principle why AMC issues should not be made biennially in future.

The several holdings of these debentures (by category) are given for the last four issues in Table XXXIV (Holdings of Debenture Stock). Formerly, there was a great deal of support from the Savings Banks, including some massive investments by the National Debt Commissioners on their behalf. This support waned at the time of the last issue, but was replaced in part by stronger support from the insurance offices. This is probably due to their preference for somewhat longer issues, whereas the savings banks have a predilection for the shorter ones.

The Corporation's stock ranks as near gilt-edged on the stock market. The interest rates that apply (again see Table XXXIII) are, therefore, less than those on commercial fixed interest stock, but have been a little above those on Government issues. This favourable rating could be explained by the Corporation's known association with the Government. Although there has never been a Government guarantee whether of the Corporation or its debentures, it appears to have been assumed by investors in the past that, in the event of a financial crisis, the Government would be bound to come to the aid of the Corporation - as in fact happened in 1939, when as mentioned above a Government grant became necessary to enable AMC to meet its debenture interest commitments.

But the position is not now as favourable as was formerly the case. For many years, the AMC was able to borrow at rates only about $\frac{1}{4}$ per cent. above the rates on gilt-edged. When gilts became free of capital gains tax (in April 1969), which AMC stocks are not, the differential widened to $\frac{1}{2}$ per cent. Indeed, in 1970, AMC had to pay 1 per cent. over the gilt rate. This was a consequence of the difficulties then experienced by the Mersey Docks and Harbour Board, since - although the latter has no connection with agriculture - these events did cause investors to look more closely at underlying realities and the stocks of the Board were unfortunately

Table XXXIV

THE AGRICULTURAL MORTGAGE CORPORATION LIMITED

HOLDINGS OF LAST FOUR DEBENTURE STOCK
ISSUES AT THE FULLY PAID STAGE

<u>Holder</u>	<u>9½% Stock</u> <u>1981/83</u> %	<u>9% Stock</u> <u>1979/82</u> %	<u>9¾% Stock</u> <u>1985/87</u> %	<u>10¾% Stock</u> <u>1992/95</u> %
<u>Holdings over £10,000:-</u>				
(a) Trustee Savings Banks	50	72	62	24
(b) National Debt Commissioners	18	3	14	10
(c) Pension Funds	1	3	1	4
(d) Insurance Offices	9	3	2	17
(e) Local and County Councils	1	-	2	3
(f) Others (over £10,000)	10	11	8	28
<u>Holdings under £10,000:-</u>	11	8	11	14
	<u>100</u> =====	<u>100</u> =====	<u>100</u> =====	<u>100</u> =====

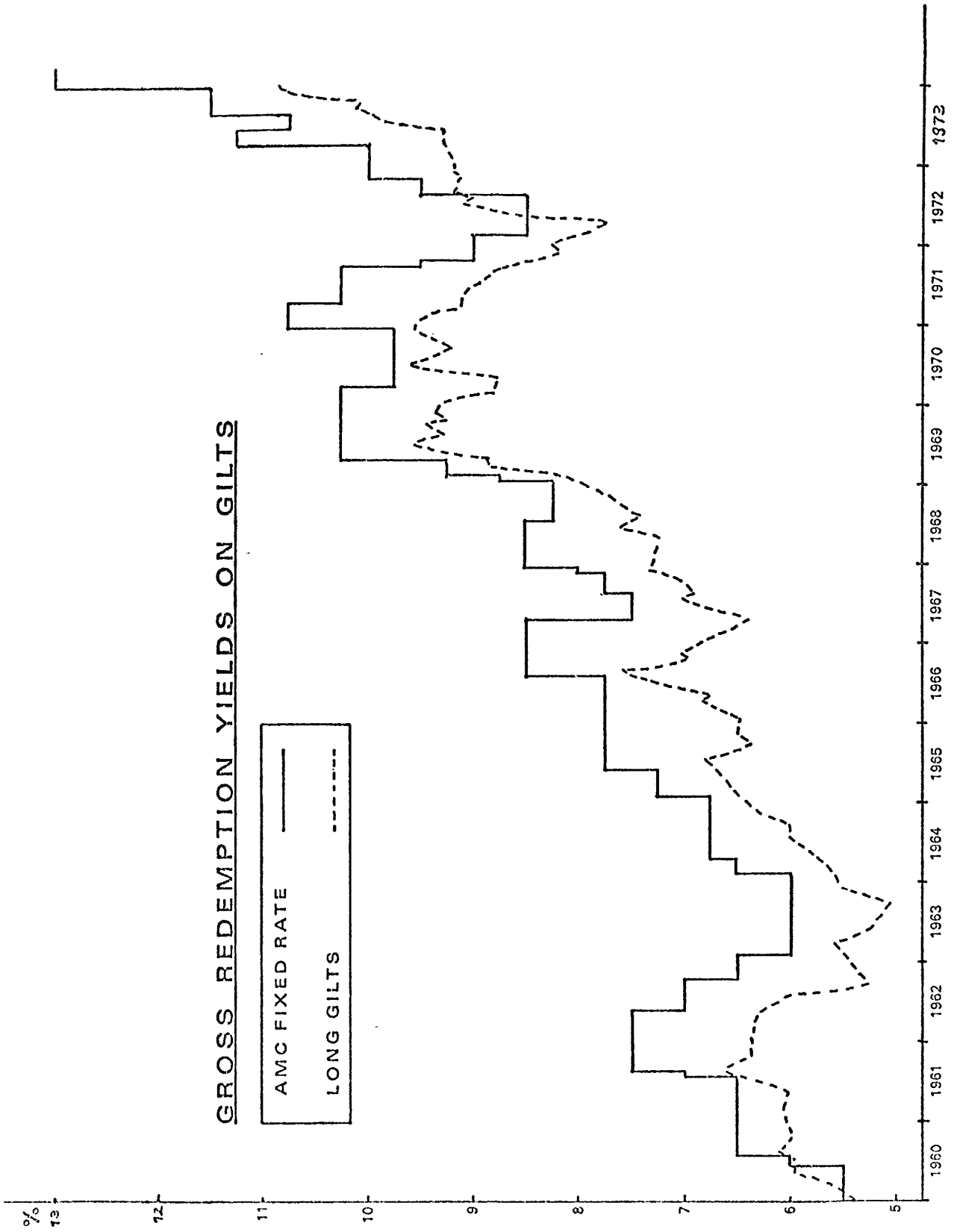
for the AMC dealt with in the same market as were AMC stocks. The effect was that the raising of AMC funds had become more expensive and that it therefore had to charge its borrowers higher rates.¹

Under the 1928 Act, it was stated that the Corporation would provide loans on terms favourable to borrowers, though what this was to mean was nowhere defined. Lending rates are in fact governed mainly by the interest that has to be paid on the coupon plus the cost of debenture issues (the total cost per cent. is shown in Table XXXIII - 'all up cost to AMC'), less income received from accretions to the Government Guarantee Fund. Actual rates charged by the AMC, together with related yields, are given in the Graph - Gross Redemption Yields on Gilts (p. 85). In general, policy seems to be to charge about $\frac{1}{2}$ per cent. higher than the cost of the debenture issues, though at times of rising interest rates the margin may widen a little and when rates are falling it may shrink. But, in any event, the margin does little more than cover administrative expenses.

Loans may be made to owners of agricultural property in England and Wales (including companies) or to an applicant whose intention it is to purchase a property.² They may be made only against first mortgages on agricultural land and buildings (i.e., the freehold) and are restricted in value to two-thirds of the Corporation's valuation of land and buildings. No collateral security that may be offered will enable the Corporation to increase the amount of the loan beyond the maximum. In particular, the Corporation cannot take into account the value of stock or crops. But the offer of a loan may be conditional on a guarantor (or guarantors) joining in the mortgage deed. The taking of security is the Corporation's prime safeguard, in addition to which at a time of rising land prices its margin

1. The differential given for the November 1972 issue of £12 million was 0.70 per cent.

2. Hence, a tenant farmer can only be assisted if he will become the owner of the farm following the taking up of a loan.



of security effectively widens. The Corporation is also concerned with the borrower's ability to service the loan and makes a thorough investigation of the application, which must be supported by information relating to financial status and farming experience. In addition, the AMC will need to be satisfied that there will be adequate working capital available to farm the property in an economic manner and to provide for the purchase of such stock as may be necessary. It will require evidence of the farmer's ability in the form of the last three years balance sheets and/or forward budgets and cash flow analyses. Where new land is to be farmed, forward budgets for the next two years operations are asked for.

As interest rates have climbed higher, AMC's concern with the borrower's ability to service his loan has increased. Current requirements are that applicants must show a minimum net margin of income from all sources of the greater of £2,800 per annum or 5 per cent. of the AMC loan required, before tax and after meeting AMC and all other loan charges and outgoings. Further, it is necessary for applicants with outside income to show that at least three-quarters of the cost of servicing the AMC loan required can be met from farm income. AMC monitors the sources of applicants' incomes and currently two-thirds of loans sanctioned are to applicants with no income other than farm income from which to service their borrowings.

It costs nothing to apply for a loan and no deposits in respect of fees are required. In all cases where an acceptable application is submitted, the Corporation will immediately arrange a valuation, but if - following the valuation - the Corporation is unable to offer a loan, no charge will be made. However, if a loan offer is made but not accepted, a fee amounting to $\frac{1}{4}$ per cent. of 1 per cent. of the amount of the loan offer will be payable by the applicant towards the Corporation's expenses. Also, when an offer is accepted, the applicant must pay a loan fee of $1\frac{1}{2}$ per cent. of the amount of the loan (in normal cases, the fee is deducted from the loan completion moneys, but it becomes payable in cash if the applicant withdraws after accepting the offer; if the valuation permits, the fee may be added to the loan at the mortgage rate of interest).

The type of property on which the Corporation will lend would normally be an agricultural unit with an income potential sufficient to enable the borrower to meet his loan commitments and to provide a reasonable livelihood. In suitable cases, the Corporation is prepared to offer a loan on bare land or on specialised units (e.g., pigs or poultry). There is no minimum size of acreage; it is the income potential of the land itself which is the most important factor to be taken into account. In fact, most loans are made - in terms of number - in the size groups of 50 - 100 acres, 100 - 150

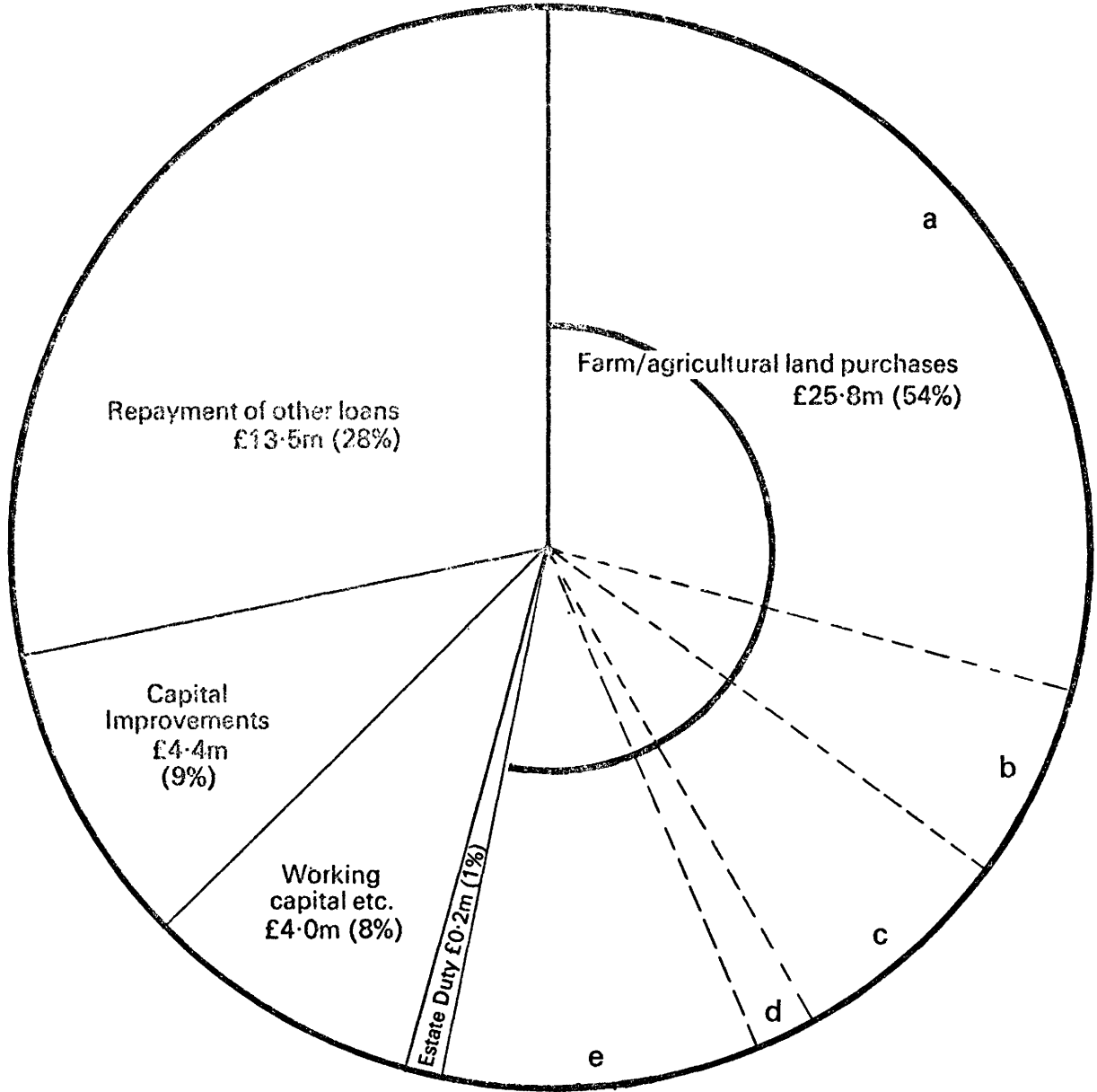
acres, and 150-300 acres. Those made to finance small farms (of up to 30 acres) are nevertheless significant and, as one would expect, those made on the basis of large farms (1,000 acres and over) are small in number.¹ If the value of the property is mainly in the house and/or the buildings, the Corporation will not usually regard this as appropriate security. The basic test is whether the land and buildings add up to a viable farming enterprise. Indeed, the AMC will on occasion lend on bare land, even where the fields are scattered, provided it constitutes a viable unit and the valuer is satisfied that it will find a ready market in case of need. AMC valuers are also authorised to take into account - to the extent that they consider reasonable - non-agricultural factors such as amenity value, non-farm buildings, gravel rights, etc., though the valuation may not always be the equivalent of the current market price. But there is the possibility at a later stage of obtaining an additional loan from the AMC on the basis of the same security, provided the current valuation of the mortgaged property maintains the necessary margin for the loan. The Corporation will also consider the release of a part of the mortgaged property, provided the remaining property can still be regarded as suitable security and subject to any necessary adjustment of the loan.

When a loan has been granted, the proceeds may be used for any of a number of purposes. Most obviously, it may be used for purchase of a farm, but it may also be used to repay loans borrowed from other sources (e.g., a bank), or for capital improvements, such as the reconstruction or provision of new cottages or farm buildings, electricity or water supplies, drainage, farm roads, and so on. It may even be used to provide working capital. (See Diagram at p. 88)

1. Though it should be remembered that a large farming unit may in fact only mortgage a small proportion of its land.

AMIC

ANALYSIS OF PURPOSES FOR LOANS COMPLETED DURING THE YEAR ENDED 31st MARCH 1974



a Purchases of Additional land
£14.0m (29%)

c Existing farmers buying new farms
£3.1m (7%)

b Purchases by sitting tenants
£2.9m (6%)

d Farmer's sons, etc. setting up
£1.0m (2%)

e Newcomers to farming
£4.8m (10%)

For these purposes, the AMC offers two basic types of loan:

(i) Long-term repayment loans which are available for periods of from 10 to 40 years¹ and include provision for repayment of capital during the life of the loan.

Repayment may be effected by one or other of three different methods: (a) by annuity - equal half-yearly payments comprising interest and an instalment of capital so calculated that at the end of the period, the whole of the loan will have been repaid; (b) by endowment assurance (with or without profits, or linked to unit trusts with guaranteed values) - equal half-yearly payments comprising interest only, plus endowment assurance policy premiums; (c) by the equal capital method - equal half-yearly instalments of capital plus interest at the mortgage rate on the reducing balance.

It should be noted, too, that in the event of death, the loan may run on, provided the new legal owner continues to observe all the covenants in the mortgage deed. Also, the proceeds of any assigned assurance policies will normally be required for reduction or repayment of the loan.

(ii) Eight to 10-year 'straight' loans. In this case, the maximum loan will be for not more than one half of the valuation of the property (as compared with two-thirds for long-term repayment loans). No repayments of capital will be required during the life of the loan, the whole of the capital being repayable in full at the end of the agreed term. Meanwhile, only interest at the mortgage rate is payable at fixed half-yearly dates. Obviously, some provision must be made for repayment, or there must be some expectation that moneys will become available out of which repayment can be effected (e.g., an inheritance). It should be noted, too, that - subject to the availability of funds - the AMC will always be willing to consider applications for new loans to finance the repayment of capital.

1. Strictly speaking, loans may not exceed 60 years, but at present they are normally for not more than 40 years. If the loan is for capital improvements, however, the loan period may be as short as 5 years.

In June 1972, borrowers who would normally have opted for a long-term loan (10 to 40 years) were permitted to elect to take half their total loan on a 'straight' basis. In other words, only half the capital borrowed had to be repaid during the term of the loan. The remainder was to be paid back in a lump sum at the end of the loan. The repayment half of the loan is dealt with in terms of any of the standard AMC loan repayment methods (e.g., by half-yearly repayments of capital on a sinking fund basis, or through a 'minimum cover' endowment policy).

In addition to mortgage loans, 'improvement loans' may be made under the Improvement of Land Acts 1864 and 1899. In these cases, the security consists of a rent charge placed by the Minister of Agriculture on the land improved. It is not necessary for the deeds of the relevant property to be handed over. The security rests on the rental value of the property as increased after the improvements have been effected, but the rent charge takes priority over all existing charges irrespective of the date of their creation, except for Tithe Redemption Annuities, existing improvement loan charges, and the like. However, the procedures relating to an application for improvements are so lengthy and cumbersome that landowners prefer to finance their improvements by other means and, in fact, the AMC has received no improvement loan applications since 1966.

On the general run of AMC loans (and until recently on all loans), the rate of interest was fixed throughout the period of the loan. In the case of further advances against the property, the rate of interest that would apply would be that ruling on the date the further loan was completed. Once determined, this rate cannot be increased whatever the circumstances; nor once fixed can it be reduced.¹ Amounts and dates of payment are also fixed at the commencement of each loan, but the AMC is always willing to consider variations on the application of the borrower. Meanwhile, the

1. Except on the occasion described at n.2, p.77 .

borrower gets complete security of tenure and the loan cannot be called in, provided the borrower maintains prompt payments, keeps the property in good order and cultivation, and observes the other terms of the mortgage contract.

The legal charge that is taken on mortgage loans contains a clause which precludes repayment of the loan otherwise than as set out in the deed. This is intended not only to give the borrower security of tenure but also to give the Corporation the protection which is necessary, having regard to its long-term commitments to its debenture stockholders. Notwithstanding the existence of this clause, however, the directors will accept non-contractual repayments of loans, in approved cases, on terms to be arranged at the time such repayment is sought. One reason why earlier repayment of the loan may be sought is the relatively high rates of interest (say, 14 per cent. per annum) which have at times been applied to what is for the most part long-term borrowing; alternatively, a farmer may inherit moneys that make it possible for him to pay off outstanding indebtedness. At the same time, the AMC is only prepared to consider earlier repayment on terms that will in part compensate it for the loss of its investment and, in this context, it is the Corporation's practice to charge a fee not exceeding the actuarial value of any loss occasioned to the AMC by such repayment. In certain circumstances, this fee might be substantial.

However, fixed rates give rise to problems. Farmers who borrow from the AMC for a term of years commit themselves at least for the medium term; many of them have in fact committed themselves for a long period of years. It is all very well, if one happens to have borrowed at (say) $3\frac{1}{2}$ per cent. (which applied in the mid-1940s) or even $4\frac{1}{2}$ to 5 per cent. (as in the mid-1950s), but when the rate rises to 13 or 14 per cent. (as it did in 1973/74) there may be a case for the borrower not committing

himself for too long a period of years. This may well be true even under inflationary conditions, which with rises in the price of land and - albeit with some lag - in the end-prices of agricultural products may greatly reduce the burdens of borrowing.

Even if the AMC agrees to prepayment, there may be heavy costs to be met. If, on the other hand, a variable rate of interest is applied, there would certainly be occasions when rates would rise (to accord with existing levels of money market rates), but this would be offset by periods when rates were falling and when they were at relatively lower levels. In any event, at times of high rates and in cases of hardship, the term of the 'pay-out period' could be extended, in much the same way as Building Societies are prepared to extend their terms against the mortgage of a house, though there may be practical limitations to the extent to which this would be possible.

Considerations such as these may well have been behind the scheme for variable rate loans introduced by the AMC in February 1972. In addition to its long-term repayment loans (10 to 40 years) and its 8 to 10-year 'straight' loans (see above), both being on the basis of a fixed rate of interest, the AMC was now prepared to offer borrowers the opportunity of taking part of whichever type of loan they select on the basis of a variable interest rate, the remaining part to be taken on a fixed interest rate basis. Initially, up to half the loan granted by the AMC might be taken out on a variable interest rate basis. Subsequently (in June 1972), it was announced that the borrower, if he so wished, could take the whole part of a loan at the variable rate, or at a fixed rate, or on the basis partly of a fixed rate and partly a variable rate. This new facility was open to all new applicants for an AMC loan and to existing borrowers with respect to any further loan they might require. It was not considered possible to convert existing loans to the new basis, because money lent by the AMC to existing

borrowers was in fact raised by the AMC on fixed interest terms. Moreover, especially where moneys had been lent at low rates, the AMC had contractual obligations to existing borrowers to continue that accommodation on the favourable terms originally agreed.

The new variable rate loans were to bear initially the rate of interest ruling on AMC loans on the date the loan was actually completed. For completed loans, this rate would then be reviewed with effect from 1 June and 1 December in every year in the light of the current cost to the AMC of the funds from which the loans are made. This rate of interest would then apply for the succeeding six months, and interest would start accruing at the new rate. Hence, when added to repayments, the variation in interest rates would from time to time result in a fluctuating liability, which would have to be met as it became due.

In common with all other AMC loans, borrowers were accorded complete security of tenure on their variable rate loans and the loan could not be disturbed or called in by the AMC provided the borrower maintained prompt payment and observed the other terms of the contract. Somewhat to the surprise of the AMC, the amount of borrowing at variable rates of interest has been relatively limited.

In fact, the uptake of variable rate loans stabilised fairly quickly at around one-third by volume of loan completions and has since then remained fairly constant. Movements in the variable rate of interest are out in Table XXXIVA.

Whether interest rates are fixed or variable, they must be related to the terms of AMC borrowing. Previously, the bulk of AMC borrowing was not only for a fixed term of years but it tended to be long-term, as did

Table XXXIVA

AGRICULTURAL MORTGAGE CORPORATION

Variable Rate of Interest

	<u>for new loans</u>	<u>as reviewed for existing loans</u>
Feb 1972	7	
1 June 1972		7
1 Aug 1972	8½	
13 Oct 1972	9	
1 Dec 1972		9
12 Jan 1973	9½	
19 Feb 1973	10½	
19 Apr 1973	12	
1 June 1973	11½	11½
15 Aug 1973	12½	
1 Dec 1973	15	15
1 June 1974		15
1 Dec 1974	15½	15½

much of the lending, though latterly loans had tended to become shorter.¹ However, once policy moved in the direction of a variable rate of interest even on a proportion of AMC loans, it was necessary also to gear borrowings more closely to rate fluctuations in the money and capital markets. In effect, this means borrowing for shorter periods and, to this end in June 1969, the AMC began issuing short-term bonds; they have also increased their overdraft limit with the clearing banks and used this at least partly as the basis of variable rate lending; and they arranged term loans from the clearing banks at variable rates of interest, using some of this term loan money to fund a proportion of their variable rate lending. It is clear, too, that because some lending is at fixed rates and some at variable rates it means keeping virtually two sets of books, in order not to mix unlikes.

Even when lending at fixed rates, there were problems. In this context, it is desirable to distinguish between (a) new funds raised at fixed rates as a result of new issues of debentures, whether long or short-dated; and (b) sources of funds for current lending which still relate to earlier borrowings at fixed rates of interest. These latter include (i) 'reflux' due to progressive repayment of moneys borrowed on mortgage; and (ii) prepayments in advance of due dates.

Clearly, if a loan is repaid before the maturity of the debenture on which the lending is based, the money must be re-employed in some way. It could be used to buy the Corporation's own debentures for cancellation or be invested in gilt-edged stocks, but quite often a better return would be obtained by re-lending it on mortgage to farmers. When re-lent at a fixed rate, if lending rates had risen since the money was first lent, the AMC would make a fortuitous profit, whereas if the lending rate had fallen, it would make an equally fortuitous loss. In other words, there are two forces acting in opposition: when interest rates are high, reflux money can be

1. Since 1948, there has been a steady fall in the average life of AMC loans (only slightly interrupted in the early 1950s and in 1960/61) from 44.80 years to 23.66 years in 1972. During the 10 years 1948 to 1958, the fall was relatively slight, but after 1960 it accelerated considerably and the greater part of this fall came after 1965, when the incidence of higher interest rates was also greatest. This shortening of the average term of loans granted was partially due to the relative prosperity of the industry, particularly in the early 1960s and partially to the introduction of endowment assurance, where 20 to 25 years is for the majority the most practical term, but high rates of interest might also have been an additional factor.

re-lent at a profit, but expiring debentures must usually be re-funded at a loss (i.e., new debentures - or 'bonds' - will be more expensive). When interest rates are low, the converse is true. If the Corporation's business took the form of an even and predictable flow, it might be possible to reach a position of equilibrium, with the Corporation's profits and losses balancing each other, though the incidence of Corporation tax would delay its achievement. But because latterly the Corporation's business has increased rapidly at a time of high interest rates, it could become particularly vulnerable to a fall in rates.¹

The other source of returning funds, though the Corporation has a degree of control over this, is the prepayment of fixed-rate advances. This is in addition to the normal pattern of reflux. Moreover, if there has been a fall in rates, this could well lead to farmers seeking premature redemption of loans that they had taken out with the Corporation at high fixed rates of interest. In that event, the Corporation may be left with large sums of dear money which could only be re-lent at what might have become relatively cheap rates. At the same time, it is possible to regulate prepayment of advances to some extent by charging those who repay their loans prematurely redemption fees more closely related to the cost to the Corporation. These could be calculated either on the basis of the outstanding period of the loan or on the basis of the outstanding period of the debenture by which the loan was financed. On either basis, however, there would almost certainly be a clear deterrent to repayment and the AMC does not in fact try to levy the full fee.

However, as we have seen, the AMC has latterly moved in the direction of variable rate lending. This is a shift in policy that is

1. It is possible to protect oneself in this type of situation by adjusting the term of one's borrowing, a technique known to actuaries as 'immunisation'. For example, if there is a persistent fall in rates, the losses involved in loan reflux can be offset, where recently issued short-dated debentures mature and can be refinanced more cheaply. On the other hand, if rates stay high, the continuing profit made from loan reflux will help to meet the high cost of refinancing the debentures.

greatly to be encouraged. At the same time, the AMC still offers a fixed rate option and, indeed, a mixture of the two, since some farmers prefer these other arrangements and the AMC favours a flexible policy and is concerned to meet as wide a range of demands as possible.

The use made by borrowers in 1973/74 of the range of choice available is illustrated by the following table:

Table XXXIVB

Loan completions: Year to 31 March, 1974

Percentage of Lending for year by Loan Types

Loan Type	Type of Interest Rate	
	Fixed Rate %	Variable Rate %
Annuity	24	10
Endowment	30	15
Equal Capital Instalments	1	1
50% 'straight'	3	3
8-10 year 'straight'	7	6
	<u>65</u>	<u>35</u>

The moneys accruing from reflux and prepayments will free a proportion of previously committed money for re-lending at variable rates, though this may in the short-run result in losses. But if a policy of variable rate lending is to be encouraged, as long-dated debentures mature they must be replaced by short-dated borrowing to which variable rate lending can be more directly related. To some extent, the Corporation can hasten these developments by buying in its own debentures for cancellation and re-borrowing at shorter term. More generally, as debentures mature, it can shift the emphasis over to short-term borrowing. It has done this to some extent already by issuing short-term 'bonds' with maturities of up to five years and arranging term loan facilities from the clearing banks. But five years may itself be too long, especially when rates are high, and it would seem more sensible to borrow (as indeed the Corporation has done) for no longer than one to two years (also on overdraft), unless rates fall markedly, when the opportunity might be taken to expand the Corporation's borrowing and to extend the term (subject always to the authorities giving their permission).

However, what may be desirable and what may be possible could be two different things and there are limits set by the capacity of the market. The annual demand for borrowed money by AMC is of the order of £20 to £30 million. Of this, the bulk will have to be raised by the issue of debentures and much of the remainder by 'bonds'. The AMC is currently allowed to issue £5 million of new bonds each year, provided the total of bonds in issue does not exceed £25 million, of which not more than £5 million may be 'yearlings'. Hence, if there is to be a further shift in policy from long-term borrowing and fixed rate lending to short-term borrowing and variable rate lending, the move would require the full support of the monetary authorities. It is thought that AMC would have little difficulty in securing an expanded bond issue capacity.

Nevertheless, it may also be necessary to look to other sources. One possibility is that the AMC might attempt the private placing of stock with major institutional investors, such as insurance companies. Although this would save on issue expenses, this might well be absorbed in the higher coupon attaching to an unquoted stock; furthermore, the insurance companies may not wish to take up short-dated securities and, in any event, such placements are not likely to add greatly to the total amounts raised by debenture and bond issues, since the funds emanating from private placements would in all likelihood be offset by a reduction in the amounts forthcoming from the institutions when subscribing to public issues. Alternatively, the AMC may itself seek to attract short-term deposits (say, up to one or two years) and, despite its absence of branches, it is not altogether out of the question - a number of small banks in the City now raise money in this way, though not infrequently they are subsidiaries of much larger organisations, which in the past may from time to time have been instrumental in referring money to them. In the case of AMC, a major difficulty might be that the Corporation's main shareholders are comprised of the large banks, which may or may not welcome this kind of competition. On the other hand, there is some merit in concentrating long-term lending for farm purchase in the hands of a specialist institution, thereby avoiding an intensification of the hard core lending by the banks (and, indeed, one hopes some diminution of it) and, if the AMC is to have adequate resources, a greater proportion of which is short-term in character, there may be a case for attracting funds by way of deposits, though necessarily in individually large amounts.

Another possible source of funds, which has in fact been considered by the AMC, is borrowing abroad - either in the Euro-currency or Euro-bond markets, though in this context the AMC would itself have to

bear the exchange risk. Since it does no business abroad, there is no way in which it can hedge. Also, the AMC is regarded as being in the private sector, and it is only public sector borrowing abroad, which is guaranteed by the British Government. If the AMC were in the public sector and therefore able to obtain a Treasury guarantee, there would be a case for borrowing (say) in European money and capital markets; indeed, there have been occasions when they might have obtained money more cheaply in this way. It must also be remembered that, to the extent that the Greater London Council and other local authorities do borrow in these markets, the pressure on the London market is thereby reduced and, indirectly, the AMC will benefit. In addition, if local authorities borrow less in London than formerly, this tends to create a relative shortage of gilt or near-gilt paper and AMC paper (which is in this latter category) is therefore likely to make its issues with a smaller differential in relation to gilts.

But, in any event, the Euro-markets remain a possible additional source of funds and it has recently been suggested by a number of bankers operating in London that the building societies in the United Kingdom (which are as it happens very marginal lenders when it comes to agriculture) might supplement their resources by seeking Euro-loans, though so far nothing has come of these proposals and there would in any case have been technical difficulties.¹

As has been indicated already (p.8), much smaller sums were lent by the Scottish Agricultural Securities Corporation Limited in Scotland. (For details of business, see pp. 11-12.) In all essentials, its organisation and techniques are essentially similar to those of the AMC. The SASC was incorporated in 1933. All the Scottish joint stock banks are

1. See The Times (London), 9/3/74 and 22/4/74.

equal shareholders in the Corporation. There is a Treasury nominee on the Board. Its capital is £125,000 and reserves total £400,000 and it has a loan from the Secretary of State for Scotland which was £710,000 at 31 March, 1974.

The bulk of the resources, which it is the primary purpose of the Corporation to lend out on first securities 'on agricultural or farming estates, properties or lands in Scotland, including land used for horticulture, for poultry farming, and for any purpose of husbandry', is raised by the issue of debentures, debenture stock, or other like securities, 'whether terminal, perpetual or otherwise'. Their first debenture issue was a public issue, but subsequent issues have been placed (through Mullens & Co., the Government broker) - about 10 per cent. goes to the public and the rest to insurance companies, the trustee savings banks, etc. As at 31 March, 1974 debenture stocks aggregating £10 million had been issued (see Table XXXV).

Table XXXV

SCOTTISH AGRICULTURAL SECURITIES CORPORATION

Loan capital

(Secured by Trust Deed over certain of the Corporation's Assets)
as at 31 March 1974

	£
3½% Debenture Stock 1963/93	500,000
3½% Debenture Stock 1979/84	1,000,000
6% Debenture Stock 1978/81	1,000,000
5½% Debenture Stock 1986/88	1,500,000
7% Debenture Stock 1980/83	2,000,000
7½% Debenture Stock 1990/92	2,000,000
10½% Debenture Stock 1989/91	2,000,000
	<u>£10,000,000</u>

These Debenture Stocks are redeemable at par not later than the last year quoted in respect of each stock.

The interest rate charged on loans and advances, which remains fixed for the period of the loan, will be varied from time to time to accord with the varying costs of raising money. The SASC has not so far experimented with a variable rate. When considering a loan, the SASC

attaches considerable importance to the profitability of the enterprise it is being asked to finance, since only profits will generate the means of repayment. It is obliged by its constitution to take security, but this is not the prime consideration.

Legal arrangements for taking security in Scotland are different from England and Wales, but recently legislation (see Wilson, op. cit., pp. 119-122) introduced a 'standard' security for Scotland. In all essentials, this is similar to a mortgage in England and Wales.

The Corporation is also willing to accept as supplementary security, certain types of endowment policies¹ (a non-profits policy for the full amount of the loan; a with-profits policy of such a sum as would, if the Company's current rate of annual or intermediate bonuses were maintained, be adequate to repay the loan in full at the end of the desired term; or equity linked policies for a guaranteed maturity value of 100 per cent. of the loan). The Corporation is willing to convert existing loans to an endowment assurance basis, subject to the rate of interest on the loan being increased to the current rate. By this method, interest is payable gross to the Corporation each half-year on the full amount of the loan and the proceeds of the policy are used to repay the capital advance. In certain cases, the Corporation's offer of a loan may be conditional on a guarantor or guarantors joining in the Loan Agreement or on such other conditions as the particular case requires. The property is required to be one that can be regarded as a complete agricultural unit capable of providing a reasonable livelihood for the occupier. The Corporation cannot accept Registered Crofts as security.

Every advance is repayable within a period not exceeding 60 years. In practice, loans for over 30 years are very rare. More usually, they are from 15 to 25 years.

In addition, loans and advances may be made under and in accordance with the Improvement of Land Acts 1864 and 1899 'for effecting

1. Endowment loans are about one in two.

Table XXXVA

The Scottish Agricultural Securities Corporation Limited

Interest rates

Original Rate $4\frac{1}{2}\%$ ($3\frac{1}{2}\%$ repayment)	1933	
Voluntary reduction to $4\frac{1}{2}\%$	1. 6.42 Meeting	
Statutory reduction to $3\frac{1}{2}\%$	1944 Act	
Increase again to $4\frac{1}{2}\%$	15. 6.51 Meeting	
" " " $4\frac{1}{2}\%$	12.11.51	"
" " " $5\frac{1}{2}\%$	14. 4.52	"
Decrease to $4\frac{1}{2}\%$	14. 6.54	"
" " " $4\frac{1}{2}\%$	8.11.54	"
Increase to 5%	8. 8.55	"
" " " 6%	20. 2.56	"
" " " $7\frac{1}{2}\%$	18.10.57	"
Decrease to $6\frac{1}{2}\%$	7. 4.58	"
" " " 6%	16. 7.58	"
" " " $5\frac{1}{2}\%$	11. 5.59	"
Increase to 6%	13. 6.60	"
" " " $6\frac{1}{2}\%$	15. 8.60	"
Decrease of all $7\frac{1}{2}\%$ loans to $6\frac{1}{2}\%$	14.11.60	"
Increase to $7\frac{1}{2}\%$	15. 8.61	"
Decrease to $7\frac{1}{2}\%$	14. 5.62	"
" " " $6\frac{1}{2}\%$	15.10.62	"
" " " 6%	21. 1.63	"
Increase to $6\frac{1}{2}\%$	24. 2.64	"
" " " $6\frac{1}{2}\%$	22. 5.64	"
" " " $7\frac{1}{2}\%$	25. 1.65	"
" " " $7\frac{1}{2}\%$	27. 5.65	"
" " " $8\frac{1}{2}\%$	31. 8.66	"
Decrease to $7\frac{1}{2}\%$	4. 5.67	"
Increase to $8\frac{1}{2}\%$	8.12.67	"
" " " $9\frac{1}{2}\%$	13. 2.69	"
" " " $10\frac{1}{2}\%$	29. 5.69	"
" " " 11%	17.12.70	"
Decrease to 10%	16. 9.71	"
" " " 9%	16.12.71	"
Increase to $9\frac{1}{2}\%$	17. 8.72	"
" " " 10%	7.11.72	"
" " " 11%	19. 4.73	"
" " " 12%	16. 8.73	"
" " " 14%	21. 3.74	"
" " " 15%	6. 8.74	"

or paying for improvements for agricultural purposes to estates, properties or lands in Scotland', the moneys borrowed being secured by a charge 'on the inheritance of the lands on, or in connection with which such improvements are effected'. The amounts involved have been small and, since 1969, have been declining.

On the basis of the Wilson Enquiry and other evidence, merchants and dealers provided virtually as much credit as the banks, though much of the merchants' and dealers' credit is itself derived from bank overdrafts. (For the statistical data, see Chapter 2.)

So far as the agricultural merchants are concerned, it is thought that on average they are probably overdrawn for at least two months in each year and, indeed, it may be higher than that. Some may even be permanently overdrawn. Moreover, with the inflationary increase in prices that has occurred, the volume of business has greatly increased in financial terms. Hence the need for a greater quantum of finance, with bankers providing up to one-third of merchants' requirements, often on an unsecured basis. On the other hand, so far as the grain merchant is concerned, these same influences probably make him rather less dependent on his bankers, since there will generally be a positive cash flow on grain transactions. For example, the merchant will take in grain from the farmer and sell it either to the miller or the maltster. In theory, the merchant should pay the farmer within 28 days¹, but in practice it may be longer; the small merchants probably pay more promptly in order to maintain good relations with the farmer. Nevertheless, merchants generally are likely to have a positive cash flow, only partly offset by credit associated with the supply of fertilizers, and in effect the farmer is on balance giving credit to the grain merchant.

It is proposed to consider first the role of the agricultural merchants. These comprise both 'private enterprise' firms (some of them subsidiaries of national manufacturers or international grain traders) and

1. The terms of trade with the end-user provide for payment to the merchants in 14 days.

co-operative enterprises engaged in the marketing of cereals and the supply of feeds, fertilizers, seeds and agro-chemicals, the majority of these firms and co-operatives (about 1,300 in total) being members of the British Association of Grain, Seed, Feed and Agricultural Merchants Limited (BASAM). On the one hand, the country's grain and agricultural merchants provide the main link in the marketing of United Kingdom cereal and pulse crops (arranging the deals, building up stocks, and usually providing the transport; this is especially true for grain); on the other - and it is with this that we shall be mainly concerned - they supply the basic materials for farm production - feeds for stock and poultry (which they themselves may have compounded); seeds, fertilizers, and crop protection chemicals for arable crops to increase yields and improve quality.

It is important to differentiate between what may be described as 'conventional' credit, which almost all farmers enjoy, and medium-term credit, whether this be arranged or take the form of overdue accounts. While the position appears to vary from one merchant to another and, indeed, from one part of the country to another, it is nevertheless possible to generalise to some extent.

By 'conventional' credit is meant an arrangement whereby items are supplied by the merchant to the farmer, subject to payment in cash within a specified period. Usually, payment is required by a date in the month following the month of delivery (say, the 15th or the 30th/31st). In these circumstances, the farmer will enjoy credit for a month to 6 weeks. When the sale is made, a 'credit charge' or discount is added and this will be deducted from the total selling price, when payment is made within the specified time, or on normal trading terms. Formerly, so many £s per ton were added to the selling price, but it is now increasingly usual for merchants to add a percentage, mainly due to the rapid rise in the prices of inputs. (The merchants' profit margin is

likewise now being calculated as a percentage and no longer as £x per ton.) Credit charges may be as much as 10 per cent. and, if payment is not made on due date, there may be an additional penalty of 1 per cent. for every month the credit is outstanding. But the pressure is to reduce the amount of credit granted and some merchants are seeking cash with the order in return for the full discount or even a little extra. Moreover, for a time, the increased profitability of farming made it much easier for farmers to pay more readily. This is still true for cereal farmers, but not for dairy farmers, and those concerned with the fattening of stock (beef and pigs), where the increase in the cost of inputs has been frightening. Actually, the amount of credit being made available by merchants has probably gone up over the past 18 months to 2 years, though merchants are trying to make it available for shorter terms. And there is some evidence to suggest that these terms have been getting shorter.

Conventional credit merges into medium-term credit, when accounts become overdue. Under current circumstances, farmers would lose their discount, if they did not pay up within the period specified. Merchants are less accommodating than they used to be and, if anything, are now inclined to impose a penalty in addition. Formerly, a rather close relationship was common between merchant and farmer. Not only was it usual for the merchant to provide credit in the first instance, but it was also part of his function at a later stage to sell the farmer's grain. Even at the time of the Wilson Enquiry (1971), it had become very much less true than it was and the process of change accelerated greatly over the next 2 years or so. On the one hand, the merchant has preferred to view each transaction separately and to judge it simply on its own merits (i.e., he no longer thinks in terms of 'tied' transactions - e.g. the supply of fertilizers at relatively low

prices in consideration of the farmer selling his grain through the same merchant); on the other, farmers are now looking for the best possible deal in each instance - they shop around more and by this action are forcing merchants in the same direction. Both are becoming more businesslike in their relationships. And this has been associated with a tendency for a number of merchants to become more specialised, reducing the range of lines that they carry (e.g. concentrating on fertilizer or seed, but no longer combining both).

Of total credit made available by agricultural merchants, it is thought that three-fifths might be described as 'conventional' credit and two-fifths be in the form of overdue accounts, though this will tend to vary a good deal at different times of the year. Despite the amounts of credit given, it should be noted that bad debts tend to be few.

Another source of credit is that made available both to the egg industry and to the broiler industry by suppliers of pullets or of feed. Sometimes, when the farmer buys his poultry stock from the breeder, the latter is paid by the merchant, who is repaid by the farmer (say) in four equal instalments.¹ Alternatively, the feeding-stuffs merchant or manufacturer may supply 18-week pullets, which are paid for over a period of 48 weeks in eight payments graduated to the egg income. It is also common practice in the feed industry to provide credit on the feeding stuffs required to take a complete crop of broilers through from introduction to slaughter. A common period for this type of credit is about nine weeks. Not infrequently, there has been a high degree of risk in lending in this way to such enterprises. Likewise, with pigs: some firms contract the pigs out, themselves retaining ownership of the pigs; fattening and sale is then on a formal profit-sharing basis, subject to an agreed system of contract. (Profits may be shared on a 50:50 basis; likewise losses.) Alternatively,

1. Note - there is no egg income in the first three months; then a steep rise, followed by a gradual fall.

under a sow credit scheme, the merchant may provide the breeding stock and the farmer repays as the litters come along - the first litter would arrive three or four months after the purchase of the gilts (it is virtually a hire purchase transaction).

Again, the scheme may operate as a co-operative venture between the merchant, who provides the stock (weaners), the feed and the business expertise, and the farmer who provides the accommodation and the stockmanship. In return the farmer is paid an agreed fixed amount per batch no matter whether the merchant makes a profit on the batch or not. The amount is agreed before any pigs are placed in the accommodation which enables participating farmers to assess the profitability of the livestock enterprise before they commit themselves to taking the stock.

Fertilizers represent a somewhat special case. The problem is that the demand is highly seasonal, but for production costs to be kept down manufacturers will wish to maintain output at a relatively steady level throughout the year. Since fertilizers can only be applied at the time of sowing, or - on grassland - usually in the spring, there is a storage problem. Hence, the manufacturer and the merchant are encouraged to find means whereby the farmer can be persuaded to purchase his fertilizer in advance of his needs and furthermore to store it on his farm. Effectively, the finish of the fertilizer year is the end of May. Some manufacturers deal only through merchants; others deal direct with the farmer as well.¹

In former days, the manufacturers and merchants delivered fertilizer to the farmer predominantly in the spring and it was paid for the following winter after the crop had been brought in and sold. But the pattern today

1. In England and Wales, the tendency is for fertilizers to be distributed through merchants (it is thought that about 70 per cent. of the total would be sold to farmers by merchants), whereas in Scotland (largely because of the operations of Scottish Agricultural Industries) direct sales are more common (possibly 60 per cent. of the total).

is very different. The manufacturers aim to supply (say) 45 per cent. of their annual deliveries of fertilizers between June and September. There tends to be a secondary peak in demand in the autumn occasioned by the sowing of winter cereals. In order to encourage an even off-take of fertilizers throughout the year, the manufacturers offer early payment and early storage incentives (see below). In other words, if the farmer takes delivery early, he gets his fertilizer more cheaply; if he pays promptly for it, he gets it even cheaper. In addition, although it was reduced in June 1972, there was until May 31, 1974, a fertilizer subsidy and, under these circumstances, the net cost to the farmer was the price charged by the merchant or manufacturer less the amount of the subsidy.

The pattern followed by the several manufacturers is very similar. They generally operate to a base price, which is the cash price for immediate usage and payment (i.e., February to May, during the spring sowing period). Prices in other months reflect incentives for storage¹ and payment, or pre-payment without storage, these incentives being at their maximum in June of the previous year and reducing progressively until they become nil in February. To make it easier for the farmer to calculate his costs, suppliers will quote two figures, the second being the net cost to the farmer. In some cases, if the farmer pays within the month, the supplier will deduct the whole of the 'credit charge', which amounts to about $1\frac{1}{4}$ per cent. The maximum storage and payment incentives applicable within the fertilizer year are for June and, for the season 1971/72, amounted to an allowance of approximately $11\frac{1}{2}$ per cent. (for 1972/73, with the lower level of interest rates that had obtained, this was reduced to approximately $8\frac{1}{4}$ per cent.). For the 1973/74 season, the maximum storage and payment incentives amounted to an allowance of 9 per cent.

1. The agricultural merchant often himself stores fertilizer, which he purchases or takes delivery of at the start of the season for delivery to the farmer in the spring. The merchant likewise receives a storage incentive on such fertilizer.

If the farmer takes delivery of the fertilizer and stores it, but defers payment, he will be granted a storage allowance only. Meanwhile, a deferred invoice arrangement is employed - the invoice becomes effective as a cash invoice (say) on 1 February and the account will be due for settlement (say) on 28 March. The credit charged will be deducted if the customer pays promptly. The details may vary somewhat from one manufacturer to another, but the principle is the same. Also, where the manufacturer delivers to a merchant, he will apply similar arrangements.

The merchants in their turn will deal in much the same way with farmers. Again, the attempt will be made to ensure that the fertilizer is stored on the farm and the merchants will offer incentives for early payment. Probably, about 50 per cent. of farmers pay cash and get their full allowances. Even if they borrow from the bank to do so (as many of them often do), it is well worthwhile - as a result of getting better terms from the fertilizer manufacturer or the merchant, which more than offset the lower interest they may be paying on a bank loan. Latterly, too, with the high prices arable farmers have obtained for their grain (e.g. in 1972 and 1973), there has been heavy investment in both machinery and fertilizers and, indeed, there seems to have been some forward buying of fertilizers in anticipation of further price rises.¹

Occasionally, arrangements are specially negotiated whether by the merchant or the manufacturer. Two cases will serve to illustrate the possibilities: (1) a young man, who is working hard and trying to build up his position for the future; in such circumstances, the supplier may make credit available and, subject to regular repayment, only make a modest interest charge; this may be an appropriate procedure where a farmer has a regular milk cheque from a herd that he is building up; in effect, the

1. In addition, there has been a very considerable rise in the price of fertilizers since the end of 1973 due to the sharp increase in the cost of items like ammonia, phosphatic rock and potash. Although the wholesale price charged by the manufacturer to the merchant has been controlled by the Prices Commission, the margins added by merchants have tended to increase and some merchants have charged higher prices than others (margins may now range from £2.50 per ton to £5.00 per ton). This has been due to the merchants' attempts to secure a reasonable return on the capital they employ in this part of their business. There has also been the increase in credit charges referred to in the text.

firm is trying to tie the customer permanently to them; (2) a big farmer who has made a substantial loss in a particular year, after having been a 'cash man' for perhaps 10 to 15 years and a big purchaser; in these circumstances, the supplier might be prepared to carry the debt for a year, subject to payment of interest; after the debt had been discharged, they would go back to cash. Alternatively, where farmers have a case for more extended credit against a purchase of fertilizers, an arrangement might be made by the manufacturer (possibly through a retailing subsidiary) with a bank whereby fertilizer sales on credit are funded by the bank instead of by the manufacturer (or its subsidiary).

The main function of an agricultural machinery dealer is to be a distributor for manufacturers of agricultural equipment. This includes holding stocks of new equipment, servicing and repairing equipment in use, and providing spares. In addition, as a result of trade-ins or outright purchases, agricultural machinery dealers will also be concerned with second-hand items.

In this context, it is important to make the distinction between the supply of (1) tractors and combines, potato and sugar beet harvesters, which tend to be large and expensive items, for which it is usual either to pay cash or to buy on the basis of hire purchase (though in fact the finance company may make the moncy available in the form of a loan); in some cases, leasing may be the technique employed; and (2) general implements (such as ploughs) and spare parts, where it is common for the dealer to supply the items on credit. For both groups, where cash is paid, quite frequently the ultimate source will in fact be a bank loan, which is likely to be less costly than either hire purchase or dealer credit.

In the case of an ordinary cash transaction (for special out-of-season discounts, see below), the farmer will almost certainly be able to claim discount if he pays within seven days, though some dealers may allow up to 14 days.¹ The dealer will himself have received a trade discount from the manufacturer. The range of this discount varies according to the number of products sold and types of products. However, it would not fall below 15 per cent. and is unlikely to exceed (say) 30 per cent. Indeed,

1. In some cases dealers were insisting (1974) on cash with delivery.

on tractors and combines and other expensive equipment (e.g., over £2,000 in retail value), it is unlikely to exceed 20 per cent.; on tractors, the average would probably be about $18\frac{1}{2}$ per cent. Normally, this is in fact the dealer's margin (from which he must provide for his overheads and still leave sufficient over for profit); part of it is passed on to the farmer in return for prompt payment. The amount passed on will vary from area to area, according to the competition that the dealer is forced to meet, but it would normally be in the region of 10 to $12\frac{1}{2}$ per cent.; in exceptional cases, it may be increased to 15 per cent. For tractors, up to 10 per cent. appeared to be common but some dealers only offered 5 per cent.¹

On general items, the discount given to the customer may be of the order of 5 per cent., though some dealers give less (e.g., $2\frac{1}{2}$ per cent.). Usually, a farmer pays within the month, especially the big acreage farmers, who run their enterprises in a very businesslike way. In other cases, it is largely a matter of the salesman calling round to get the money. Alternatively, the farmer may pay when he comes to market. Credit arrangements have in the past been flexible. Latterly, there has been much tightening up as a result of earlier invoicing and more aggressive recovery programmes. Where credit is allowed, it is usually on the basis of 2 to 3 months, in order to get the business and provided the farmer is prepared to pay the related charges. At the end of 3 months, the dealer will usually put pressure on the farmer to pay his account. At the time of the Wilson Enquiry, dealers reported that the average period of time for which credit was granted was at the very least about 6 weeks (sometimes down to 5 weeks, but up to $7\frac{1}{2}$ weeks in the summer; it may also vary with the area). One of the large dealers following the introduction of a computerised sales ledger had reduced it from an average of about 9 weeks to below 8 weeks and by 1974 to 6 weeks. (This was an average based on a range of transactions from cash - i.e., within the month after invoicing - to credit granted for 4 to 5 months). On the whole, bad debts were minimal.

1. With the production shortages that have occurred in 1973/74, the initiative has to some extent passed back to the dealer, who has been able to reduce the discounts offered.

The traditional way of collecting accounts in the industry has been to make the salesman responsible for ensuring that his customers pay up. In many cases, commission is not paid until the account is settled.

Special out-of-season discounts will also normally be allowed and these likewise originate with the manufacturer; they apply to such items as combine harvesters, potato harvesters, and sugar beet harvesters. It will be apparent that the manufacturer has a financing problem, since over much of the year he will be making combines and similar equipment in advance of the seasonal demand. Hence, in order to encourage out-of-season purchases, he will offer a cash discount to the machinery dealer; this depends upon the existing level of bank charges (including interest) and also the time of year - there is a progressively reducing discount as the peak seasonal demand is gradually approached. If, therefore, a farmer orders and pays for a machine in the out-of-season period, because of competitive pressure, part - if not all - of the out-of-season discount will be passed on. But if the farmer puts off buying the combine until nearer the seasonal peak, he will get proportionately less discount. Moreover, if a dealer himself buys a machine in the out-of-season period, but does not in fact sell it until the following season, he will retain the whole of the out-of-season discount for himself. Such discounts may go up to about 5 per cent. of the price of the equipment concerned; they will diminish by 1 per cent. per month over the following months until they become nil. But, even allowing for that part of the trade discount that is passed on (see above), total discount (including out-of-season discount) on a combine would not exceed $12\frac{1}{2}$ per cent. (Some dealers would reckon to give away no more than $7\frac{1}{2}$ per cent.) In addition, it should be remembered that as part of the price of the new combine is the trade-in value of the old combine, the dealer would be left financing the value of the secondhand machine taken in part exchange.

It should be noted that in the case of hop picking machinery, and fruit and vegetable picking machinery generally, items are sometimes sold direct by the manufacturer to the user; likewise with farm buildings (including silos).

This attempts to outline the general position, but in a very competitive trade terms may be negotiable. This is encouraged by the system of paying salesmen partly by commission. What the salesman can allow by way of discount is laid down for him by head office (i.e., by the owner of the firm or by its directors), but he sometimes has a degree of discretion and what he will allow by way of additional discount will depend on how good a salesman he is and on how badly he wants the business. But the more he 'gives away' to get the business the less he himself will receive. Moreover, farmers are quite adept at playing one dealer off against another and, in fact, they never expect to pay the full list price for a piece of machinery or equipment.

Where a farmer has an existing machine, which he desire to replace, he may trade it in and will attempt to get as high a figure as he can; indeed, part of what is allowed is often quite fictitious. It is understood that it is rare to do a deal where there is both a trade-in and a discount, but the trade-in value is invariably inflated to some extent in lieu of the discount that a farmer could claim if he purchased a new machine without a trade-in and sold his old machinery secondhand.

As a result of trade-ins and outright purchases, dealers find themselves carrying large amounts of secondhand equipment. It is a major problem to dispose of it and, meanwhile, it absorbs a substantial amount of capital. In addition, it has to be put into good order before sale and, although there is no discount on secondhand machinery, the dealer often offers a good warranty with it. Much of this machinery is sold secondhand within the United Kingdom, but a proportion (about 10 per cent.) goes for export.

Much of what has been written about merchants and dealers would also apply to co-operatives operating as trading societies, while the credit offered by marketing societies (e.g., those operating in the meat trade or

marketing eggs and poultry) is somewhat analogous to that provided by auctioneers.

Although any co-operative may admit anyone it likes as a member, the members of the trading and marketing co-operatives are for the most part farmers/producers (in the case of a co-operative marketing meat, butchers might also be members) and it is they who provide the capital. They are required to buy shares, but for the co-operative societies¹ these holdings are restricted to a maximum of £1,000 per person. In fact, average shareholdings are well below this figure. On the other hand, any moneys beyond the maximum that a member wishes to invest in his society will be placed on loan account, though - as one would expect from the low average figures - members' loans contribute very much less capital than shares. Societies also place significant amounts to reserves, which can be substantial, particularly in the case of the largest societies.

Dividends are paid on share capital² (it is normally referred to as 'interest' on share capital) and interest is paid on members' loans. Some societies also pay a bonus (or 'dividend') related to the amount of business put through the society (purchases in the case of a trading society and with marketing societies, for meat, there may be a stock bonus paid per cattle unit³ to farmers and a bonus is paid to butcher members per £100 of purchases; for eggs, a bonus is paid on 'sendings', i.e., on the value of eggs supplied by the producer). But, in the case of a number of the trading societies, there has been a move towards reduction of bonuses distributed to those who trade with the co-operative in favour of higher interest to those providing the finance.

1. It does not apply to co-operative companies.
2. It occasionally happens that for a particular trading period a society does not in fact pay a dividend or 'interest' on its shares.
3. One beef animal = 5 pigs = 8 sheep.

The annual net loss of share capital (due to outgoing members holding more than incoming ones) is more than compensated for, in a year when profits have been reasonably good, by the retention, with members' consent, of amounts due to them as interest or bonus. It is not unusual for 75 per cent. of the amounts due for distribution to be retained in this way. Were it not for this source of new share capital, combined with the allocations to reserves already mentioned, co-operatives would have had little opportunity of obtaining the finance required for expansion. (Even where capital grants are available from the Government, it is normally a condition that an equivalent amount of new finance must be provided by the co-operative itself.) Obviously the success of this policy is very dependent on profits continuing to be made, in order that the co-operative may directly, in the case of reserves, or indirectly, in the case of its interest and bonus distribution, be able to plough them back. When market rates of interest are high, there will be an impact on profits to the extent that societies depend on borrowed funds (subject to a limit, this also applies to payment of 'interest' on shares, the rates on which have to be relatively competitive).¹ Marketing co-operatives are more easily able than supply co-operatives to relate members' capital to trade by means of a levy imposed on each unit of produce handled, but in general the finance obtained in this way is used as working capital rather than to pay for new developments. Recently, it has become more common for a co-operative to invite its members to subscribe formally to a loan, tied to a particular new investment, sometimes (but by no means always) at relatively low rates of interest, subject (say) to six months notice of repayment on either side (i.e., notice of repayment may be given either by the co-operative or by the member).

For the rest and as a means of supplementing their working capital, co-operatives may make use of an overdraft facility with their bankers. Some only overdraw their account from time to time; at other times of year, they may keep substantial balances, though these would only be maintained at levels sufficient to avoid payment of bank charges, any surplus

1. The Registrar's limit on 'interest' on shares for society rules is usually $7\frac{1}{2}$ per cent. or 2 per cent. above Bank of England Minimum Lending Rate (formerly Bank rate), whichever is the higher.

funds being invested at short-term (e.g., with a local authority).

On occasion, a farmer might wish to withdraw his capital. Most obviously, this could happen when a farmer retires; or his heirs might wish to withdraw his share capital after death, in order to pay estate duty. Co-operative societies vary in their attitudes to such applications to withdraw. (Co-operative companies have a difficult problem, viz., that their shares can only be transferred, not cancelled). At one extreme, because certain societies have found themselves very short of capital, permission to withdraw share capital has only been granted to a limited extent (e.g., in cases of death of member or 'financial distress' or 'hardship') and always at the discretion of the directors. In fact, several societies have put a moratorium on repayment of shares and permission was only granted in really urgent cases. In general terms, the attempt was made to ensure that no more was paid out in redemption of shares than was invested by way of retained profits. Even when a farmer died, the attempt was made to effect a transfer of his shares to his beneficiary. There was no restriction on repayment of moneys on loan account. Other societies have always kept themselves in a position to repay members' capital. Nevertheless, it should be added that this has only been possible because of a good level of profits (in substantial part, reflecting good management) and this has bred confidence in the society. Co-operatives in this situation argue that there is greater re-investment of dividends and interest, because there are no restrictions on withdrawals. On the other hand, where profit levels are less good, it is maintained, repayment of capital (e.g., when farmers retire) is much more likely to represent a problem, because there are less retained earnings to offset it. It was also thought to be a matter of loyalty; in some areas, members were more loyal to their co-operative than others, but this likewise may in part be a function of confidence. A profitable co-operative makes possible a higher level of retained earnings, while at the same time maintaining such a degree of confidence that members are less inclined to withdraw their capital from what they come to regard as a good investment.

Nevertheless, even the most profitable societies could from time to time usefully employ additional capital. Working capital can be supplemented by borrowing from the banks by way of overdraft, but medium-term investments, if they cannot be undertaken from own resources, may be more difficult to finance, despite the prospect of a favourable return. Indeed, if the latter were not anticipated, there would be no point in undertaking the investment at all.

As has been indicated, trading societies offer a range of facilities very similar to those provided by the agricultural merchants and agricultural machinery dealers - in the case of the co-operatives, sometimes under one roof. The main purpose of these co-operatives is to sell the farmers their inputs and to buy from them their outputs. In this business, it was maintained, 'there is high security and low risk'. For example, the co-operative would supply to members seeds and fertilizers, fuels, feeds, and animal health products; they would also supply agricultural machinery (including tractors and combines), spare parts, and sundries such as ironmongery. Necessarily, they also become involved in trade-ins and sales of secondhand machinery, though because of the capital required in carrying such stocks some of the smaller societies leave this type of business to the machinery dealers themselves. It is also noticeable that farmers - whether dealing with a co-operative or not - are only interested in making a purchase if prices (allowing for discounts) are competitive. They are not interested in the possible payment of a bonus by the co-operative. As with the merchants and dealers, for the co-operatives likewise, the essence of their financing problem is that (on the merchanting side) their suppliers give them credit (it used to be 4 weeks, though this is changing because of the pressure on the suppliers' capital) and their farmer/customers are accustomed to get six weeks' credit. There is thus a gap of about two weeks to finance. Again as a result of inflation and the general rise in prices, the amount of finance required to carry stocks has also increased. Budgeting and the maintenance of cash flow have become increasingly difficult problems.

A number of co-operatives, in their capacity as merchanting organisations, buy the member/farmers' grain from them and process it

themselves into feeding stuffs (very often they have their own mill). They also make concentrates and add vitamins. Trading co-operatives may also set up groups for the purpose of marketing grain. In these cases, it must be good grain and up to the standard accepted in the trade. When the grain is harvested, it is pooled and marketing is placed in the hands of the co-operative. The farmer may indicate when he wishes to sell and the co-operative does the rest. For this service, they charge a commission of (say) 50 pence per ton. Alternatively, the co-operative itself may decide whether to sell earlier or later attempting to get the best deal. The proceeds of all grain sold in a particular month and of a particular type are then averaged out and distributed to the members of the group concerned. And there are other variations (such as payments to farmers in advance of selling grain and pending ultimate receipt of the proceeds; this is often done with the assistance of bank finance).

Forage may likewise be bought by a co-operative from its farmer/members and sold to other farmers that have need of it.

In the appropriate areas, surplus calves are bought from dairy farmers. First, they are put through the hands of a rearer (this may take one to 12 weeks), after which they are sent on to a feeding unit for preparation for market.

The supply of fertilizer, which is another important part of the business, is subject to the same sorts of arrangements described under Merchants and Dealers. Manufacturers will very often use the facilities of a co-operative as a store, paying the co-operative an allowance to cover handling and storage. In due course, the fertilizer will be sold by the co-operative to the farmer, when the co-operative would reimburse the manufacturer. The usual out-of-season discounts apply.

Credit arrangements for the supply of requisites to farmers are very much the same as those that apply in the case of agricultural merchants. The basic terms are payment by the end of the month following the month of

delivery. In general, this averages out at six weeks' credit. To encourage prompt payment of bills, the societies add a credit charge (usually 5 per cent.) to their invoices. Most co-operatives now have fairly adequate credit control arrangements and their experience with bad debts has really been very good.

If a farmer does not pay his account within six weeks, the society will want to know the reason why. If he has not paid up within a further month, he will be visited, possibly with a view to discussing his cash flow problem with him, though in this case a penalty rate of interest may well be charged and the transaction may be formalized on the basis of a bill of exchange.¹ Alternatively, a penalty rate of interest of $1\frac{1}{4}$ per cent. per month may be charged on the overdue account. The ultimate sanction would be to cease trading with him altogether. But this would clearly be a last resort, because usually there will be an intimate and continuing relationship between the farmer and his co-operative. At the same time, the co-operatives like all agricultural merchants, are now tightening up on the amount and period of credit they are prepared to permit.

With machinery, the farmer usually pays cash (i.e., cash within seven days) for tractors and the bigger machines, though the money may in fact come from the bank. All other machinery sales and services are subject to normal credit arrangements.

So much for the trading societies. The marketing co-operatives do not provide credit to producers, but they do to some extent accommodate the credit needs of the wholesalers and retailers of the products they help to market. This is true, for example, of both meat and eggs and poultry.

In the case of meat, farmers might be paid in (say) eight days and those to whom the co-operative sells would probably be required to pay in

1. See Wilson, op. cit., pp. 187-8.

(say) 12 days. Certain of the larger customers may get credit for up to 18 days and, for the big supermarket groups, it may be as much as five weeks. No charge is made for this credit, though the co-operatives attempt to reduce it to a minimum by instituting tight credit controls. Usually, the business consists in buying from a large number of farmers and selling to a small number of buyers, which tends to mean that the buyers have something of an advantage.

Credit is also extended to wholesalers and retailers by the co-operatives concerned with the marketing of eggs and poultry. In the case of one of the big egg co-operatives, every attempt was made to ensure that the large retailers and the co-operative retail societies (which are also their customers) pay their bills promptly. Indeed, a large part of their sales (especially the smaller ones) is for cash. Meanwhile, the producers are paid on a weekly basis. Where credit is given to the purchasers, it usually ranges from 14 days to three or four weeks. Nevertheless, they endeavour to maintain quite a strict control and, if the buyer fails to pay on the appointed day, he gets no more eggs. But the situation is kept under constant review and bad debts tend to be few. In another case, the attempt is made to limit the period of credit to 21 days (producers tend to be paid within 19 days), though the multiple stores are inclined to expect more extended arrangements. In any event, there is a time gap to be financed and, where necessary, this is done on the basis of a bank overdraft.

Three of the largest marketing co-operatives and a private producer have combined their marketing efforts in Goldenlay Ltd. to undertake 'consortium selling', eggs being supplied by the farms under contract and sold at negotiated prices on a free market basis, the farmers receiving a price (after deductions for expenses, etc.) related to that negotiated with the purchasers.

The egg marketing co-operatives may also negotiate terms on behalf of egg producers for the purchase of feed; by ordering a large total tonnage,

rebates are obtained and the cost of feed to the individual producer is reduced. Similarly, with chicks - by ordering these in large numbers on behalf of their members, they can again obtain a rebate and quote a lower price per 1,000 chicks.

Hence, the larger co-operatives in particular provide a range of services very similar to those offered either by merchants and dealers, or by auctioneers and feeding stuff firms. The chief problem that they have to face in varying degrees is ensuring a sufficient availability of capital either to carry stocks or as a basis for extending credit, though this will clearly affect the trading societies more than those that are engaged in marketing only. In part, this is due to structural changes in agriculture itself and, in particular, to the increasing scale of farm investments - with larger farms, there has tended to be a greater economy in the use of labour and a transfer of resources resulting in greater use of machinery, with the necessity for the suppliers to carry larger stocks. Transport fleets also tie up a lot of capital, though some societies have sought to overcome this difficulty by resorting to leasing arrangements.

Although on the basis of the Wilson Enquiry, syndicates appeared to be an unimportant source of agricultural finance, it is known that a number of machinery syndicates exist, though these are largely dependent on bank finance. These syndicates are partnerships formed for the limited purpose of jointly owning or operating one or more pieces of agricultural machinery (including installations such as grain driers).¹ They are set up in accordance with rules that cover questions of use and maintenance, which rules have been approved by local Syndicate Credit Companies,² which now exist in 42 English and 10 Welsh counties, and are united under a Federation of Syndicate Credit Companies.³ Within the framework of these rules, members of these syndicates can borrow four-fifths of the total cost of the machine on relatively favourable terms,⁴ to be paid back over 5 years, or - where fixed machinery or buildings are involved - over a longer period (e.g. up to 7 years). Secondhand machinery as well as new may now be included in the scheme. If difficulty should arise, the County Syndicate Credit Company undertakes to assist the bank to obtain recovery of moneys lent, but in no sense is this a guarantee. Indeed, whilst taking account of the fact that the County Committee has approved the syndicate's request the bank reserves the right to reject an application if it is not satisfied with the proposal. In addition, the bank reserves the right to reject applications for the purchase of highly specialised equipment

-
1. Also, sometimes, buildings, such as grain stores.
 2. County Syndicate Credit Companies can be identified with the National Farmers' Union county structure. They are companies, limited by guarantee and without share capital; they have a Board of Directors composed of prominent farmers in the county and a Secretary (in many counties the secretary of the county NFU Branch). The companies' standard objects, taken from their Memorandum of Association, are to promote, encourage and develop machinery syndication.
 3. As implied, this is a central body to which each county company supplies a representative. The Federation is responsible for co-ordinating the activities of the companies and machinery syndicates generally and enables representations to be made on any matter affecting the common interests of members.
 4. It is understood that the rate being applied in 1974 is Base Rate + 2 per cent. per annum.

where no alternative use is possible. At the end of 1970, there were agreements in operation permitting total outstanding indebtedness of £1 million. This overall limit has now been removed and there is at present (1974) no ceiling. Presumably, however, an eye will be kept on the amount of overall borrowing and banks reserve the right to review arrangements at any time in the light of changes in the domestic economy. It is understood that there have been no bad debts. At least two of the large clearing banks in England and Wales are now involved in this type of lending.

In Scotland, much the same system exists but the arrangements are centralised under Agrifinance (Scotland) Ltd. established and managed by the Scottish Agricultural Organisation Society. This company deals with production co-operatives as well as with machinery syndicates and is empowered to extend help to trading co-operatives. The Board of Directors is composed of representatives from the Scottish Agricultural Organisation Society and the Scottish National Farmers' Union. Although this company has continued to trade, little business has been done over the past year or so (1974), because of the high level of interest rates.

Although the purchase of livestock is sometimes financed by the banks or by the hire purchase finance companies (whether by means of a hire purchase transaction or by way of loan), an appreciable proportion of the finance a farmer needs to purchase livestock comes from the auctioneer, who may also finance butchers to a considerable extent and thereby comes into the cycle of sale/production/sale at least twice (by financing the initial acquisition and, in effect, also the demand for the final product). This is particularly true of auction marts. Some auctioneers also have ancillary interests that are merchanting in character; in addition, they may auction second-hand machinery (e.g., when selling a farm), though here they are acting as agent between vendor and purchaser. Indeed, with auctioneers, there is a very great diversity of experience in the several parts of the United Kingdom, not only between different areas but also between different firms in the same area, due to differences in the size and composition of the business done by agricultural auctioneers; in some cases, there are also differences of practice. For example, there is great variation in the relative importance of the livestock marketing side of an agricultural firm's business in relation to other aspects such as land agency, valuation, compensations, property sales, and so on. Again, some firms are more particularly agricultural than others, which may have important urban departments. And, if one adds to this the wide geographical variations, which influence the character and type of local farming arrangements, and also differences in regional and local practices, the degree of diversity is increased even further. Hence, it is exceedingly difficult to generalise.

However, so far as auctioneers' credit is concerned - and that is our major preoccupation in the present context - there is evidence to suggest that it is required by many farmers at some stage or other (especially by those concerned with livestock). Necessarily, it tends to vary in amount over the course of the year, depending on the season and sometimes on other factors (such as the availability of credit from other sources). Not that auctioneers would extend credit to all their customers and most - if not all - auctioneers attempt to limit the amount of credit they grant. For the most part, they only accommodate farmers that they know well and who also have a reputation as good farmers. In many cases, an auctioneering firm will have known a farmer's family over several generations. There is also the credit extended to the meat trade, i.e., to wholesale and retail butchers, though this tends to be 'conventional' short-term credit.

To a large extent, auctioneers appear to provide from their own resources such credit as they grant. The majority of them seem not to depend to any considerable extent on bank overdraft, though many of them maintain such a facility at their bankers. For the rest, because of the tremendous turnover in their account, they would be charged an appropriate turnover fee, which would recompense the bank for the activity of the account. It is possible that the auctioneers in Scotland use bank overdrafts more than do their counterparts in England and Wales.

In the context of store cattle, some auctioneers would in the general way of business give credit to both farmers and dealers. Where farmers purchase cattle to stock a farm, these will usually be brought back to the auctioneer at the end of the grazing season (or, in the case of overwintering of cattle, in the spring) either as stores¹ or as fat. The auctioneer may also help to

¹ Some farmers only take the cattle on to a certain stage, when they sell them off to somebody else.

finance the purchase of dairy heifers - and freshly calved cattle - either in order to provide the initial herd of a dairy farmer to supply him with replacements. For example, a farmer may buy a number of cows, with the auctioneer providing the finance for a proportion, in the expectation that some cows will come back when they are dry to be sold again in the market, the remainder being paid for from the proceeds of the milk produced.

In the case of sheep, farmers may buy lambs for 'feeding through' either in July to get them fat by Christmas or in September/November 'to come out fat in the spring'. Credit, which is also required for breeding ewes until they lamb, is given on the same basis and probably more regularly than in the case of cattle. Sheep credit is considerable in some places on the borders of Scotland and England. There are big sheep centres also in Radnorshire and in Shropshire.

On the whole, credit is not granted against pigs - 'only to those that take it' (and then only for a short period). Pigs are vulnerable to disease and auctioneers expect the farmers themselves to accept the risk. 'Auctioneers only help people into trouble by giving them credit on pigs'. In any event, subject to an appropriate agreement, the big feeding stuff firms are often prepared to help (e.g., by providing elite stock - sows capable of producing the quality required in the finished article and also good progeny averages, which progeny is also likely to be free of disease - or by providing feeding pigs; they may also provide the feed itself on credit, being repaid as the pigs are sold - say - each month to the factory).

The provision of credit appears to take four different forms: (a) short-term 'conventional' credit; (b) a 'running' credit based on a current account; (c) a direct loan; and (d) in certain cases special agreements relating either to feeding or breeding stock.

So far as 'conventional' credit is concerned, only a proportion of farmers are affected, since the majority pay on the day; perhaps up to 20 per cent. require a week to pay and about the same number take between one and two weeks. Only a minority takes over two weeks. No specific charge is made in many of these cases, the auctioneer being recompensed only by his commission. The auctioneer also expects the farmers to continue to put their business through him. 'Conventional' credit is meant to be the basis of a continuing relationship.

'Running' credit based on a current account is probably also still fairly common, particularly in areas that raise or run a lot of stock, since the farmer will necessarily again have a continuing relationship with his auctioneer. In this case, the farmer may be buying a particular class of stock (cattle, sheep, or pigs). He will not in fact pay for it at the time, but at a later stage; when he is ready to sell, he will bring the stock back in again to the auctioneer. When the sale has taken place, the cashier will offset the money from the sale against what is owing, paying the farmer any balance. And this type of transaction will be repeated over and over again. It is often regarded as a service provided either for men they have known for years or sometimes for younger farmers, who may have need of working capital;¹

¹ Usually, this would only be done where a family was well-known and often only when supported by a father's guarantee.

the auctioneer meanwhile hopes to tie his customer to him and looks forward to retaining this business over a long period of years in the future. In the meantime, as a result of regular purchases and sales, he also attracts regular commission. Needless to say, the auctioneer would keep an eye on the working of such accounts to ensure that a man did not go beyond his usual range of debits.

The stock involved will vary with different parts of the country. For example, the farmer may buy cattle at the 'back-end' (i.e., in the autumn) for the purpose of inwintering them (yard or box feeding), selling them off as fat stock in the spring. Or he might buy cattle in the spring to put out to grass over the summer, selling them off in the autumn. Or he may buy breeding sheep from the autumn onwards, the relevant amounts being debited to his account; then as he brings the fat lambs in for sale, he obtains the money with which to pay off his indebtedness. He would bring in his breeding ewes at the back-end and settle the balance. But on the whole this is not a large part of auctioneers' total business.

Even more rarely, an auctioneer may make a direct loan to assist in the financing of farming operations. For example, the farmer may have committed part of his working capital to the purchase of buildings or equipment and hence be short of working capital for other purposes; the remainder may be tied up in stock that will eventually be coming back to the market. On loans, the farmer would pay a rate of interest. The rate charged at the time of the Wilson Enquiry (1971) was usually Bank rate (it would now be Base Rate) + 1 to 2 per cent. (sometimes less than what the banks would charge an auctioneer on his overdraft; some auctioneers charged the same rate as the banks charged them). On other occasions, they might quote a rate of 10 per cent. on a reducing basis (i.e., on a reducing amount as the loan was paid off), or a flat rate of 5 per cent., i.e., 5 per cent. on the initial amount borrowed and over the whole period of the loan, though the farmer may be marketing (say) pigs regularly and have the loan paid off by the agreed date (usually after nine months to a year). It should be added that there is normally an understanding that the farmer will bring his stock back to the same auctioneer. Where the rate charged is relatively low, the auctioneer reckons to make his profit out of commission. In a similar way, an auctioneer may help a farmer to put in a dairy herd, regular repayments to derive from the monthly milk cheque. Again, these types of business tend to be a small proportion of the total and they are mostly undertaken to help young farmers.

Indeed, auctioneers tend to limit the total amount of lending they will undertake under this heading and, in this context, one or two auctioneers reported that they had operated subsidiary finance companies, to which they would tend to refer this type of business, the finance being provided on the basis of hire purchase.

As has been indicated already, the auctioneer when he gives credit is usually accommodating a farmer that he knows well personally and with whose family his firm may have had a connection for several generations. In addition, he is in a position to keep an eye on his farmer/customer's affairs, since for regular customers the auctioneer will usually be responsible for the annual stocktaking valuation. In the case of a farmer new to the area, auctioneers may be prepared to give them credit also; it is again a question of judging the man and his record; establishing what his background is; asking him to declare his financial experience and to lodge his accounts. In addition, the auctioneer will keep an eye on his farming activities 'in order to build up a fund of experience with him'.

But there are times when a loan goes wrong. A farmer may arrange credit for up to 12 months, but he may finish up owing £1,500 for seven years. In a case like this, the auctioneer has to nurse the man along and hope. The farmer continues to pay his interest but makes no progress in repaying the principal. If the auctioneer put pressure on him, the farmer would go bankrupt. In cases like these, the auctioneer would normally hold some security. However, bad debts do not seem to be appreciable and one auctioneer estimated them as no more than $1\frac{1}{2}$ per cent. per annum of the amounts he lent.

Finally, in this context, there are the breeding and feeding agreements; something like this is also undertaken by the FMC (see below). The feeding agreement is the simpler. It is agreed by an auctioneer to supply a farmer with stock to be fed and maintained on his farm in consideration of payments for feeding being made by the auctioneer to the farmer, who is given an option of purchasing the stock in question if he so desires at an agreed price and while the stock still remains on his farm. Until that time, the stock remains the absolute and exclusive property of the auctioneer. Meanwhile, the auctioneer charges interest on the value of the stock until such time as the farmer exercises his option, or the stock is sold. In 1971, a rate of 10 per cent. was not uncommon (say, 1 per cent. more than was being charged by the banks). In effect, the farmer gets the difference between the cost of the stock and the selling price, minus expenses and interest. There are a number of conditions - the stock must not be removed from the farm in question; it must be supplied with good and sufficient food and water, and - in the case of sickness - with skilled advice, attendance and medicine; and all necessary measures must be taken to protect it from injury, damage, or loss of any kind. There is provision for inspecting the stock at any time and for the ending of the agreement after due and proper notice by either of the parties to the other. Similarly, with the breeding agreement, which is slightly more complicated, since it relates not merely to the feeding and maintaining of stock, but to the supply of stock for breeding purposes. Hence, one of the conditions is that the males should be put to the female stock at the proper season. Also, when calculating payments for keep payable by the auctioneer to the farmer, the progeny of the original stock is not to be taken into account, the weekly rate having been fixed and determined on the understanding that each dam and its progeny shall be reckoned as one head only. Again, an option to purchase is included in the agreement. This time it relates both to the stock and its progeny. In these ways, too, the auctioneer may make a contribution to the financing of the process of agricultural production.

One of the largest meat wholesalers - FMC Ltd.¹ - itself provides credit to farmers through fatstock finance schemes operated by a subsidiary, FMC (Meat) Ltd. The latter makes lump sum cash advances for the purchase or fattening of stock, providing an assured market when the stock is finished. The finance is provided by way of an advance; it is not hire purchase. The stock belongs

¹ Originally set up in 1954 as The Fatstock Marketing Corporation and going public in 1962. It is over one-third owned by the NFU Development Trust Ltd. and over 50 per cent. owned by individual shareholders (many of them farmers), with an emphasis on small to medium-sized holdings (250 to 5,000 shares). Institutions and nominee companies also have small holdings. It operates a large number of abattoirs and packing stations throughout the United Kingdom.

to the farmer until it is sold to the FMC. When an application is made, the farmer completes a Statement of Resources and an application for the advance required, which also asks for names of bankers and a trade referee. In most cases, FMC would also ask to see the farmer's accounts. No security is required and up to 75 per cent. of the value of the stock may be advanced against store cattle, 60 per cent. of the cost of ewes or store lambs, £10 (in 1971) per bacon or heavy hog pig, and £5 (1971) per pork pig. There is a 'service charge' to cover the cost to FMC of providing the finance. This relates to the size of the advance and the period for which it is outstanding. It is quoted as so much per head of stock per month,¹ so that the producer can work out his own costs and establish whether there is in fact a margin of profit before he enters into the transaction. There is also a small administrative charge to cover the cost of handling applications; this is only payable when an advance is granted. Since it is difficult for producers to forecast accurately many months ahead the date on which stock will be properly finished, the FMC fatstock finance schemes provide for flexibility in the period for which the money is advanced and the service charge is adjusted to cover early or late repayments. The conditions under which all schemes operate are that finished stock must be sold through FMC (if this condition is not observed, FMC may not assist that farmer again) and repayment will normally be made from the sale of finished stock.

There are also one or two schemes where money is made available to a feed merchant, who himself supplies the units and puts a number of pigs into each. The FMC makes a service charge per pig and pays the merchant the difference between that and the market price when the pigs are sold.

Total turnover of the FMC Group, in 1972/73, was £238.8 million.

More generally, auctioneers have been trying to check the increase in the amount of credit being accorded, prompted partly by the high rates of interest being charged by the banks. They have both restricted the amount originally allowed and also taken positive steps to ensure prompt payment of moneys outstanding.

A certain amount of credit may also be given by auctioneers to dealers, who are involved in moving stock from one part of the country to another. They tend to get rather less credit than farmers and usually it is on a weekly or fortnightly basis. For the most part, dealers pay cash and they may be treated generously with regard to 'allowances' (e.g., in some cases, they may receive discounts for prompt payment).

But the main remaining function of an auctioneer in providing credit or finance relates to the meat trade. Fat cattle, lambs, (in certain districts) veal calves, and (sometimes) pigs² are sold through auctioneers to wholesale and retail butchers, to processors, and to chain stores. So far as butchers

¹ But whatever the beast, in 1971, the charges worked out at approximately 13 per cent. per annum, payable on the amount outstanding. It used to vary with Bank rate, but it now relates to the joint stock banks' Base Rate.

² Most bacon pigs are sold direct to factories.

are concerned, the auctioneer aims to provide no more than a week's credit. Wholesalers seem to need credit more regularly than retailers, though the latter usually take a week to pay, occasionally longer. Credit to wholesalers may be for one week or two (occasionally, even three). Some of the big firms - processors and chain stores¹ - may take up to three weeks; this is said to be due to their desire to maintain their own liquidity at adequate levels, but it is more probably occasioned by the complications of their accounting processes. No interest is charged on this credit, which might be described as 'conventional'; the auctioneer reckons to cover his costs and to make a profit out of his commission on sales.

Occasionally, auctioneers tend to have more difficulty in getting their accounts settled with retail and wholesale butchers than with farmers. If a customer is having difficulty in paying his account on the due date, the auctioneer will attempt to reduce the amount of credit accorded week by week (he 'tries to get them owing less'); no interest is charged at this stage, but if a customer gets behind in his payments, the auctioneer may allow him to buy (say) for four weeks on the old basis; after that, the customer will be charged 10 per cent. per annum on outstandings. Usually, there are no formal agreements. Exceptionally, the details of a transaction may be set out in a letter.

Although all auctioneers are concerned with the buying and selling of farms when these come on to the market, they do not provide finance. When a farm is sold, it is expected that the parties will complete on the due date and that the purchaser will pay up. It is a matter for the farmer to arrange the finance necessary for a purchase and, if he has to borrow, it is expected that he will usually go to the ANC (SASC in Scotland) or to a bank. Occasionally, the vendor will lend part of the purchase price against a mortgage.

All the emphasis so far has been on the provision of credit by the auctioneer, but in a very real sense he also himself receives credit to some degree. The auctioneer will pay a farmer for stock sold probably the day after the sale,² but unless the farmer pays his cheque in immediately the auctioneer will himself be enjoying credit as a result of the 'float'. This is probably less important as a source of finance for auctioneers now that the banks are requesting farmers to lodge their cheques more promptly with their bankers. In any event, any delay by the farmer in presenting his cheque would serve merely to offset total credit being advanced by the auctioneer.

¹ These usually buy on contract, but their prices are based on auction market prices, which are used as the 'regulator'.

² Some auctioneers in fact pay for the stock on the day of the sale and prompt payment is regarded as one of the most important advantages of the auction system. Cheques not collected by farmers on sale days are posted that night. Even when paid in, they will still take four days to clear.

At the time of the Wilson Enquiry (1971), hire purchase accounted for only about 1 per cent. of total borrowings by agriculture or something between £15 million and £20 million. Although apparently unimportant, at the margin the amounts raised in this way can in particular cases be quite significant.

Hire purchase finance is provided by the finance houses (some of which were recognised as banks after the introduction of new arrangements by the Bank of England in September 1971). In fact, they not only offer hire purchase facilities¹, but also do a large (and probably increasing) amount of business by way of loan, as well as offering contract hire arrangements and leasing (though sometimes these other activities are carried out by subsidiary companies). Much of this business will be concerned with financing the acquisition of plant and machinery (especially tractors and combines, but also balers, ploughs, and other items). In addition, some finance houses also finance the acquisition of livestock, grain storage facilities, farm buildings (or extensions or improvements thereto), even broiler houses.

Quite a lot of the business comes in through agricultural machinery dealers that have links often with a particular finance house; the latter houses tend to be somewhat selective with regard to the dealers from whom they will accept business and, in general, they will only negotiate a financing arrangement through a dealer they already know.² The farmer makes contact with a dealer

¹ Hire purchase might be defined as an agreement under which a person agrees to take possession of goods for a fixed term during which he pays to the owner by instalments a sum equal to the cash price, plus charges. At the end of the term the hirer has an option to acquire title and to retain the goods in return for the payment of a nominal sum (c.g., £2).

² In the case of a new dealer, a bank manager may recommend him to the company in the first instance, but they would also themselves gather relevant information as a basis for assessment before adding the name of the dealer to their approved list.

and, if the farmer requires non-bank finance, very often the dealer will recommend a farmer to a finance company. In consideration of these introductions, the dealer may receive a commission, which can amount to one-tenth of whatever the finance house charges the customer. If it is a matter of financing a purchase of livestock, the introduction may be effected by an auctioneer; it is understood that they do not receive a commission. Some business is also referred to the finance houses by accountants, advisers, and consultants. On the other hand, if the farmer goes to the finance house direct and no commission is payable to the supplier, the farmer may be charged a net rate (i.e., net of commission).

When a finance house is considering a financing proposition, it will have regard for a number of factors and the emphasis may vary somewhat from one finance house to another. It is probably now true that the majority of finance houses are primarily concerned with the creditworthiness of the farmer¹ and (with certain exceptions) are very much less concerned with the right in the event of default to repossess the equipment. For this reason, many finance houses now appear to be offering in a number of cases loan facilities rather than hire purchase. Only a few of these companies would still resort mainly to hire purchase on the grounds that 'a hire purchase contract still affords a good security interest', though it is common to employ hire purchase when assisting to finance the acquisition of an item like a tractor or a combine. Loans tend to be resorted to when the farmer is financing improvements to buildings, purchasing portable buildings, or livestock. (For the last, hire purchase is sometimes used). Where the amounts involved are in excess of (say) £3,000, it is common for security to be sought

¹ Information as to the creditworthiness of an individual is usually obtained from (i) (possibly) the customer's bankers, though for competitive reasons this is likely to be done only rarely; (ii) the National Credit Register (which would confirm any current indebtedness of the customer with the major finance houses and also any adverse credit experience); or (iii) a scrutiny of the customer's latest audited accounts, though not usually when the business has been introduced by a supplier of agricultural machinery and the sum is less than (say) £1,000.

(e.g., a charge on land or property). If the resale value of the goods is likely to be very little, the company would use a credit sale (see below). Other companies tend to finance the purchase of tractors on the basis of a loan, but the finance for combines, or for a combine and tractor together, is usually in the form of hire purchase.

Some companies have a rule that, where the item is over £2,000, it will be financed by way of hire purchase.¹ To finance amounts below this, a number of houses would offer a Personal or Purpose Loan. However, when accommodating a limited company (and more particularly when financing movable plant), they would always do it on the basis of hire purchase. Loans also have the advantage that where more than one supplier is involved the making of a loan to the farmer enables him to settle directly with the several suppliers, builders, or installers, which is a much more convenient arrangement. In addition, preference for the Personal or Purpose Loan seems to have been due in part to some dissatisfaction with hire purchase arrangements. Hire purchase tends to be regarded as a legal fiction and some companies have had difficulties in the courts, when they have sought their remedies and wished to repossess. In addition, courts tend sometimes to make unrealistic orders; defaulters may handle the truth somewhat roughly and County Court Registrars and Judges seem to think that the company has been acting usuriously. There may indeed

¹ One reason why this is preferred is that the Hire Purchase Act 1965, which applies up to that figure, requires a hire purchase agreement to be signed, either on the finance company's premises or the premises of the dealer supplying the goods. If the agreement is signed on the hirer's premises, then a 'pause' document has to be used, giving the hirer a statutory period of three days to withdraw from the transaction if he so wishes. As the farmer generally prefers to conclude the deal on the spot and to sign papers at his own farm, a finance company may choose to handle the transaction as a loan where the cost of the goods plus the finance company's charges are below £2,000 and forego any security interest for the sake of lack of involvement in the documents and procedures of regulated hire purchase.

be months of delay and no real remedy at the end of it. And, where re-possession proves possible, the value of the repossessed goods may be only a fraction of the amount of the loan. Also, when a piece of equipment has been repossessed (e.g., a combine harvester), there remains the problem of its disposal. In all the circumstances, an unsecured personal loan often seems to be the most realistic basis on which to lend, though some companies may seek security for such a loan. At the same time, this may not be easy to obtain. The farmer's land is likely to be mortgaged already (whether to the AMC and/or the bank), though a second mortgage is possible. Alternatively, share certificates might be pledged under a memorandum of deposit. In the case of a company, they could take a director's guarantee or a debenture over assets, even a bill of sale (in the case of an individual¹), though because borrowers dislike the publicity this would be very much a last resort.²

An alternative to the loan that is used by some companies is the credit sale³ - in some respects this is similar to an unsecured loan and is resorted to as a means of expediting the settlement of an application by the farmer for a Ministry grant (in those cases where these apply). Grant is not paid until ownership passes, i.e., until the last instalment has been paid and the option to purchase has been exercised, whereas with a credit sale ownership is immediately vested in the farmer, who has full control over the goods in question. There are also advantages for the finance house. If the

¹ Since certain of the finance houses have now become banks (see above), it is possible for an individual farmer, by resorting to the form of charge under the Agricultural Credits Act 1928 to mortgage certain of his assets to what is now an approved bank free from the requirements of the Bills of Sale Act.

² There is also a problem when a farmer wishes to sell or exchange some of his chattels. Hence, there is a need to review the bill of sale every few months and to revise the list that identifies every item covered by it, an arrangement that is based on a gentleman's agreement when the first bill of sale is drawn up.

³ It is said that for the larger finance houses, which are now recognised as banks, this is almost a thing of the past.

farmer fails to pay his instalments on due date, the whole balance outstanding becomes repayable and the finance house can sue for this, whereas under a hire purchase agreement the finance house can only sue for the outstanding arrears and/or for possession.¹

For the most part, the finance houses (some of which have become banks) seem now to be adopting criteria not greatly different from the banks. They are now rather less concerned with the security being offered than with the evaluation of a risk. To this end, the company providing the finance will want to ensure that the farmer is likely to use the machine (or other item) profitably, thereby justifying its purchase and creating the conditions that will make it possible for the farmer to repay. In addition, and as a means of establishing his creditworthiness, the company would wish to see the farmer's balance sheets for the last two or three years; they may also wish to discuss the pattern of his cash flow, because they would not willingly wish to lend to a farmer 'with a real liquidity problem'. If they did not know the farmer already, he would be visited in order to assess his farm and farming methods.² Resort might also be made to the credit information services, but, in the final analysis, it is always a question of the man to whom one is lending. This is true even when one is dealing with a company.³ At the same time, most of these finance companies are quite aggressive in seeking new business and normally they would try to find a way of accepting the business if at all possible.

¹ Actually, the amount of the arrears claim under a hire purchase agreement depends on whether the agreement falls within the scope of the Hire Purchase Act 1965 or not. If it does, the claim is more restricted than if it is outside the Act. It is probably more accurate to say that the owner is entitled to his arrears plus damages, but the total of the two will very rarely equal the outstanding balance of the hire purchase price.

² But, in many cases, the assessor would have little (or no) specialist farming knowledge; his expertise would be primarily financial.

³ Sometimes, in the case of a company, it will be given a line of credit, subject to a limit.

During the period of the credit squeeze (ceilings were applied to finance houses between 1966 and 1971), some companies were obliged to apply quotas to the amounts of finance they made available. Latterly (post-1971), after a period of freedom, restrictions have applied to funds attracted by way of deposits or borrowings (see above), though this was thought to be no less severe than the earlier squeezes. During those squeezes, finance houses have tended to select the better risks, though it is maintained that the vast majority of application would in any case have been eligible. For the rest, there is a tendency to look after old customers, with whom they have already had a satisfactory credit experience, in preference sometimes to new customers. Some customers 'shop around' the various finance companies, seeking the lowest rates available; when credit is tight, some of the finance houses tend to look somewhat less favourably on this type of customer.

On the whole, the lending experience of the finance houses - especially over more recent years - has been quite favourable. If the companies are tolerably successful in evaluating their risks, 'delinquency ratios' or default experience tends to remain within statistically determined limits. In part, this may be due to the fact that farmers appear to become much more disciplined borrowers when dealing with a finance house (as compared, for example, with a dealer). The finance house is rather more remote and the transaction is more impersonal (the dealer's relationship tends to be much more intimate; 'he meets the farmer on his farm and sits in the kitchen'). From the outset, the finance house is concerned to apply financial discipline; it will also generally require payments to be made by way of a banker's order and the farmer is ready to accept this condition. This reflects in the default ratios, which are calculated on the basis of the percentage of accounts that are 30 days

in arrears at the month-end. The national average of arrears at the time of the Wilson Enquiry (1971) was understood to be about 2.5 to 2.6 per cent. and, for a number of companies, the experience was even more favourable. In addition, arrears are often recovered and the loss ratios would therefore be even lower.

Whether moneys are made available by way of loan or on the basis of hire purchase, much the same terms will apply. For example, the customer will normally be required to make a deposit. In effect, this gives the borrower an equity in the item purchased. In 1971, the deposit required seemed to vary from 20 to 25 per cent. on new equipment (the bulk of the business would relate to tractors and combines), but during the period of relative freedom (1973/74) deposits fell to from 10 to 20 per cent. Higher deposits would be required on secondhand equipment¹ and in the case of loans to finance buildings - possibly up to 33 $\frac{1}{3}$ per cent.² - and there were certain types of equipment (e.g., chicken batteries or milking parlours, which depreciate very rapidly) where some companies sought a deposit of 40 per cent. On the other hand, because of the strength of competition, certain companies might accept a deposit as small as 5 to 10 per cent. (e.g., on a combine), but this would depend on the credit standing of the customer.

Similarly, with the pay-out period. For new equipment, whether the money had been made available in the form of a loan or by way of hire purchase, the maximum period would be three years, but for secondhand equipment it would usually be two years. Loans to finance the purchase of livestock might also be for

¹ In practice, the farmer is usually trading in a machine, the value of which is more than adequate as deposit. In fact, because of the high value of used tractors, sometimes the farmer will only apply some part of his part-exchange allowance to the deposit against the new machine.

² Depending on the age of the equipment and the amount involved.

the shorter period. In the case of combines - and other expensive plant¹ - where amounts of £6,000 to £7,000 might be involved, the finance house may be prepared to go out to four or even five years.

Repayments are normally made on a monthly basis, but they may be made quarterly (in both cases against a banker's order to ensure prompt payment). On the larger transactions, particularly with periods in excess of three years, there is now greater emphasis (1974) on what is termed per annum rate transactions. This is where the capital sum involved is repaid by equal monthly instalments over the period of the loan, but interest which is an agreed figure over and above the Finance House Base Rate is calculated on the reducing balance and is paid separately quarterly in arrears. Indeed, although it is not usual, payments may sometimes be made on a 'seasonal' basis (e.g., for combine harvesters). Over a 3-year pay-out period, a large payment may be made after the harvest (e.g., in November), with minimal payments in between. But finance companies do not like such arrangements, because they interrupt their cash flow and they would only do it for a very creditworthy customer.

On occasion, too, loans are made for longer terms than three years, possibly up to five years with monthly repayments. Some of these may be 'farm productivity loans', where each individual transaction is looked at on its merits and the terms which are negotiable are arranged accordingly. Alternatively, a finance house may lend to a limited liability company in this way, but usually this would be on the basis of a reducing balance, interest being charged quarterly.

¹ This might include milking machinery.

Loans - and sometimes hire purchase - to finance the purchase of livestock represents a rather special field and not all finance houses favour going into it. Others seem to favour these transactions, especially when asked to finance the purchase of dairy cows, because they can depend on regular monthly repayments after the receipt of the milk cheque. Usually, they will require the loan to be paid off fairly rapidly (say in 9 to 12 months). It is understood that such loans are a relatively small part of total business. It is usual to require the farmer to go to a livestock dealer with a good reputation and to buy accredited stock. (Sometimes, loans are only made against pedigreed animals). But finance companies are not too concerned about foot and mouth disease, regarding its incidence as a commercial risk. In any event, there would be compensation and their experience of recovering their money against such loans has been very good.¹ It is not usual to take security and they therefore lend only to good credit risks.

Loans may also be made against store cattle - up to a period of 10 months. Moneys may be borrowed for the purpose of fattening up stores over the winter, the cattle being yarded and fed the barley crop; or the company may lend to finance summer grazing, the farmer buying yearlings to sell the following autumn. In these cases, the company is normally reimbursed by one payment at the end of the period of the loan; alternatively, they may receive an interim payment (say) after seven months and the balance at the end of 10 months. Again, the farmer may borrow to finance 'forward stores', the moneys to be paid back in (say) three bi-monthly instalments. Every effort is made to tailor the scheme to suit individual needs and clearly one cannot expect the farmer to repay until he has the means to do so.

¹ Some companies operate an umbrella insurance policy so that if an individual animal dies before the loan is paid off (whether from a non-notifiable disease or an accident), what the farmer still had to pay on that animal is deducted from the total amount outstanding. Normally, the calving risk, which is not high, is excluded.

Likewise, finance companies may lend to finance the purchase of breeding sheep. Such loans would again normally be for 10 months, with half the loan being repaid after (say) eight months and the other half of the loan two months later (i.e., not until the wool clip and the lambs have come along). Very little tends to be lent against store lambs. If finance is made available, it would be for a period of six months, with repayment of 50 per cent. of the amount at the end of four months and the remainder at the end of six months. Pigs may be financed on a similar basis, though in some quarters they are not regarded as a very good subject for such a transaction. In all these cases, the loan is liquidated on a deferred payments basis.¹

In no circumstances would a company be interested in making a loan for less than £150. But loans may be for as much as £4,000 to £8,000, when the company would offer a negotiated rate.

In the case of one company covered by our survey, assistance was given in financing a rather special type of livestock - day-old chicks until they became lay pullets (this was done for the chick rearer); the process was then taken on to the egg producer, who required finance for his lay birds. It was usual to require a 25 per cent. deposit, with the balance over a maximum of 10 months, commencing two months after the delivery of the birds. Obviously, there would be some delay, since the birds have to provide the eggs before the farmer can begin to repay. All poultry transactions had to be indemnified by the supplier of the chicks (because he had a continuing relationship with the poultry farmer).

¹ Auctioneers likewise sometimes provide hire purchase finance against livestock, but usually through a subsidiary finance company, though there are not many of these. The availability of these facilities is meant to provide a service to the farmer, though the auctioneer also hopes that the stock will come back to him for auctioning and that he will gain a second commission from them.

Longer-term loans are also made to finance the putting up of new farm buildings (such as barns and cattle stalls), the rebuilding or extension of farm buildings, or their improvement.¹ This would also cover other fixed equipment, such as grain storage, silos, and fuel tanks. Normally, the loans would be for three to four years; the company would certainly wish to get its money back within five years. But sometimes loans are made for longer periods, if the collateral security is available. They would also require collateral for loans of over (say) £3,000-£4,000. Rates are subject to negotiation and interest would be charged on a reducing balance. Again, this tends to be a very small part of total business.

In the past (e.g., in the early 1960s), some finance houses lent to finance the acquisition of broiler houses, but they burnt their fingers - profit forecasts were over-optimistic, there was the risk of fowlpest, but above all the production of broilers was a new industry into which too many small people came flooding, many of whom were very quickly forced out of business. As a result, the finance companies became very wary of financing broiler houses. Nevertheless, some lending is still done in this area to large concerns that can handle the size and cost of operations. Usually, such loans are totally unsecured, though occasionally security may be taken on the basis of freehold land to support an advance to buy environmental houses. Cages and feeding systems are financed on the basis of credit sales. Terms are negotiable; it depends on the customer. It is not a large section of total lending.

Other areas in which a finance house may help include loans to assist a farmer to hold his grain for the purpose of selling it at a more advantageous

¹ It would not be appropriate to use hire purchase, because the building may well be affixed to a freehold and not be movable.

price later in the season; such a loan would be made against the value of the grain. It lessens the strain on the farmer's own resources. Formally, the loan is unsecured and is based on trust in and the creditworthiness of the customer. It should be remembered, too, that the farmer could sell his grain earlier, when the loan would become immediately repayable. Also, in the agricultural area, a finance house may make a 'stocking loan'¹ (also known as a 'floor plan') to assist an agricultural machinery dealer to carry stock and himself to obtain his discounts from the manufacturer. This is usually charged at relatively low rates and is done as a service.² Somewhat similar assistance may be given by way of 'demonstration finance'. In this case, a dealer may take a new tractor into stock from the manufacturer and use it for demonstration purposes on a farmer's land. The finance house would advance the trade price, which is repayable in two instalments - the first after (say) three months and the second after six months. Again, in order to enable a farmer to obtain the benefit of a reduced price for a combine by placing an order at the end of a season and many months before delivery, the farmer may be offered a joint facility, whereby the initial finance is provided by means of a 'purpose loan' and subsequently a hire purchase agreement is entered into when the combine is delivered. The loan is liquidated by transferring the outstanding balance to the hire purchase agreement. Either the farmer will have commenced monthly repayments, say, one month after the original loan is made, or he may defer the first repayment for three months, or until the delivery of the combine has been effected. However, immediately the hire purchase agreement is entered into, repayments would commence on either a monthly or a quarterly basis.

¹ Sometimes, this is done on the basis of an overdraft through a sister company; on other occasions bills of exchange are resorted to.

² However, it is not pure altruism. The rate charged is not unrewarding and the finance company will also hope to attract through the dealer even more profitable credit instalment business (whether done by way of hire purchase or loan).

It is usual now for the rates charged on these several types of accommodation to be stated as x per cent. above the Finance House Base Rate as determined from time to time.¹ In many cases, the minimum addition to Base Rate would be 4 per cent. It should be noted that Base Rate has been as high as 16 per cent. As a general rule, rates appear to be differentiated on the basis either of the cost of the machine or the amount financed, and on whether the item is new or secondhand. Where the rate charged relates to the cost of the machine, it is argued that the salesman knows automatically what the rate will be and there can be no argument; it is the cost of the machine that is relevant, not the amount financed, and it does not matter how much the farmer puts down on deposit. In cases where a company offers seasonal repayment plans (e.g., a large payment on a combine after the harvest, with minimal payments over the rest of the year), a 'factor' might be applied to the rate of interest, in order to convert the situation to the equivalent of one where interest and repayments of principal are evenly spaced over the whole term of the loan.

In reviewing the facilities being offered to agriculture, certain of the finance houses are now seeking security in the form of a charge under the Agricultural Credits Act 1928. This applies particularly to loans concerned with improvements and extensions to farm buildings, the supply of fixed equipment,

¹ By September 1 1970, it was felt that movements in Bank rate no longer reflected adequately fluctuations in the cost of money in the markets and the Finance Houses Association therefore decided in future to quote a Base Rate and changes in it are announced from time to time. It is understood that the Rate is calculated on the basis of the inter-bank three months money rate over a period of eight weeks, rounded up to the nearest half point (half per cent.) and it is therefore supposed to reflect the cost of borrowed money to the finance houses which use it in their business. If there is a tendency for the cost of money to increase significantly over an eight-week period, Base Rate will be increased; conversely, if market rates for inter-bank money are tending to fall. On this basis, day-to-day fluctuations, unless they are very marked, will become absorbed in the moving average.

such as grain storage, silos, etc. The Act makes it possible for a farmer to mortgage certain of his assets to an approved bank free from the requirements of the Bills of Sale Act. 'Assets' for this purpose means crops or horticultural produce (growing or severed), livestock, machinery and other plant. This enables these finance houses to obtain some measure of security in a transaction of substance where the purpose of the loan in itself does not provide security.

Other finance houses have been reviewing the possibility of providing longer term capital to young farmers and investors wishing to get into agriculture or land. The difficulty has been that the return from land at between 1 per cent. and 2 per cent. leaves a very large deficiency when compared with the cost of long-term borrowing at 15 to 20 per cent. The borrower is faced with a very severe cash flow problem and because of this finance houses have been looking at the possibility of passing on to him the benefit of lower interest rates in exchange for a share of any future appreciation in his investment.

Meanwhile, all the finance houses have had occasion carefully to consider their sources of funds and this matter will become even more urgent if they are in any way to lengthen out their lending. Some houses have attracted significant amounts of deposits from the general public, with the probable advantage of relative stability at times when interest rates are tending to rise. Indeed, some of the large finance houses are now recognised as banks. It seems unlikely, however, that the finance houses can expect to rely on small deposits for a substantial part of their resources, if only because they could never match the clearing banks in providing the range of services they offer to their depositors. And, indeed, most of the finance houses have tended to rely mainly on the open money market as a source of funds, and, in particular, on the inter-bank and company funds markets. At the

same time, this means they have had to become increasingly sensitive to high and fluctuating interest rates (hence the move to rates related to a Base Rate, itself linked to movements in money market rates). This is also short-term money and the question being asked is whether they should not make a positive effort to attract longer term money to match their lending, which for the most part is also at term. An alternative source is resort to a bank overdraft, which all the finance houses use to some extent, but this likewise is short-term finance, though likely to be less volatile than money market funds. Term loans from the banks are another possibility, but they are likely to attract higher rates than the rate on overdrafts. As it happens, a number of the larger finance houses have substantial institutional backing (being partly owned either by insurance companies or partly or wholly owned by the big clearing banks themselves) and, in this context, it is now being suggested that a further possibility is that longer term finance may be provided quite appropriately by certain of the interested insurance companies, even more generally by the insurance companies as a group.

Contract Hire is a system operated principally by the dealer who rents (say) a tractor to a farmer. Contract hire applies in particular to tractors, which tend to be used more or less continuously; it does not apply to combines, since these are used only once a year. Where it applies, an agreement will be entered into between the parties, whereby a farmer hires a machine from the dealer at an agreed rental and for a specified period. The amount of the rental is based primarily on the difference between the retail price and the residual value of the equipment at the end of the hiring period, plus the cost of the finance involved. Usually, too, there

will be an ingredient to cover cost of maintenance.¹ Where cost of maintenance is included, the farmer will have the advantage over the relevant period (which may be 12 or 24 months) that his machine will be fully maintained² and he can therefore budget ahead, knowing what his expenses will be so far as that piece of equipment is concerned. (It should be noted that under a hire purchase agreement, a loan arrangement, or a leasing contract, the farmer is responsible for maintenance. Experience with farmer maintenance has, however, been quite satisfactory, if only because the farmer cannot afford to neglect his machinery over the relatively long period for which he operates it).

Where finance companies engage in this business, they will buy the machine from a dealer and hire it to the farmer; at the end of the 1 to 2 years, the dealer will buy the equipment back from the finance company at an agreed figure. The charges made by the finance company are said to be much the same as would apply under an ordinary hire purchase agreement.

The difficulty arises when it becomes necessary to sell the equipment at the end of the hire. If the dealer himself has arranged the hire, he may have come to an arrangement with the supplier to take the machine back at the end of the period of hire at a price that was agreed at the outset. Where a finance house is involved, it will have arranged with the dealer from whom it bought the machine to buy it back at the end of the hire at an agreed price. The

¹ For example, a tractor might cost £1,000. Assume that it is worth £500 at the end of a two-year period (that is its residual value). The basis for computing the rent is the difference between the two figures (i.e., the amount of depreciation over two years), plus the cost of maintenance (this varies a lot from dealer to dealer; also with the type of tractor and the kind of country in which it is to be used). In addition, there is the cost of the finance and the margin of profit for the hirer.

² In the event of a serious breakdown, the item would be replaced with (say) another tractor.

dealer will then have to sell the machine secondhand either on the home market or abroad (e.g., the Continent of Europe). In these circumstances, the dealer will hope 'to get the machine back from a farmer who has not worked it too hard'.

Leasing may be undertaken directly by a finance house (albeit through a special department) or the business may be done through a subsidiary company. There are also one or two specialists in this field. The amount of business done - and their interest in it - seems to vary quite a good deal as between companies.

Judging by the replies by the sample of farmers approached in the Wilson Enquiry, only 3 per cent. resorted to leasing arrangements. The bulk of these occurred in cropping and dairying, with some interest in mixed farming. For the most part, the types of equipment that are the subject of leasing arrangements are those with a high capital cost like tractors and combine harvesters, but mobile machinery generally would qualify. Some companies will lease silos and even ancillary equipment and lower-priced items such as ploughs, harrows, drills, sprayers, and dairy equipment, but this is less common.

Occasionally, finance houses receive applications for the leasing of second-hand combines. In general, the criterion is whether the equipment can be handed back.

Leasing is now coming to be regarded as a feasible proposition for some forms of livestock, particularly dairy cows. In this context, these animals have an obvious advantage in that the dairy cow is a producer of monthly revenue and payments under the lease can be related to the income produced during the lactation period of the cow. However, the majority of leasing arrangements concern machinery of one kind or another.

The item (be it a machine or an animal) will be purchased by the finance company from the farmer's own supplier and leased to the farmer for an agreed period (say, three to five years). The first rental is payable in advance and the remainder usually monthly, sometimes quarterly. It is usual also to quote the rental per £1,000. The finance company aims to obtain the same rate of return as on alternative ways of providing finance. The full amount that is payable in rent is an allowable expense against the farmer's taxable income, but he can only benefit from this if he in fact pays tax. Moreover, the higher the rate of tax the farmer pays, the more he will benefit. For this reason, leasing tends to be more advantageous to the big and wealthy farmer than to the smaller farmers. The finance house (as owner) benefits from any free depreciation facilities available, but in the final analysis these tax allowances are in effect passed on to the farmer in the form of reduced rentals.

The period of the lease is usually three years, but for combines it may be as long as four or five years and the total of all rentals payable under the lease will reflect the capital cost of the item, less the taxation advantages gained by the finance house, plus an interest element. At the end of the primary period of the lease, where machinery is involved, the farmer will have the option of continuing to rent the machine for a further period, in return for a small nominal rental (a 'continuation rental', which may amount to $\frac{1}{2}$ per cent. of the cost price of the machine, payable annually in advance). The farmer may continue on this basis for a further two years.¹ Alternatively, at the end of the lease, the machine may be sold secondhand and the net proceeds from the sale will be credited to the farmer² either as a refund of rentals or as the initial rental on a further lease.

¹ The life of a combine is seven or eight years, but on average a farmer would not keep it for more than five years.

² The finance house would not usually credit the whole of the net proceeds of the sale, but probably about 90 per cent. This may be done to ensure that the tax authorities will interpret the transaction as a genuine leasing arrangement and not in effect as a hire purchase transaction.

From the farmer's point of view, the big advantage of leasing is that he can obtain the use (say) of equipment by committing in the first instance (say) 1/36 of the cost price of a piece of expensive equipment. Thereafter, rentals are paid each month and can be set off against profits as these are earned. It is a system of financing that is therefore of great assistance to a farmer with a liquidity problem. Alternatively, so it is argued, the farmer need not reduce the amount of working capital available by expending a large amount on purchasing a machine, or putting down a sizeable deposit on an expensive piece of equipment. Any cash resources the farmer may have available, or such bank overdraft facilities as may remain unused, could then be employed, for example, in buying livestock and operating more intensively, or in improving the land and buildings, or both. In addition, if the farmer has liquid resources available, he is able to obtain sizeable discounts from his suppliers (whether they be merchants or dealers). It could also be argued that leasing encourages earlier and more regular replacement of outworn or obsolete machinery, with a reduction in maintenance costs, which of course still have to be met by the farmer under a leasing arrangement. Furthermore, machinery can be installed when it is required; it is not necessary first to accumulate the cash whether for an outright purchase or a deposit. An additional point that is sometimes made is that 'continued inflation should make rentals easier to pay and outright purchase more difficult', but inflation always tends to favour the debtor, however he may raise his money.

The basic argument in favour of leasing is the extent to which it can assist a farmer with a liquidity problem. By resorting to leasing, the farmer provides himself with working capital additional to what is available (say) from his bank. He also pays as he goes and does not have to find a lump sum to finance a particular capital investment. Again, if leasing is regarded as just another form of financing, it is a question of what is most appropriate

in particular circumstances; it is unwise to resort too heavily to bank overdraft (it always pays to keep some margin available, if only to cover contingencies); in addition, both the cost and the availability of a bank overdraft may vary from time to time, whereas leasing rates are fixed from the outset and the period of the lease will be suitably geared to the working life of the equipment, so that it becomes a self-liquidating commitment; again, resorting to merchant credit, which may be the alternative, tends to be expensive - but so, too, are the several forms of assistance from a finance house. Basically, it comes back to cash flow and, in some circumstances, a resort to leasing may have some advantages in this context. Also, although more expensive than bank finance, leasing (and other forms of financial assistance) can usefully contribute to the solution of a farmer's financial problems by providing additional sources of finance. The banks provide the basic financial services. Finance houses (and others) offer additional assistance that, at the margin, may make all the difference between undertaking a profitable enterprise or having to abandon it altogether.

At the same time, it must be remembered that it is always difficult to make comparisons, especially on the basis of simplified assumptions. For example, some leasing contracts allow for residual value to be built into the lease when calculating interest; others pass the residual value back to the farmers. In some cases, payments are monthly, in others quarterly both for leasing and hire purchase contracts. It also depends on levels of interest rates and charges; in addition, there is the incidence of income tax to consider. Indeed, the necessary calculations are often so complicated that the farmer is well advised to consult with his accountant before committing himself to anything.

Finally, it is often said that there is 'no intrinsic value in ownership, since only efficient use of equipment generates profit'.¹ This may well be true, but there is a sense in which the ownership of equipment may be said to be of value to a farmer. When he is borrowing, potential lenders will tend to list his assets as a means of establishing his degree of creditworthiness. This is likely to be particularly important for a tenant farmer. On the other hand, because of tax considerations, leasing will tend to be more advantageous to the bigger and wealthier farmers, who would in any case be regarded as creditworthy. This also satisfies another of the conditions of leasing companies - they tend to be more selective in leasing than in hire purchase finance and, if it is the wealthier farmers who use it most, the leasing companies will have no worries on this score. On the side of the supplier of leasing services, too, it is said by some companies that the administrative costs are high, but the author would be surprised if they were significantly different from alternatives like hire purchase or contract hire.

The Milk Marketing Board provides credit to milk producers through their bulk vat loan scheme.² In this case, the source of credit is provided by bank lending through the Board's normal overdraft facilities.

Under this Scheme, loans are made to milk producers up to 100 per cent. of the initial purchase price of their farm vats, repayment to be made over a period of three years by deduction from the monthly milk cheque in equal instalments covering both capital and interest. The rate of interest charged is 1 per cent. over bank Base Rate and is not varied after the loan has been made. This rate is then applied to the reducing balance of the loan.

-
1. See, for example, Accountancy Age, 18 September, 1970.
 2. The incentive to the producer to install a bulk vat is the labour he saves through not having to handle churns (labour that can be utilised more productively to run additional cows). There are also premiums paid for bulk milk and these are on a scale with higher premiums for smaller tanks to provide the maximum incentive to smaller producers 'to go bulk'. The smallest producers receive in addition a 'fixed rate' premium per month which varies with the size of their vat.

The amounts outstanding as loans under this head as at year ending 31 March have grown from £1.423 million in 1968, £2.443 million in 1971, £3.537 million in 1972 to £4.602 million in 1973. The amount outstanding at March 1974 was £5.104 million.

With effect from 1 October 1974, an alternative scheme has been available to producers converting from churn to bulk collection whereby vats may be rented from the Board. For the first three years of lease, the monthly rented payments remain constant and are based on the initial cost of the vat; thereafter a nominal rental of £1 per month is charged.

The scheme is partially financed by a FEOGA grant of £850,000 which is available to the Board over a five year period commencing in June 1974. The terms of the grant stipulate that the Board must own the vats; otherwise assistance from FEOGA would not be available.

The Board is presently committed to a Bulk Development Programme in which it hoped to achieve 100 per cent. bulk collection of milk from farms in England and Wales by 1978. By July 1974, 76 per cent. of the milk sold off farms in England and Wales was collected in bulk but this embraced only 50 per cent. of milk producing farms.

Note - Tables A and B in Appendix C have been prepared in order, on the one hand, to summarise chronologically the total amount of credit granted by the banks (short and medium term) and deriving from the AMC and SASC (long term) and, on the other, to list the rates of interest that have been charged from time to time by the banks, the AMC and the SASC over the past 10 years.

Chapter 5

External Variables Influencing Availability of Credit to Agriculture

In this chapter, we will attempt to discuss some of the external variables that may have influenced the availability of credit to agriculture. This will be attempted under two heads: (i) general economic policy, where the discussion will include references to budgetary and fiscal policy¹ (the relevant ingredients of credit policy have already been outlined at pp. 51-58); and (ii) regional policy, where attention will be given to the facilities provided by specialist institutions in this field (to a certain extent grants might also be considered relevant under this head, e.g. to the extent that they assist hill farming, which is 'regionalised' in Scotland and Wales. Grants were discussed in Chapter 3).

So far as budgetary and fiscal policy is concerned - and these emphases were frequently reflected also in monetary and credit policy - we can begin with the projection into the post-war years of the cheap money policies of the 1930s and the period of World War II. Under these circumstances, the post-war era of full employment predictably produced inflationary pressures. Then, after 1951, there was a return to the 'new orthodoxy' (with the revival of an active Bank rate policy and more restricted credit). This also created problems, partly because of structural changes in the British economy - several of the staple industries were now seen to be greatly antiquated - and in the direction of world trade, with related changes in the role of sterling; and partly because of modifications to domestic institutions and their place in the money and capital markets (the relative decline in the importance of the clearing banks which were subject to restrictions and the mushrooming of finance house business and secondary banking, which for a long time was largely unregulated). In addition, the authorities did not always seem to appreciate the intimate nexus

1. For the earlier period, the discussion is based on J.S.G. Wilson: "Monetary Policy in the 1960s" in Monetary Policy and the Development of Money Markets, London, 1966 and, from 1967/68 onwards, the "Annual Monetary Surveys" in the Midland Bank Review. "A Calendar of Economic Events" from 1968 onwards has been extracted from Economic Trends and is included in Appendix B.

between monetary policy and fiscal action.

It is the author's belief that the definition of monetary policy might be extended to include any action concerned to influence the volume and character of the flows of money and money substitutes throughout the economy. In fact, this would embrace much of fiscal policy also and the distinction between monetary policy and fiscal policy is made primarily to emphasise the importance of providing an appropriate fiscal environment, whereby the impact of monetary measures is reinforced by consistent and powerful fiscal action. In addition, the direct external effects of monetary policy (as distinct from fiscal policy) are unlikely to be very obvious. From the point of view both of external and internal considerations, it is the state of the domestic economy that matters most. Indeed, this is likely to be especially true, where the country concerned was still responsible - as the United Kingdom was in the earlier post-war years - for one of the world's more important currencies. It is the view of the author that if the authorities take adequate care to ensure that the domestic economy is healthy, there will be little need to worry greatly about the external situation. For this reason, it is appropriate to concentrate mainly on the domestic situation, though it is fully appreciated that in the 'open' British economy the internal and external impacts of policy are in fact intimately inter-related and, indeed, inseparable.

Throughout the post-war period, there was much evidence of 'stop go' both on the fiscal and the monetary fronts. Periods of restriction and attempts at deflation tended to be followed by periods of relative freedom, though the trend throughout the post-war period was without doubt inflationary - sometimes more so than at others; it was largely a matter of degree. Thus, there was a period of monetary freedom in the late 1950s and a number of new lending techniques were introduced.¹ There was also the period after the sharp 'stop' of July 1961

1. See Wilson, op.cit., pp. 86-87.

and from end-1962 up to early 1964, when growth was favoured, though at approximately 6 per cent. per annum at a level that was unlikely to be sustained. By June 1964, if not earlier, it was clear that the increase in imports was getting out of hand. In October, there was an election and a new Socialist Government came into office. It faced the necessity gradually to restore the balance of payments to equilibrium and it attempted to achieve this by budgetary discipline, deflation, and a series of credit ceilings over bank lending (beginning end-1964). It sought to reinforce these policies by tentatively moving in the direction of a long-term programme based on the balanced growth of the economy within the framework of a national policy for prices and incomes related to productivity. It is a long and disappointing story, but the prices and incomes policy failed largely because of its non-acceptance by a sufficiently broad spectrum of the public.

Undoubtedly, one of the main difficulties was that on every occasion that the economy began to boom, there came a point where the authorities felt compelled - because of the state of the external balance - to go slow and the boom was killed before it could get out of hand. It has been suggested¹ that policy paid too little attention to the speed of the cyclical upswing and that the basic remedy for the 'stop' lay in control of the 'go'. It has long been recognized by certain economists that the seeds of recession are to be found in the preceding boom and it cannot be denied that with a rapid state of expansion there is likely to be an earlier and more sudden 'stop' - for the obvious reason that there is less time to make the necessary adjustments (e.g., by transferring labour - or capital - from sectors of relative plenty to those where factors are scarce) and, with a less flexible economy, the probability that emerging bottlenecks will slow down the rate of growth in economic activity becomes so much greater. It

1. By Frank Brechling and J.N. Wolfe, "The End of Stop-Go", Lloyds Bank Review, January 1965, pp. 23 ff.

must be freely admitted, too, that booms were not infrequently exacerbated by the proximity of an election and the desire to go to the country on the basis of economic expansion. Whatever party won at the polls then had to face reality and the 'stop' almost inevitably followed. During periods of expansion, agriculture stood to gain with the rest of the economy; during periods of deflation, while it remained a priority sector (as an import saver), there can be little doubt that agriculture, too, had some difficulty in obtaining access to all the funds required.

The first full Socialist budget was in April 1965. On the whole, it received a favourable judgement: based on its contribution to restoring 'balance' in the economy. The most immediate problem was the weak balance of payments culminating in a deficit of £745 million for 1964. The objective in 1965 was to go 'most of the way towards closing the gap ... and to complete the process in 1966'. But instead of preserving solvency (as in the past decade) 'only by periodic bouts of deflation which immediately reduced imports, but also sapped the confidence of management and labour at home and weakened our industrial power there was now to be a change of direction.

For one thing, the Chancellor of the Exchequer had begun his comprehensive review of the tax structure and promised that this would continue over a period of years. Tax reform had been in the air for a number of years and it was badly needed. It only required the advent of a government with sufficient political courage to ensure that already existing proposals be actively considered and at least some of them implemented. This is not the place to discuss in detail the several ingredients of tax reform that were put in hand and, in particular, the precise effects of the capital gains and corporation taxes. What is important is that reform and experiment had been attempted.

Less can be said about the Socialist Government's attempts at introducing an Economic Plan. These were scarcely better than those favoured by their predecessors.¹ What did the Chancellor propose to do in the short run?

1. See Wilson, op. cit., pp. 98-99.

First, there was the attempt to shift the emphasis in tax arrangements such that overseas investment was no longer as highly favoured as formerly. Second, certain changes were made in exchange control, with the intention of increasing foreign exchange revenues in various ways. Third, arrangements were proposed that would reinforce the official reserves by channelling into them some of the proceeds of the large accumulation of portfolio assets in private hands when these were sold. Fourth, by cutting what were regarded as expendable defence projects, real resources (and especially skilled manpower) were to be made available for the manufacture of exports. Finally, and in support of the hoped-for £100 million a year reduction in the net outflow of capital, the budget was calculated by a nice blend of additional direct and indirect taxes 'to decrease the pressure on our resources through lower public expenditure and higher taxation by £250 million'. But, in the last analysis, success would still depend on the creation of 'a new awareness among manufacturers of what needs to be done' and the victory over inertia was likely to be less easy to win. Yet despite all the Government's efforts, progress towards a more balanced economy remained painfully slow and, in July 1965, further steps were taken to cut back on domestic demand. The emphasis was now on heavy cuts in public and private expenditure at home with a view to strengthening the balance of payments. Thus, there was to be a slowdown in Government and local authority building programmes. So far as housing, schools and hospitals were concerned, there was to be no further expansion beyond what was already included in the programme. Various social improvements that had been planned were postponed, such as the income guarantee scheme and the scheme to provide specially favourable interest rates for housebuyers. Cuts in defence expenditure were confirmed. The maximum period for repaying hire purchase debts was reduced from three years to 30 months.

On the external front, there was a tightening of exchange controls and new measures to reduce the finance available for imports. This was reinforced by a

directive from the Governor of the Bank of England re-emphasizing that exports must have the highest priority and the growth of imports must be restrained. In addition, measures were agreed with the banks to cheapen export credit and to make it more plentiful. For example, when the ECGD facility was available, short-term finance for exports was to be granted at Bank rate instead of 1 per cent. above.

In brief, the objective remained the same - to cut away excess domestic demand, particularly in the construction industries, and to re-deploy the labour saved such that the export industries could expand further and faster. The Government was still attempting to avoid a 'stop' and the emphasis was rather on 'disinflation' rather than deflation.

This continued to be the basis of the Socialist Government's budgetary policy until towards the end of their period of office. Thus, by 1968, after minimal rates of economic growth in 1966 and 1967 and the devaluation of sterling to \$2.40 in November 1967, came the most severe budget since World War II, with a view to curbing the demand on domestic resources. The budget, which was presented on March 19, 1968, was preceded by the rigid ceiling placed on bank advances and the hire purchase restrictions in November and, in January 1968, by cut-backs in planned Government expenditure. In introducing his budget, the Chancellor insisted that the country 'must have a stiff Budget followed by two years of hard slog' and his proposals, which included the introduction of a firm prices and incomes policy, were 'severe'. He suggested that the economy could be expected to grow at a rate of at least 3 per cent. per annum in the 18-month period from the second half of 1967 to the first half of 1969, despite a cut-back in the expected level of private consumption of about 2 per cent. per annum as a result of the budget proposals; if export performance were good, a rate of 4 per cent. was 'within the range of possibilities'.

Despite high hopes of improvement based on the anticipated combined effects of the devaluation of sterling, the most severe budget since the War, and

a succession of other measures, the following fiscal year (to April 1969) was most disappointing. The current account deficit for the calendar year 1968 was the largest ever recorded and further external support for sterling was required. Some progress towards surplus was achieved, but it was uneven and slower than had been anticipated. In particular, exports expanded well, assisted by a fairly rapid rise in world trade, but imports remained obstinately at a high level. Other favourable developments were a substantial measure of economic growth with the level of employment being well maintained and (towards the end of 1968) a marked upturn in industrial investment. But the external situation remained the paramount consideration and for this reason it was necessary to maintain interest rates at exceptionally high levels, progressively to tighten credit controls, and in these and other ways to re-inforce the severe restraints imposed at the time of devaluation and again in the 1968 budget.

As a result of the 1968 budget, pressures on liquidity built up towards the end of the financial year 1968/69. Import deposits, higher purchase tax and excise duty payments, the special charge on investment incomes, and increased rates of corporation tax and selective employment tax all contributed to a sharp rise in Government revenue. The main purpose of the 1969 budget, in the words of the Chancellor, was to continue the balance of payments improvement, but to do so in a way 'compatible with the maintenance of economic growth and the requirements of social justice'. The squeeze on consumption was to be continued and the various proposals were estimated to bring an overall surplus on the Exchequer accounts of more than £800 million for the current financial year. The outcome for 1968/69 was a surplus of £337 million, allowing net repayment of £287 million of Government debt in addition to a reduction of £50 million in the sterling capital of the Exchange Equalisation Account.

By fiscal year 1969/70, the devaluation of sterling in November 1967 and the exceptionally severe monetary and fiscal restraints imposed subsequently to restore the external situation at last began to bear fruit. The principal

objective of policy remained the improvement in Britain's external situation. To this end, the various fiscal and monetary restraints on domestic demand were maintained and the economy grew only slowly. As had been intended, the main element of expansion was provided by exports, which rose by 9 per cent. in volume against an increase of only $1\frac{1}{2}$ per cent. in imports. Consumers' expenditure in real terms was only about $\frac{1}{2}$ per cent. higher in 1969 than in 1968 and public expenditure fell by more than 2 per cent. Private fixed investment, however, rose by 4 per cent. and some stock building occurred. The outcome was that industrial production rose only hesitantly and the increase in gross domestic product barely exceeded 2 per cent. against over 3 per cent. in 1968. Unemployment remained broadly at the same level as in 1968; the average proportion unemployed in the United Kingdom was 2.4 per cent., the same as in the previous year.

Early in 1969/70, the Government had given some exacting undertakings to the International Monetary Fund in connection with an application for a standby credit for \$1000 million required to reschedule overseas debt repayments. Thus, the overall balance of payments surplus was to be set at £300 million for the financial year 1969/70; 'domestic credit expansion' was to be limited to £400 million in the same period. This was largely achieved, but monetary conditions were unusually stringent and interest rates at times reached exceptionally high levels; liquidity pressures on the private sector, including the banks, intensified. Agriculture, like everything else, was affected. Costs of borrowing were high and many farmers experienced cash flow problems.

Despite the emergence of a surplus on the balance of payments during the second half of 1969, the various restraints were largely maintained in order to consolidate the improvement. Nevertheless, there was some evidence of relaxation. Although the import deposits scheme was renewed in December 1969 for a further year the rate was then reduced from 50 to 40 per cent., and again to 30 per cent. as from May 1, 1970. The process of 'gentle relaxation' was continued in the budget introduced on April 14, 1970. The Chancellor felt it 'right to give a moderate

stimulus to the economy, but to spread this between monetary and fiscal measures'. Bank rate was reduced by a further $\frac{1}{2}$ per cent. to 7 per cent. and a gradual rise in controlled bank lending up to 5 per cent. in the year to March 1971 was envisaged, though special deposits were increased. Fiscal reliefs amounting in total to nearly £180 million in 1970/71 and £220 million in a full year were announced so as to speed the prospective rate of growth of the economy from 3 to $3\frac{1}{2}$ per cent. between the first halves of 1970 and 1971. The Chancellor emphasised that he was not making any general relaxation of credit; he was sceptical of the view that company liquidity was 'excessively low', but in the interests of investment he was anxious to avoid 'an excessive stringency of restraint'. He warned that 'incomes cannot for long continue to rise at their present rate' without endangering stability. Some months before the ending of the Government's statutory control of incomes at the beginning of 1970, it was becoming evident that some wage settlements were exceeding the ceiling for annual increases of $3\frac{1}{2}$ per cent. Wage and salary earnings per employee in the second half of 1969 were about 8 per cent. higher than in the corresponding period a year earlier. On the other hand, productivity probably rose at a slower rate in 1969. A White Paper on Productivity Prices and Incomes Policy after 1969 (Cmd. 4237), published in December 1969, suggested a 'norm' of $2\frac{1}{2}$ to $4\frac{1}{2}$ per cent., but subsequent wage claims and settlements were substantially in excess of this range. This development represented a major threat to the continued success of the whole post-devaluation strategy for management of the economy and was largely responsible for the 'cautious' budget.

Because a strong balance of payments position had been achieved by 1969, the external situation ceased to be the dominant consideration in the application of domestic policies. Indeed, by 1970, the total inward currency flow was about £1300 million compared with about £750 million in 1969. Most of this improvement was due to investment and other capital movements; nevertheless, the surplus on the current account of the balance of payments also increased by some £200 million, though mainly because of a marked improvement in the terms of trade in the United

Kingdom's favour. The substantial currency inflows, which were especially pronounced late in 1970 and in the early months of 1971, were not entirely welcome. They were the counterpart of massive outflows of short-term funds from the United States, attracted by higher levels of interest rates in the United Kingdom and elsewhere, and following successive reductions in other centres Bank rate was eventually lowered by a full point on April 1, 1971, having been held at 7 per cent. for over a year. A particularly welcome outcome of the balance of payments situation was the repayment, by end-March 1971, of all outstanding short-term and medium-term debt which had previously been incurred in support of sterling, except for £683 million still owing to the International Monetary Fund.

The main causes of disquiet in the fiscal year 1970/71 were to be found not in external developments but in the slow growth of the domestic economy, on the one hand, and the accelerating rate of wage and price inflation on the other. In real terms, output rose by less than 2 per cent. in 1970, that is even more slowly than in 1969, but by contrast with the previous year the main expansionary impetus came from consumers' expenditure rather than exports and investment. With output growing at a slower rate than productive potential, unemployment rose steadily throughout the year and in March 1971 amounted to 3.3 per cent. of the labour force as compared with 2.7 per cent. 12 months previously.

The reason why, in these conditions, more expansionary policies were not pursued was to be found in the disturbing and accelerating rate of increase in prices and incomes, at a pace without parallel for many years. In the first three quarters of 1970 retail prices rose by over 5 per cent. and by a further 5 per cent. over the following six months, when wage rates and earnings were rising even more steeply. By March 1971, the index of basic wage rates was 12

per cent. higher than a year before, retail prices 9 per cent., and wholesale prices 2 per cent. No specific arrangements designed to control increases in prices and incomes had been introduced since statutory restraints lapsed at the end of 1969; indeed, the new Conservative Government which took office in mid-1970 set its face against the re-introduction of an incomes policy as such, though it exerted pressure on employers in both the public and private sectors to resist blatantly inflationary wage claims.

With containment and then reduction of cost inflation taking first priority in official policy, the few measures of relaxation were modest and mainly directed towards easing the pressures on company liquidity, in order to sustain the level of investment. The official lending guidelines were relaxed in March 1970 to permit an increase for the clearing banks over the next 12 months of about 5 per cent.; the actual increase was somewhat smaller. However, further calls for special deposits were made on them in April and again in October. During the year, the import deposits scheme was phased out and came to an end in December 1970, though repayment of sums deposited before then remained subject to a 6 months' delay. In October 1970, it was announced that the level of income tax and corporation tax would be reduced for the financial year 1971/72 and, when the new budget was introduced in March 1971, it was designed to raise the rate of growth of the economy to about 3 per cent. that is the assumed rate of growth of productive potential, though this figure was not expected to be achieved until the first half of the following year. Once again, the fiscal changes were to a considerable degree directed to improving the liquidity of the corporate sector and in indicating that a slightly faster rate of growth of bank lending would be permitted the Chancellor expressed the hope that additional credit would be channelled mainly to companies. So the year 1970/71 ended with the prospect of a somewhat faster rate of growth developing. But in important respects the outlook remained uncertain, if not disquieting, notably as regards movements in costs and prices and the levels of unemployment and investment.

The fiscal year 1971/72 saw the introduction of Competition and Credit Control (see pp. 54-58), which involved a complete re-shaping of the methods of credit control and the introduction of a broadly based reserve asset requirement for the banking system as a whole, as well as the abandoning of 'ceiling' controls on bank lending and a substantial modification of open market policy in respect of gilt-edged securities. Externally, the situation was dominated by the measures taken by the United States in August 1971, including the suspension of dollar convertibility and the ensuing uncertainty in international monetary arrangements, culminating in the Washington agreement of December 1971. At the same time, Britain's balance of payments remained strong. It was the state of the domestic economy that was disappointing, with unemployment rising and hopes of a recovery of production continually deferred. The budget of March 1971 had been little more than neutral, but Bank rate was reduced from 7 to 6 per cent. on April 1. Expansionary measures were taken in July, including the withdrawal of terms control on instalment credit transactions. Monetary conditions became progressively easier during the year as restrictions on bank lending were first eased and then removed and Bank rate was lowered again to 5 per cent. on September 2. In the same month, the clearing banks abandoned their collective interest rate agreements and shortly afterwards all of them reduced their Base Rates for advances by $\frac{1}{2}$ per cent. The general trend of market rates of interest was firmly downwards throughout the early part of the period, although there was latterly some upturn. This was a period when much new investment was undertaken in agriculture, greatly encouraged by the increased availability of credit. It is probable, however, that much of this new investment may have been undertaken without due consideration of the related interest costs and, as these again began to rise, many farmers must have had misgivings.

In his 1972 Budget statement, the Chancellor estimated that the growth in gross domestic product in the second half of 1971 was around 5 per cent. at an annual rate, but accepted that some slowing down was likely by the first half

of 1973. He concluded that a further stimulus to demand was necessary and introduced measures designed to increase output in the first half of 1973 by 2 per cent., so as to obtain an annual rate of growth of 5 per cent. The measures included further incentives to investment through tax allowances and grants, and widely spread income tax relief likely to encourage spending. It had already been announced that repayment of the outstanding post-war credits, amounting to £30 million, would begin in April and be spread over about 6 months. The net effect of these measures was expected to be an increase in the Exchequer's borrowing requirement of about £2,000 million in the current financial year.

Pressure on the United Kingdom's balance of payments again became evident in 1972; the current account was now more or less in balance as compared with a surplus of just over £1,000 million in 1971. There was also a substantial outflow of capital following the even greater inflow of the previous year. Meanwhile, the expansion of the domestic economy gathered strength and in the 12 months to April 1973 unemployment fell even more swiftly than it had risen in the previous 12 months. Throughout this period, the achievement, and then the maintenance, of a high rate of economic growth remained the over-riding objective of official policy. It was this objective that explained two developments of particular significance. When sterling came under heavy pressure in June 1972, the attempt to maintain the parity established 6 months previously under the Smithsonian Agreement was shortlived; the decision was quickly taken to allow the pound to float and no measures to restrain the economy were introduced. Thus was seen an early implementation of the intention, as expressed by the Chancellor in his 1972 Budget speech, that economic growth should not be frustrated by attempts to maintain an unrealistic exchange rate. The other important decision was to counter growing inflationary pressures by the introduction of statutory controls over prices and incomes - attempts to reach voluntary agreement having failed - rather than by resorting to deflationary measures. This again reflected the determination not to jeopardise the growth of the economy, reaffirmed by the Chancellor in his 1973 Budget speech as follows: 'We must not find ourselves compelled to bring growth to a halt in

order to deal with difficulties which ought to be tackled in other ways, whether those difficulties are concerned with inflation or with the consequences of inflation for the balance of payments'.

Because of the growth objective, the authorities were likewise reluctant to impose constraints on monetary expansion which developed strongly as the economy reacted to official stimulus and the ready availability of credit, and as inflation gathered pace. In the second half of 1972, however, the rate of growth of the money supply began to receive increasing attention, and action to contain it gave a strong upward twist to interest rates, which early in 1973 reached high levels.

The United Kingdom, together with Denmark and the Republic of Ireland, became a full member of the European Economic Community on January 1, 1973 and the five-year transition period began. The first reduction, of 20 per cent., in tariffs on trade and industrial products between Britain and the Community took place on 1 April. On 1 February, the United Kingdom adopted the Common Agricultural Policy, having previously accepted that sterling should be regarded as having been devalued by 9.2 per cent. to facilitate operation of the policy. At a meeting held in Paris in October 1972 heads of state and government of the Common Market countries, including applicant members, reaffirmed their determination 'irreversibly to achieve the economic and monetary union', with a view to its completion not later than December 31, 1980. They also agreed that fixed but adjustable parities between their currencies constituted an essential basis for achievement of the union and expressed their determination to set up within the Community mechanisms for the defence and mutual support of currencies. With this in mind, it was decided to set up a European Monetary Co-operation Fund and this began operations on April 6, 1973. Initially, the Fund had only limited functions, namely the administration of existing short-term credit lines between members and the co-ordination of central bank co-operation necessary for the joint float of currencies.

During 1973, the official policy of a 'dash for growth' was continued, despite increasing criticism of its appropriateness under changing conditions. In 1972, the slack in the economy had enabled a substantial rate of expansion to be generated without undue signs of strain. But by 1973 these had become increasingly evident. Labour shortages, particularly in some trades, began to be reported, as did lengthening of delivery dates. The growth in the volume of imports accelerated and the trade gap widened. While the evidence left room for dispute about whether the economy had actually become 'overheated', it nevertheless posed with increasing emphasis the question as to whether the rate of expansion could be maintained at a time when reserves of capacity were being used up; also whether it should not be decelerated towards a rate which the long-run growth of productive capacity could sustain.

However, the need for restraint was not accepted by the Government until late in the year. Of those who supported the Government's view, some were influenced by the belief that, in the absence of the constraint imposed by a fixed exchange rate, it would be possible to break through into a period of growth which could be sustained at a higher level than had been achieved in the past. A wider segment of opinion was less optimistic, but claimed that, on previous occasions when the economy had shown signs of overheating, the brakes had been applied too soon and too indiscriminately. Although the balance of payments was clearly deteriorating, the floating exchange rate relieved the immediate pressure upon expansion and the case for postponing restrictive measures was strengthened by the tendency of investment to lag behind the growth of output - and to a rather unusual extent. It was also argued that the expansion was potentially self-correcting and this was supported by signs suggesting an easing of the growth of consumer expenditure. New consumer credit extended fell between the third and fourth quarters and bank lending to the personal sector stopped rising after the summer. The volume of consumers' expenditure in the fourth quarter was virtually unchanged as compared with the

previous three months, although the volume of retail sales continued to expand at much the same rate. Although the development of supply shortages probably played a significant part, the growth of consumer demand may also have been under restraint because of the squeeze on real personal disposable income due to rising import prices; also to Stage II of the incomes policy and to the effect of marginal income tax. Although Stage II ended in October 1973, it was possible to hope that Stage III would secure the acquiescence, even if it lacked the agreement, of the trade unions and that some of the inflationary consequences of maintaining the expansion could thereby be contained.

It was not until November 1973, when the prospect was further clouded by the impending 'energy crisis' that the Chancellor publicly acknowledged the need to moderate the growth of demand, but in the middle of the year a series of measures of monetary restraint had been initiated. These were partly designed to counter further depreciation of sterling, under pressure of the upward trend of interest rates overseas, particularly in the United States, while domestic rates were moving downwards; but they also reflected increasing concern at the rapid growth of the money supply, particularly as broadly defined (M3).¹ This continued at the high rate of 1972, which was itself exceptional compared with previous years. The basis for the monetary expansion was the Government's commitment to the expansion of the economy, as reflected in its fiscal policy. This allowed the current and capital expenditure of the public sector - which includes the nationalised industries as well as central and local government - to exceed its revenue to an even larger extent than in 1972, resulting in a very substantial domestic borrowing requirement. Although a large part of this was

1. The narrow definition (M1) consists of private sector current account balances with the banks plus notes and coin in circulation. The broad definition (M3) includes in addition private sector deposit accounts, private sector non-sterling deposits and public sector deposits. The difference between the two is thus largely in terms of interest-bearing deposits.

met by the sale of Government stock to the non-bank private sector, a substantial balance remained to be taken up in the first place by the banks, whose assets and deposits increased accordingly. (By the beginning of 1974, this had virtually all been taken away from the banks by calls for increased special deposits, part of which were later released. The banks met this situation in the meantime by expanding their call money and running down their excess holdings of reserve assets.) To avoid this creation of credit, it would have been necessary to have induced the rest of the private sector to absorb even more Government stock. If this could have been achieved it would probably have caused an even sharper rise in interest rates, which would have operated against the policy of expansion of the economy at large, and in particular against the hoped-for growth of investment in support of it as the year progressed. Although the case for moderating the expansion was steadily gaining strength, the Government's unwillingness to accept it involved their turning a blind eye to the scale on which credit was being created.

While fiscal policy provided the basis for the abnormal monetary expansion, the greater part of it took the form of advances by the commercial banks. In this context, the road had been opened by the removal, as part of the Competition and Credit Control arrangements introduced in September 1971, of direct restraint on bank advances. But the banks' ability to move along it, while maintaining their reserve ratios above the required minimum, was initially fuelled by the reserve assets with which the financing of the public sector's deficit had effectively supplied them. Nevertheless, the degree to which competition between banks had intensified since 1971 seems to have allowed the expansion of the money supply, as measured by M3, to have gone further than would otherwise have been the case.

While the increase in bank advances was the major part, though not the basic cause, of the monetary expansion, it necessarily arose not only because the banks were in a position to supply but also because there were customers to demand them. Yet the increase was without doubt abnormally large in relation to

the private sector's need to borrow for investment, including stockbuilding. Part of this reflects the substantial fall in new capital issues, since if this had not occurred part of the private sector's accumulation of bank deposits would have been drawn into new issues and extinguished as the proceeds were used to repay bank advances. The disinclination to fund bank borrowing in this way itself reflected a growing lack of confidence in the possibility of maintaining the expansion of the economy in the face of a deteriorating balance of payments and the incipient difficulties that became apparent later in the year in the field of the supply of energy both at home and abroad. Also, this lack of confidence enhanced the liquidity preferences of the public. At the same time, until nominal interest rates moved sharply upwards in the second half of 1973, the inflationary climate diminished the apparent risk of borrowing at short-term to invest in existing assets, particularly property, whose prices were expected to appreciate. The biggest expansion of bank advances was indeed to the financial and property sectors. Yet in the inflationary climate that prevailed, it is unlikely that even very severe restrictions on bank lending to this sector would have achieved more than a diversion of the funds which the banks were in a position to lend to other sectors, where they might effectively have been employed for similar purposes.

Hitherto, the money supply has been discussed under its broader definition (M3). But a particular feature of the fiscal year 1973/74 was the divergent behaviour of the narrower measure (M1), whose rate of growth on the monthly measure reached a peak in the middle of 1973 and declined almost continuously thereafter. This relatively slow growth in this magnitude no doubt reflected the sharp rises in interest rates during the second half of 1973, which increased the relative attractiveness of interest-bearing as against current accounts, while the competitive bidding for deposits, which added to the growth of M3, made depositors more aware of opportunities for economising in the size of the balances they needed to hold against current transactions.

Against the background of the monetary expansion, a number of measures were taken by the authorities in the second half of 1973, which resulted in interest rates reaching unprecedentedly high levels. In the first half of 1973, the ease of fiscal policy was matched by that of monetary policy. The minimum lending rate of the Bank of England dropped downwards from 9 to $7\frac{1}{2}$ per cent., but there was a growing expectation of some increase in rates later in the year, for various reasons. One was the Government's exceptionally large need to borrow because of the easy budget; another was the feeling, in some quarters at least, that signs of overheating were developing in the economy and would need to be checked. In July 1973, the Bank of England called for a further 1 per cent. of special deposits from the banks, raising them from 3 to 4 per cent. of eligible liabilities. This immediately touched off a sharp rise in interest rates - an effect which had seemingly been intended by the authorities with the object of offsetting the relative upward movement of interest rates abroad. In the course of two weeks the Bank of England's minimum lending rate jumped by 4 per cent. - from $7\frac{1}{2}$ to $11\frac{1}{2}$ per cent. The banks were somewhat reluctant to raise their Base Rates to this extent, even though the failure to do so would leave scope for undesirable arbitrage transactions. Early in August, Base Rates were generally raised from 8 to 10 per cent. and later in the month to 11 per cent.

The minimum lending rate fell by $\frac{1}{4}$ to $11\frac{1}{4}$ per cent. in October 1973, but in November the Bank of England temporarily suspended the formula for calculating it by reference to the average Treasury bill tender rate and raised it administratively to 13 per cent. (The following week the tender rate came into line and the formula was reinstated.) At the same time, calls for special deposits of 2 per cent. of eligible liabilities were announced. (These would have raised the level of special deposits to 6 per cent. but two $\frac{1}{2}$ per cent. calls were later rescinded.) This time the banks promptly followed - with some official guidance - raising their Base Rates from 11 to 13 per cent.

During this period, when the authorities were actively seeking to lever interest rates upwards and control the growth of the money supply, their efforts were impeded by the 'arbitrage' operations referred to above. As competitive bidding for deposits developed, rates in the 'wholesale' sterling money markets became highly volatile. Bank Base Rates were changed relatively infrequently and at times it became profitable for large customers to borrow from the banks under agreed overdraft arrangements and deposit the funds elsewhere in the financial markets at a higher rate. This became known as 'active' or 'hard arbitrage', as distinct from the 'passive' or 'soft arbitrage' which arose when some borrowers (notably local authorities) switched between bank overdrafts and short-term borrowing through the market in accordance with relative rates of interest. The swelling of M3 as a result of hard arbitrage was probably reduced as the relative interest rate differentials were reversed, but it seems likely that some customers continued to hold some of their funds in wholesale deposits, perhaps as a precaution against the possibility that some restrictions might be placed on bank lending; and their existence later seemed to ease the liquidity problems arising from the three-day week in January and February 1974.

The November 1973 measures, which were expected at the time, seem to have been touched off by the announcement of a record overseas trade deficit for October, with the prospects of further deterioration because of the oil situation. But the Chancellor stated that, while the immediate purpose was to protect sterling, the longer term objective was to sustain a balanced expansion of the economy. The previous growth rate of 5 per cent. or more per annum, which had been possible while surplus capacity was being brought into operation, could no longer be maintained, and the 'tough credit squeeze', as he called it, was introduced to moderate growth to a rate which could then be expected to be about $3\frac{1}{2}$ per cent. per annum. The measures were also intended to help moderate the

growth of the money supply, which was being fed by a continued rapid growth of bank lending.

By this time, it had become clear that the full weight of restraint was being imposed upon monetary policy while fiscal policy continued to be highly expansionary. However in the following month (December 1973), the Chancellor announced cuts of £1,200 million in public expenditure and restrictions on instalment credit. (He also introduced the new scheme for penalising excessive growth of the interest-bearing deposits of the banks; see pp.57-58).

By this time, Stage III of the incomes policy was running into difficulties and the Government's decision to resist the claim by the miners' union for increases outside the limits led to the three-day working week, which continued until the claim was settled by the new minority Socialist Government in March. But the scale of the fiscal action taken in December 1973, reinforced by the moderating effect of the rise in the prices of oil and other imports on the growth of real wages and domestic demand, was such that monetary policy could become more relaxed in face of the liquidity problems expected to arise during the three-day week and the subsequent recovery. With sterling holding up well and United States interest rates trending downwards, domestic interest rates were clearly high enough by international comparisons and the authorities were able to concentrate on the domestic situation, making some releases of special deposits to ensure that bank credit was available to those needing it because of the emergency, although in the event liquidity problems failed to materialise on the scale expected. Minimum lending rate twice fell by $\frac{1}{4}$ per cent., though bank Base Rates remained unchanged.

With the change of Government, the new Chancellor introduced a budget which somewhat tightened the reins on domestic demand; he said that, in his judgement, it should be 'broadly neutral on demand, with the bias, if any, on the side of caution'. It was also to be concerned with a 'deliberate and carefully considered redistribution of fiscal burdens so as to help those less

able to bear them'. He proposed to introduce a second budget later in the year. The Chancellor announced that the cost of food subsidies was to be increased by £500 million. In addition, the Exchequer was to provide an extra £200 million to local authorities to encourage them to purchase completed, but unsold, houses. The standard weekly rates of pension were increased and supplementary pensions and short-term benefits were also raised. Employers' flat rate national insurance contributions were increased, while those of employees fell slightly. Some increases in graduated insurance contributions were made. Meanwhile, in order to contain public expenditure, prices charged by many nationalised industries were increased sharply, further cuts made in defence spending, and the costs of some other programmes (including Concorde, Maplin, and EEC commitments) were reconsidered. Tax increases announced were expected to raise an additional £1,400 million in 1974/75.

Speaking about monetary policy, the Chancellor said that the aim was to reduce both the rate of growth of the money supply and the general level of interest rates. He realised there was 'no short cut' to this objective, for several reasons, notably inflationary expectations, which particularly affect long rates. Another was that the public sector borrowing requirement, though expected to be decidedly smaller in 1974/75 than in the previous year would remain sizeable. He also noted the influence of rates in other countries; by this time United States rates were rising again. Even so, his expressed intentions, together with some easing of the reserve position of the banks, quickly brought minimum lending rate down by two further $\frac{1}{4}$ per cent. steps to 12 per cent. and later to $11\frac{3}{4}$ per cent. With short money rates following the same trend, the banks reduced their Base Rates - which had stayed at 13 per cent. since November 1973 - to $12\frac{1}{2}$ per cent. and subsequently to 12 per cent. Despite some funding sales by the authorities, gilt-edged yields also fell, first at the short end but later also at the long end.

In discussing regional policy insofar as it affects agriculture, necessarily we must concentrate on institutions that provide loans and/or grants in particular areas like Scotland and Northern Ireland, since there is no regional policy as such. In this context, therefore, we shall concentrate on facilities provided by the Highlands and Islands Development Board and the Crofters Commission in Scotland, and the DANI loans (formerly MANI loans) provided by the Department of Agriculture in Northern Ireland.

In addition to its several other activities (e.g., in the fields of tourism, fishing and transport), the Highlands and Islands Development Board, which was set up under the Highlands and Islands Development (Scotland) Act 1965, also offers financial assistance for projects which will improve the agricultural economy within its area of operation (the seven counties of Shetland, Orkney, Caithness, Sutherland, Ross-shire, Inverness-shire, and Argyll). In some cases, grants may be offered; but the most common form of assistance provided is by way of loans at reasonable rates of interest; the conditions attaching to such loans may be tailored to meet the special circumstances of a particular project. The object is 'to establish a secure and profitable agricultural community in the area; schemes will therefore only be supported where they show a good chance of becoming self-supporting and profitable. The finance supplied by the Board is intended to allow such projects to get started on an economic basis .

The Board will consider applications to finance -

(1) farms 'for any development which will intensify production or improve viability'. Examples of the types of project that may be assisted include an increase of stock numbers in order to utilise a farm's resources more fully; this may be combined with a land improvement or building programme; assistance may be given to change the pattern of production with a view to building up a more profitable performance (such as establishing soft fruit plantations, or setting up a livestock enterprise on what was a predominantly cereal producing farm) in addition, the Board has a special scheme for the reclamation and re-stocking

of hill land, where this can be shown to be 'economically sound'.

(2) intensive units for pig breeding and fattening; poultry production; horticulture, or similar enterprises (any of which may be ancillary to an existing farming enterprise, or, alternatively, be set up as independent units).

(3) marketing schemes or processing units - these may be submitted by co-operatives or by private enterprises, so long as they are 'likely to stabilise markets or improve prices'.

(4) services to agriculture 'where it can be shown that these are lacking and would benefit the agricultural community of the area'. Assistance may be given, for example, to help in setting up contractor businesses, co-operative grain-drying or machinery syndicates, or any similar ventures.

The Board's finance is provided in the form of grant-in-aid from the Scottish Development Department. For the financial year ended 31 March, 1973, a total grant-in-aid of £3,835,000 was received. In addition, the Board retains payments received for loan and debenture interest plus capital repayments. In the year ended 31 March, 1973, this amounted to £854,508. Losses are incurred from time to time on Board investments when projects fail or cease trading. In this context the Board reported -

'As the agency charged with the task of developing one of the most difficult areas in Britain, we accept that losses will be high when set against the standards acceptable to commercial lending sources. The Board is determined to minimise these losses, but we must take reasonable risks in backing schemes and projects which might otherwise not get off the ground. It has to be remembered - indeed emphasised - that these projects are also backed by private capital, including investment by banks and other financial organisations. Taken overall, private investment matches that of the Board virtually pound for pound.'¹

Again, on the matter of risk, the Board has said -

'... if development is to take place in the Highlands, a greater than normal degree of risk taking is essential. Most businesses in the region are small, many are in remote areas distant from markets and all are exposed to pressures and circumstances not usually found in the more prosperous parts of the country.'²

1. Highlands and Islands Development Board - 5th Report, 1970, para. 52, p. 17

2. Ibid., 8th Report, 1973, para. 71, p. 33.

So far as agriculture is concerned, it is relevant first to indicate the size of the problem. Something like 63 per cent. of the total rough grazing in Scotland comes within the ambit of the Highlands and Islands, with about 17 per cent. of total grassland acreage and 19 per cent. of the acreage under oats. The Highlands and Islands support about one-third of the total sheep population of Scotland and approximately 20 per cent. of the beef cattle. (About two-thirds of the gross agricultural output of the Highlands and Islands comes from cattle and sheep.)¹

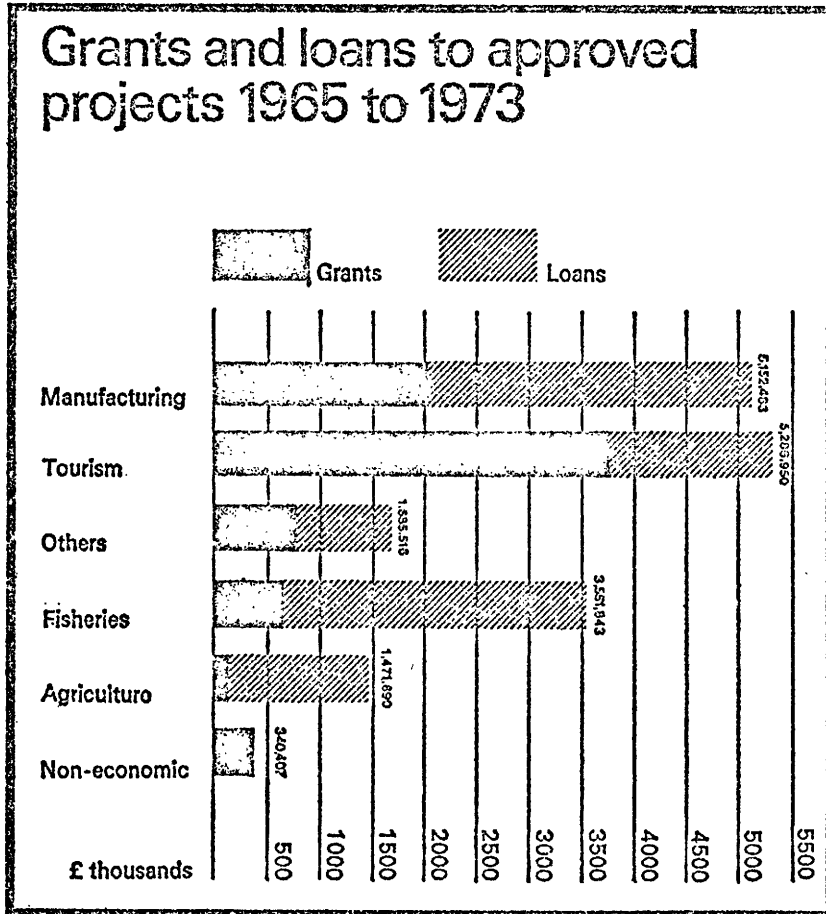
Grants and loans to approved projects of all types from 1965 to 1973 are summarised in diagram at p. 177, from which it will be seen that the amount of assistance given to agriculture is relatively small. It should also be emphasised that Exchequer support is often crucial to the survival of this type of farming, though the proportion of this support to total net farm income diminished between 1970/71 and 1972/73 as rising market prices provided a greater share of cash receipts (from 111 per cent. on hill farms to 36 per cent. and from 89 per cent. on upland rearing farms to 38 per cent.)²

A budget is estimated annually for the following financial year (ending 31 March) and is based on the projected demand for finance on the evidence of trends during the current year. Latterly, there had been a marked increase in applications. For example, total approvals from 1 April 1972 to 31 March, 1973 amounted to £406,060 and covered 71 projects, the majority relating to the 'upland' farms in the counties of Argyll, Caithness and Orkney, where re-seeding or reclamation programmes, or - in some cases - better grass conservation systems enabled higher stock numbers to be carried. The Board estimates that up to 90 per cent. of funds advanced to agriculture will be for farm developments in the field of land improvement and increased beef cows.

These farm development programmes are operated under a special section of the Highlands and Islands Development (Scotland) Act 1965, which enables the Board to give 'financial assistance to any person carrying on or proposing to

-
1. See Appendix VII, Highlands and Islands Development Board Annual Report, 1970. It is understood that the figures are still approximately the same.
 2. See R.J. Isaacs and R. Anderson, Farm Incomes in the North of Scotland 1971/72, North of Scotland College of Agriculture, Aberdeen, Financial Report No. 70, and R.J. Isaacs, "Farm Incomes in the North of Scotland; 1970/71 to 1972/73" in Farm Management Review, June 1974 and especially p. 16.

Highlands and Islands Development Board



carry on any commercial, industrial or other undertaking which in the opinion of the Board will contribute to the social or economic development of the Highlands and Islands'. On loans, the Board was (in 1974) charging a rate of interest of 10 per cent. per annum. In certain circumstances, moreover, where the projected cash flow clearly suggests that deferment of capital repayment for one or two years would be desirable to ensure that a project gets firmly on to its feet, the Board has power to make such a concession, which includes also the waiving or deferment of interest and/or capital repayments over this period.

When the Board provides discretionary credit facilities for agriculture, they usually operate very closely with the banks. Frequently, the bank is also involved in collaborating with the Board in financing agreed development programmes. The Board's financial assistance is intended to supplement bank facilities, not to supplant them. Indeed, very often a bank will make it a condition of their own lending that the Board will be approached for any additional finance that may be required over and above the moneys lent by the bank. For example, while the banks provide ordinary working capital requirements as a matter of course, they may and do suggest that the Board will be approached for any additional finance required for items of capital expenditure. In terms of the security that is offered, the Board tends to lend at greater risk than the banks (though the Board is enjoined to obtain the best security that remains available). The Board will also take security over a croft - a form of cover which the banks are unable to accept as security. Indeed, the difficulty in obtaining a watertight security over a croft is one of the reasons why the Government give special terms to crofters.¹

As already indicated, the Board may offer assistance to agriculture, either by way of loans or grants. Since 1965 to December 1973, a total of

1. Crofters, being tenants, cannot give a heritable security, but in terms of the Crofters (Scotland) Act 1955 the Secretary of State can accept payment of the value of improvements on the croft of a deceased crofter up to the amount of the crofter's liability to the Secretary of State. He can also have transferred to him a crofter's right to compensation for improvements made to the croft. This form of security can also be taken by the Board (Section 8 of the Act) but postponed to the Secretary of State who would still have the first call.

£1,355,405 was approved as loans and £116,465 as grants (230 projects in all). The Board can provide loan assistance where grants are offered by other public bodies, but it will not normally offer grants in such circumstances. In every case, the maximum amount of public money which can be spent on a project is 70 per cent. of the total costs, so the applicant must find at least 30 per cent. of the cost from private sources. However, taking agricultural projects as a whole, more than half the development costs are raised from private sources.

Loans are available for buildings, plant and machinery and working capital (which includes the costs of purchasing stock). Interest is payable annually on the balance outstanding. Repayment is made over a period, up to 10 years in the case of plant and machinery and working capital and up to 20 years for buildings, though the Board (as has already been mentioned) can defer capital repayments and waive interest for up to two years. Before offering a loan, the Board must be satisfied that - (a) the development will be economically viable and that it will produce sufficient income to service the loan and continue to operate profitably thereafter; (b) adequate security can be offered; and (c) the development will contribute to the economy of the area.

Where the Board is satisfied that a project is necessary for the satisfactory development of the area and that it will eventually become viable, but is unlikely to become established on the basis of normal assistance alone, they may offer a special grant to help the development over its initial stages. This grant cannot be made in respect of costs which are grant-aided by other public bodies such as the Department of Agriculture and Fisheries in Scotland or the Crofters Commission.

Each application is considered on its technical and financial merits. The Board also attempts to assess the desirability of the project from the point of view of the development of the area concerned. But it must not be presumed that, because a scheme is eligible, it will necessarily be assisted.

The discovery of oil in the North Sea has, of course, modified the economic situation in this region and oil-related developments have also had indirect effects on existing industries (such as 'poaching' of labour and greater labour turnover). In the absence of oil-related development, it is thought that the region would have made satisfactory progress, though there would have been little indication of a decrease in the economic differences between region and country.

'As it is, oil development has brought rapid and spectacular economic progress to the region. Unemployment levels continue to fall, and regional wage levels will probably rise more than national levels in 1974. The immediate economic problems will be associated with accommodating the oil industry (e.g. in providing houses and other infrastructure) and encouraging those existing industries that could prosper even in the presence of oil industries.'¹

Brief reference should also be made to the Crofters Commission, which was established under the terms of the Crofters (Scotland) Act 1955. In general, the functions of the Commission are to reorganise, develop, and regulate crofting in the crofting counties of Scotland;² to promote the interest of crofters there; and to keep under review all matters relating to crofting.³ The Act also empowers the Secretary of State, after consultation with the Commission and with the approval of the Treasury, to launch schemes for providing grants and loans to crofters for the purpose of aiding and developing agricultural production on their crofts, and any such scheme may provide for the administration of such grants and loans through the agency of the Commission.

In this context, it is perhaps advisable to define some of the differences between crofters and farmers, which account for the special arrangements that have been made for crofters. Some 70 per cent. of crofters live on islands and, in the great majority of cases, they are working the poorer land. Accordingly,

1. Highlands and Islands Development Board - 8th Report, 1973, para. 31, p. 22.

2. These are Zetland, Orkney, Caithness, Sutherland, Ross and Cromarty, Inverness-shire and Argyll.

3. There are some 18,320 registered crofts in the crofting counties, though as a result of amalgamations these are operated as just under 15,500 working units.

their production is low in relation to effort and their costs are high. Unlike farmers, crofters have a legal obligation to equip their holdings. Only in a few cases - and this is exceptional - does the landlord equip the holdings - e.g. crofts on land settlement estates owned by the Secretary of State for Scotland. At the same time, the crofter has no proper title to the buildings he puts up on the croft (only a right to compensation on the renunciation of his tenancy) and he cannot therefore offer buildings as security in order to raise capital. It is for this reason that the Government has felt obliged to provide some degree of assistance.

The financial assistance available to crofters takes the form of special assistance under the Crofting Counties Agricultural Grants (Scotland) Scheme and the Crofters, etc., Livestock Purchase Loans Scheme and also general support to farmers in the form of cattle and sheep subsidies and other price guarantees in the form of deficiency payments schemes.

Thus, under the first scheme grants can be made for the cropping of marginal land, for land improvement (reclamation of rough or hill land; improvement of heath land and rough grazing by surface treatment; hill, tile, and arterial drainage; bracken cutting; and ground clearance), and for other improvements (such as the construction or improvement of pit and clamp silos; field shelter for cattle or sheep; fencing; the provision of cattle grids; fixed equipment for the handling or treatment of sheep or cattle; the planting of shelter belts; the provision of electrical equipment for agricultural purposes; the provision or improvement of roads, bridges or boat slips; and water supplies). Where appropriate, grants will also be available to Common Grazing Committees undertaking improvement works on common grazings. During 1973, the Commission handled over 5,000 individual claims for grant aid under schemes for which they have administrative responsibility, amounting to over £558,000.

In addition to a wide range of grants, loans are made in certain circumstances to finance purchases of livestock¹ and (as well as building grants),

1. In 1973, the rate of interest fluctuated between $9\frac{1}{4}$ and $14\frac{1}{2}$ per cent.

through the Department of Agriculture and Fisheries for Scotland, for the erection or improvement of dwelling houses and other buildings on the crofts. For this latter purpose, grants may be given of not more than half the cost of labour and materials subject to a maximum grant. The maximum grant for a new house or the replacement of an existing house is £2,300. The grant for improving a house may not exceed £750 and the grant for erecting, replacing or improving farm buildings may not exceed £1,000. In addition, loans may be offered. The amount and duration of any loan is fixed at the discretion of the Secretary of State who takes into account, amongst other things, the resources of the applicant, the suitability of the house or building to the croft concerned and their compensation value. Loans are repayable by half-yearly instalments of annuity including interest at $3\frac{1}{4}$ per cent. per annum for houses and $9\frac{1}{2}$ per cent. per annum for farm steading buildings. The maximum total loan assistance for a house to any applicant is £3,000 and for steading buildings £1,000. Loans can also be obtained by new tenants of crofts, who are required to pay the outgoing tenant or to the landlord compensation in respect of the permanent improvements on the croft.

In Northern Ireland, moneys are made available by the Department of Agriculture - the so-called DANI loans¹ - to assist in the purchase of new agricultural machinery, equipment, livestock, seeds and fertilizers, to finance the erection and improvement of farm buildings and dwellings, also for land improvement, including afforestation. Agricultural contractors as well as farmers may obtain loans for the purchase of new agricultural machinery. Farm amalgamation loans are available for periods of up to 40 years.² (This is the

1. Under the Development Loans (Agriculture and Fisheries) Act (Northern Ireland) 1968, the relevant moneys, which pass through an Agricultural Loans Fund, are borrowed from the Consolidated Fund managed by the Department of Finance.

2. In practice, the average amalgamation loan is £10,000 for 15 years.

only area in which DANI provides finance for land purchase and, in the absence of the A&C, this is therefore a field otherwise catered for largely by the banks.

With the exception of agricultural machinery and equipment, money is advanced by loan rather than by hire purchase. In both fields, the Department is in competition with other lending agencies but, since rates are not subsidised, apparently without resentment. Indeed, it is only recently that banks have become rather more interested in longer term lending to agriculture, though over a long period of years they have assisted in the financing of land purchase.

The size of a DANI loan depends on the nature of the transaction. It may be for as little as £100 (e.g., for an implement) or run up to £3,000. This would be the usual range, since the majority of farms in Northern Ireland are modest in size. But applications for larger amounts are not uncommon.

Excluding the amounts made available to finance farm amalgamations, which tend to be long-term, 60 per cent. of the short- and medium-term moneys made available by DANI would be in the form of loans and advances to finance the purchase of agricultural machinery (especially tractors), 28 per cent. for livestock, farm buildings and land improvements, and 8 per cent. for farm dwellings. Loans are not made available to pay off debts or to finance the purchase of feeding stuffs.

The terms of hire purchase loans (for new machinery and equipment) are said to be more generous than those available from commercial houses - in 1974, the effective rate charged was 15 per cent. on a reducing balance. Even so, the Department is estimated to obtain only some 25 per cent. of the total business available. This is probably due to two main reasons:

(i) the Department does not pay commission to dealers, through whom the finance houses attract a significant proportion of their business; and

(ii) it usually takes slightly longer to process a DANI transaction and the finance houses are perhaps more competitive in this respect.

As a matter of policy, every attention is paid to the viability of any loan proposition and where a loan of more than £5,000 is involved every case is referred to the Farm Management Section of the Department for a detailed feasibility study to be carried out. This study becomes one of the major criteria on which a decision is taken as to whether or not a loan should be offered.¹

The total amounts made available under the Hire Purchase Finance Scheme between 1945 and 1974 were of the order of £7.25 million² and it would seem that greater use could be made of these facilities.

Bad debt experience has been relatively good; repayments have been received fairly regularly and without too much difficulty.³ For machinery loans, the repayment period will be one, two, or three years, and for livestock loans up to seven years; for erection and improvement of farm buildings, it might be from 4 to 10 years. Loans for the erection of farm dwellings would be for a rather longer period - say, 15 years or more. Usually, repayments are in quarterly or half-yearly instalments. Or, where the farmer is a milk producer, a loan to buy cows or for some other purpose related to milk production, can be repaid in monthly instalments on the basis of the milk cheque. Moreover, if it suits a farmer to pay off a loan earlier than had been arranged, he is free to do so and without penalty - he only pays interest for the time he has actually had the use of the money (the only exception is farm amalgamation loans which are long-term).

-
1. Application forms for a machinery loan from DANI can readily be obtained from the local machinery dealer or through the Ulster Farmers' Union. For other loans, it is necessary to apply to the Department itself.
 2. Total figures for all loans were between £9 million and £10 million (1970) and, in 1974, £12.8 million.
 3. The accounts show arrears of £50,781 as at 31 March, 1974, the balance not yet due at that date being £2,473,745.

B: Future Evolution in the field of Agricultural Credit

Chapter 6: Future Developments in the Capital Market and Possible Legislative Changes

Attempting to forecast what will happen in the future is extremely difficult, even for economists that have a certain flair for intuitive judgements that sometimes turn out to be right. In trying to adumbrate the future capital needs of agriculture and general developments in the United Kingdom capital market to 1985 and beyond, all that the present author can do is to identify some of the more probably significant or influential factors operating now or likely to be relevant in the years ahead.

Even if one limits oneself in this way, it is apparent that one can only proceed on the basis of stated assumptions that have at least some degree of relevance. The assumptions that it is intended to make will be of two kinds:

(a) those deriving from an analysis of our recent experience in the economic field; and

(b) those deriving from prescriptions that one might put forward as sensible means of bringing the present inflationary process more under control.

More positively, it is maintained that, unless the most highly industrialised countries in the world do bring inflation under control, there will be a major financial and economic crash, which will result in heavy unemployment that is likely to persist for a period of years. Rather than run the risk that this might happen, it is assumed that the governments of the world's major economies will be prepared to take effective action calculated to eradicate inflation. It will also be assumed that the United Kingdom will in fact stay within the European Economic Community.

Furthermore, it is assumed - as is consistent with an inflationary situation - that there will be continuing pressure on the balance of payments. But this is a symptom rather than a cause of Britain's difficulties,

even though in a very 'open' economy the effects are obviously most direct. Nevertheless, it is argued that the main way in which to resolve the problem of continuing balance of payments deficits is to bring under control (e.g. by monetary and fiscal means) the inflationary pressures within the domestic economy. Other factors may modify the situation - more aggressive selling of exports (e.g. by meeting delivery dates and providing better post-sales servicing arrangements), a greater emphasis on the domestic production of foods and feedstuffs, or the advent of North Sea oil - but the major attack must be by restoring to health the domestic economy. If that can be achieved, the balance of payments will look after itself.

An attempt to forecast the future capital needs of United Kingdom agriculture is not a task that can be undertaken in a vacuum. Some attempt must therefore first be made to establish what kind of economic climate is likely to obtain over the next ten to twenty years. In general terms, the answer can be given on the basis of our expectations with regard to the continuance of inflation. In this context, the most obvious expectation might have been further inflation and maintenance of the upward trend in world prices. Quite apart from the more recent impact of food and raw material shortages, the pressure on scarce resources that has been a characteristic of the whole post-World War II experience - especially up to the end of the 1960s - would be sufficient to explain much of the upward pressure on prices. Initially, there were the immense needs of post-war reconstruction to be met; latterly, it has been a pressure for higher standards of living. Over these years, societies have tended to become more affluent and, over much of the period, employment has been maintained at relatively high levels. In these circumstances, domestic consumption is also likely to be at high levels. This applies not only to the basic essentials of food¹ and clothing, but also to

1. The demand for the basic foods, it may be argued, is relatively inelastic, though this is less true of 'convenience' foods. But there is also likely to be an upward pressure on food consumption due to an increasing world population.

housing and all the incidental tools of living and gadgetry (indeed, in recent years, the more affluent have frequently acquired a second home and furnishings); again, there is the family car (and, until the energy crisis, increasingly a second car); and, in the public sector, expenditure on defence, the social services, hospitals, schools (and other educational establishments), not to mention a variety of social amenities (like opera and concert halls, community and sports centres, and libraries), as well as communications like sea and air ports and additional television and radio services. Moreover, if there is to be consumption, there must be investment - the use of goods for the production of further goods and services - the importance of which has been increasing partly because of a technological revolution and the incidence of obsolescence. This need to invest directly in the industrial process (which includes agriculture) will be there whether or not industries are nationalised. Finally, there are the demands of the Third World. For all these reasons, in relation to the competing demands being made upon them, resources are scarce. In the capital markets, this means that there will be strong upward pressures on interest rates, modified perhaps at times when monetary and economic policy force up unemployment and create a situation of temporary relief from the upward pressure on prices. It was on these grounds that one was able to forecast some five years ago¹ that money rates of interest would move permanently to a higher level and, despite some fluctuation, would move for the foreseeable future within a higher band.²

Is there any reason why we should now modify this forecast? There are two possible reasons for doing so. First, there does seem to be less confidence

1. See J.S.G. Wilson, "The Long-Term Future of Interest Rates in a High Consumption Economy" published in L'avenir de l'Epargne dans la société de consommation by Groupement International Pour L'Etude des Problèmes de L'Epargne, being proceedings of a Colloquium held at Munich in October 1969. Brussels, 1970, pp. 61-70.

2. In real terms, however, there has probably been some fall.

about the future both in Britain and in key world economies like the United States of America and Japan.¹ Second, there is the possibility that we are at the beginning of the downward sweep of one of Kondratieff's 'long waves'.²

So far as Britain is concerned, the lack of confidence may only be a short- or at worst medium-term phenomenon. It may well be based as much as anything on a lack of political leadership. But there is clear evidence of gloom. For example, the Confederation of British Industry in surveying industrial prospects has spoken of "a striking collapse in business optimism" with a deterioration in investment intentions and the value of expected new orders "conspicuously weak".³ This reading of the situation was subsequently confirmed by the Financial Times Monthly Survey of Business Opinion also published in August 1974⁴ and not materially amended by later surveys. Over the medium-term, the Organisation for Economic Co-operation and Development (OECD) had forecast in its bi-annual Economic Outlook a recession in Britain during the winter of 1974/75, with rising unemployment and record rates of inflation.⁵ Meanwhile, in the United States, analysts at the National Bureau of Economic Research have been trying to gauge economic prospects over the next ten years or so. In their view, there will be a significant slowing down in economic expansion.

"The overriding fact that emerges from various studies of the country's long-term economic outlook is that a marked slowdown in growth will occur late in the 1970s and continue well on into the 1980s."⁶

For major industries, the slowdown might be quite traumatic. One industry that is most likely to suffer is the United States automobile industry, which in

-
1. See, for example, "Inflation and Stagnation in Major Foreign Industrial Countries", in Federal Reserve Bulletin, Vol. 60, No. 10, October 1974.
 2. See Gottfried Haberler, Prosperity and Depression, Third Enlarged Edition. (Geneva, 1941), pp. 272-4; also Joseph A. Schumpeter, Business Cycles, New York, 1939, Vol. I, pp. 164-5, and 170.
 3. See The Times and Financial Times 2/8/74.
 4. Financial Times 5/8/74.
 5. See The Times 24/7/74.
 6. See Financial Times 9/8/74.

addition to other factors will be affected by the likelihood of still higher fuel costs, the backlash of air pollution problems, and increasingly congested roads. Amongst the other factors of importance is the projected decline in the United States birth rate, which began in the late 1950s.¹ If this persists, the rate of growth in the labour force will fall to 1.5 per cent. per annum in 1974/80 and to below 1 per cent. per annum during the 1980/85 period (as compared with nearly 2 per cent. per annum from 1965 to 1973). Not surprisingly, therefore, other industries where growth is expected to be slow include furniture, household appliances, and clothing. On the other hand, it was expected that the demand for housing would be maintained. About the same time, Japan was officially reported to be at "an historic turning point, because its miraculously high economic growth had come to an end." This was said to be largely due to the sharp rise in the prices of commodities that put an end to the nation's spectacular economic expansion. And the Economic Planning Agency, which put out the report in an economic White Paper argued that Japan should transform its industrial structure (as may well be necessary also in the United States) with more emphasis on social welfare and economising in the use of resources.²

What now of the possibility that we are at the beginning of the downward sweep of one of Kondratieff's 'long waves'? The evidence for these long waves is statistical; the reasons for them appear to be various. Indeed, they may be due to the impinging of a succession of exogenous forces, with little similarity of pattern from one period to the next, but inducing a reaction from the industrial system that results in fluctuations (be they in the form of the shorter inventory cycles or the nine to twelve year 'business

1. In the United Kingdom, the population is unlikely to change very much from its present level of just over 56 million between 1974 and 1981 and, between 1981 and 2011, there is likely to be a slow increase which will result in a rise in the population to 60.75 million at the end of the period - a rise of about 8.5 per cent. (See The Registrar General's Quarterly Return for England and Wales, No. 501, Appendix F.) But again for demographic reasons, there is likely to be some diminution in the rate of growth.

2. See Financial Times 10/8/74.

cycle') about a long wave trend of perhaps 50 years in length. If there is this 50-year recurring pattern with an upswing lasting some 20 years followed by 30 years on a receding wave, the evidence suggests that the United States (if not the rest of the world) is likely to be moving about 1975 on to the downward part of the long wave. The first of these great 50-year cycles as reflected in major indicators like the levels of production, wages, and prices began about the 1780s and ran to 1844/51. The second went to about 1890/96. The third cycle reached its peak with World War I, then slid into the Great Depression of the 1930s.¹ It should have ended in the 1950s, if the New Deal and World War II had not brought it to a premature end around 1940. But if we date the upswing from about 1950, the downward phase of the long wave will begin about 1975 and last much of the rest of the century. At first, there will be a moderation in the rate of increase of prices, followed by depression in the 1980s. And this is not too greatly different from some of the other forecasts for the United States economy, upon which the prosperity of much of the rest of the world depends.

This is interesting as far as it goes, but can we now find tangible reasons to support such a statistical projection? First, there are the effects of a declining rate of population growth in the United States (and possibly in other countries); this would remove one of the most obvious of the stimulants to economic expansion and these effects can only be offset by a greater degree of restructuring of the economy (e.g. to meet the specific needs of an ageing population) than trade unions and industrialists will be willing - or able - to countenance, since few vested interests are in fact

1. "Historically, the first Kondratieff covered by our material means the industrial revolution, including the protracted process of its absorption. We date it from the eighties of the eighteenth century to 1842. The second stretches over what has been called the age of steam and steel. It runs its course between 1842 and 1897. And the third, the Kondratieff of electricity, chemistry, and motors, we date from 1898 on. These datings do not lack historical justification. Yet they are not only tentative, but also by nature merely approximate." Schumpeter, op. cit., p. 170.

capable of reacting with sufficient speed to the requirements of structural change. Second, and on the side of Government, one of the results of the impact of inflation may well be the recognition by the authorities in a number of countries of the need for greater fiscal and monetary discipline. There may also be a tendency to accept some lowering of sights, if not some reduction in the material standard of living. Thus, there may be cut-backs in Government expenditure affecting defence, education, the social services, housing, and roads. This will obviously affect levels of demand, much of which is initiated by public expenditure. And this will in turn influence attitudes towards investment, without which the engine of growth will be missing. This may be offset to some extent by lower taxation, but in an uncertain world this may tend to be drained off into savings that are in excess of the investment being undertaken. Although it is unlikely that there would be a reduction in the rate at which innovations come forward, it is probable that there might be a disinclination to introduce them into the industrial process and to ensure that they will become commercially as well as technically viable. The disinclination to invest will also have been affected by the impact on costs of the energy crisis, resulting in Britain and Japan in some loss of competitiveness in export prices. It is this range of factors that seemingly has led to the failure of confidence and leadership that has persuaded industrialists and economists to become prophets of doom.

At the same time, if recent experience is any indication, the British (and possibly other) economies may not in fact wholly rid themselves of inflation even though they are prepared to accept measures of fiscal and monetary discipline. In short, they may find that, despite a measure of deflation and unemployment, they still experience an upward pressure on prices and continue to suffer from the phenomenon of 'stagflation'. This was the change that seemed to be in evidence from the early 1970s onwards. In Britain, a more optimistic note has latterly been struck, because of the anticipated favourable influence of North Sea oil. This will not really have all that

much effect until the early 1980s and it would in any case be unwise to expect this source of energy to resolve all our difficulties. Also, North Sea oil is already proving to be enormously expensive to develop, in addition to which there are the huge debts that Western countries are meanwhile incurring to the oil producing nations. When North Sea oil finally comes on stream, there will be a lot of debt and capital to service and the oil may not turn out to be as cheap as has sometimes been assumed. In addition, there may have been some fall in oil prices by then, so that the returns against which to set off the costs may well be lower than anticipated. But oil revenues will remove a major pressure on the then current balance of payments.

It is pertinent, therefore, to look in a little more detail at this recent phenomenon of 'stagflation', which may yet turn out to be consistent with a Kondratieff long wave theory that anticipates the probability that the entire Kondratieff cycle might be lifted on to a new plateau, such that future upward and downward waves will be at higher real levels of income than formerly. And within this context, the United States and other industrial countries might now look forward to a decade of more stable prices (it might be possible again to reduce the rate of increase in prices to more acceptable proportions), with balanced budgets and a slowing down of the rate of increase in the money supply, but with slowly rising percentages of unemployment.¹

Probably not very many economists would today subscribe to the view that relatively high unemployment levels should be invoked as a means of applying discipline within the economy. Nor is it socially desirable that the weapon of unemployment should be so employed - not in this day and age. Yet greater fiscal and monetary discipline is likely to discourage investment and to induce higher levels of unemployment. At the same time, as we have seen in recent years, an economy may experience a significant amount of unemployment and still suffer from inflation.

In this connection, it is worth perhaps looking again at the theory that attempted to relate levels of unemployment to the rate of change in money wage

1. See Paul Lewis in Financial Times 1/8/74.

rates and which was illustrated by the Phillips Curve. When the demand for labour is high and there are few unemployed, we should expect employers to bid up wages quite rapidly. Conversely, when the demand for labour is low and unemployment is high, workers it was assumed would be reluctant to offer their services at less than the prevailing rates, so that wage rates fell only very slowly. Hence, the relation between unemployment and the rate of change of wage rates was likely to be highly non-linear. On the basis of statistical evidence over the period 1861-1957, Professor A.W. Phillips then proceeded to argue that, generally speaking, the rate of change of money wage rates could be explained by the level of unemployment. Furthermore, if one assumed an increase in productivity of 2 per cent. per annum, Phillips suggested that stable prices would have been achieved over the period studied with a level of unemployment a little over $2\frac{1}{2}$ per cent.¹ By implication, if levels of unemployment were higher than that, there should have been some tendency for prices to fall. And over recent years, we have at times had levels of unemployment higher than $2\frac{1}{2}$ per cent., but we have also continued to experience a rising price level. Why?

Why, in other words, does unemployment no longer bite in the way it once used to? Almost certainly, it is because of changes that have taken place in our social fabric - changes which have considerably modified the bases on which the Phillips Curve was constructed. Whether unemployment is due to redundancy or strikes, the worker (and his family) are now protected in a variety of ways. If a man loses his employment - or declines to be employed - he will first of all become entitled to income tax rebates. If he is made 'redundant', there are redundancy payments. In addition, on behalf of his wife and family, he is entitled to receive supplementary benefits (which cover rent and various other outgoings that can be financed at the

1. A.W. Phillips, "The Relation Between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861-1957", Economica, November, 1958

discretion of the Supplementary Benefits Commission; there is also a scale rate to keep the wife, plus amounts that vary with the age of each child). Finally, and helping to maintain a minimum level of income, there are family allowances. This is not to argue against the social services; it is merely to remark on reasons why unemployment does not exert a downward pressure on wages and why the Phillips Curve may no longer apply.

In addition, in a situation where prices are rising fairly rapidly and persistently, the effects of expectations must be taken into account. Most simply, if prices have been rising in the past, there is the expectation that they will go on rising in the future. As a result, people rush to get out of money and into goods. Indeed, if this process continues, ultimately money will be rejected altogether. Meanwhile, the expectation that prices will continue to rise results in a continuing upward pressure on wages - to offset or more than offset rising prices - and this is likely to happen whatever the unemployment situation might be.

Hence, there was a further major reason to expect a modification of the Phillips Curve analysis. And this was reflected in the development of economic theory during the second half of the 1960s. Account was now taken of the fact that although money wages are determined by negotiations within the framework of a competitive labour market, both sides in the labour market will be attempting to influence real wages. On this basis, certain economists¹ began to put forward the hypothesis that the rate of change in money wages will be equal to the expected rate of change in prices, plus a further adjustment that would depend on the degree to which there was an excess demand for labour (it would tend to increase the lower was the unemployment rate). Additional work by some of the Manchester monetary economists² suggested that

1. See, in particular, Milton Friedman in American Economic Review, March 1968, pp. 11-17 and E. Phelps in Economica, August 1967, pp. 254-281.

2. See J.M. Parkin, M.T. Sumner and R. Ward, "Wage Behaviour in an Open Economy: Excess Demand, Generalised Expectations and Incomes Policies in the UK", University of Manchester Inflation Workshop Discussion Paper 7402; forthcoming in K. Brunner and A.H. Meltzer (eds.), Proceedings of the Conference on Wage-Price Controls at Rochester University, November 1973.

expectations about price changes should be based on a wider range of experience that included both retail and domestic wholesale prices, export prices, income and payroll type taxes, and purchase taxes. Furthermore, they argued that expectations about inflation are formed by an 'error learning' process, in which "the expected inflation rate at the time a wage decision is made is the same as that previously held plus some adjustment for the extent to which that previous expectation turned out to be wrong."¹ They also accepted the view, for which there was a lot of historical evidence in previous inflations, that if the economy is operating "with permanent excess demand, that is with unemployment permanently below its equilibrium level, then inflation will not simply be persistent, it will persistently accelerate and, eventually, lead to money having no value at all."²

If one looks at the problem of inflation realistically, there can be little doubt that one of the main causes is the progressive rise in money incomes derived from wages and salaries. There has at times been a lot of talk about cost-push inflation, but costs are also incomes to those who receive these payments. So that inflation is often quite as much demand-pull as cost-push. The two in fact go together, though the emphasis may be - and often is - more on the one than on the other. Again, one can attribute the current situation at least in part to the emergence of new social attitudes. This came with the affluent society of the post-war years, which stood out in sharp contrast against the grim days of the 1930s and the war years, and built up expectations of a happier world. To some extent, we have achieved a wealthier, if not a happier, world. The difficulty has been that much of the population expects income and wealth to go on increasing, but it is not always appreciated that for this to happen there must be positive action - both employees and managers must be prepared to work for it and there must be a

-
1. These hypotheses have now been tested empirically by Parkin and others and with some success. For a useful bibliography in this field, see National Westminster Bank Quarterly Review, May 1974, pp. 45-47.
 2. Michael Parkin, "United Kingdom Inflation: The Policy Alternatives", National Westminster Bank Quarterly Review, May 1974, p. 39.

related amount of new investment. In this respect, the world has not changed very much, but expectations have and these expectations are being disappointed. Frustration flares up into strikes and bloody-mindedness. Trade unions are prepared to tolerate a rather higher level of unemployment (whether voluntary or not) in order to increase - or at least maintain - the living standards of those in employment.

This is not the whole story. Related to it is the feeling in a growing number of sectors of the economy that wages are too low in relation to the importance of the work being done (e.g. in the hospitals and the schools) and to the cost of living. Much of this feeling is justified and, if a sense of fairness is to be imparted to the social contract, it is implied that the lowest levels of wages should be raised (there may indeed be a need to introduce a minimum wage to protect the interests of the lowest paid workers, which minimum should be adjusted from time to time with a view to maintaining its real value). Fairness would also imply some concern for the maintenance of differentials,¹ even though the trend is towards greater equality within the framework of the wages structure, as a result of which many in the higher and perhaps middle income groups are likely to suffer some diminution of living standards. Indeed, relative wages is one of the most intractable of problems. Wages never do move upwards precisely in step. Some workers put in a claim earlier than others and for larger amounts. Some get rises earlier than others and for larger amounts. There is no easy way of keeping all these competing claims in line and still maintaining margins for skill and responsibility.

But if a sense of fairness is to be restored to society, we must attempt to synchronise wages claims and thereafter make arrangements for their

1. If wages are linked to productivity (see below) there will necessarily be some erosion of differentials and, indeed, that is the long-term trend. At the same time, it is agreed that some attention must be given to differential payments; otherwise, there may well be a marked falling off in the supply of skills and of people prepared to accept responsibility.

regular revision. The most obvious way of doing this is a prices and incomes policy that relates increases in wages and salaries to achieved increases in productivity. It is true that not all jobs lend themselves to increases in productivity. Nursing and education probably do not. And there are others. But these callings could readily be accommodated within the framework of the policy outlined by awarding them regular increases in income that accorded with movements in a general productivity index for the economy as a whole. No problem is insuperable. It will be argued that this policy has been tried and failed. The truth of the matter is that it has never really been tried. When Mr. George Brown (now Lord George-Brown), the Socialist politician, attempted to introduce it in 1964, few realised what he was attempting to do. Most of the commentators - and many economists - regarded it as just another attempt to introduce a wages freeze. It was nothing of the sort. It was an attempt at revolution and there can be no long-term solution unless there is a revolution - a revolution in social attitudes and in thought.

It has been well said that the problem is one of social justice, not of economics. "If people accepted that wages and rewards were just and fair, a lot of the inflationary pressure would go. But to get such acceptance, great changes would be needed: the distribution of incomes would actually have to be more fair."¹ The wages of the low paid would need to be raised; an attempt would have to be made to get relative wages on to some kind of acceptable basis, so that not too many workers were out of line; and there would probably have to be some levelling down of top salaries. Then the distribution of incomes might be seen to be more fair. To assist in this Herculean task, we might well require some kind of independent Industrial Court, which would also be in a position to see that further increases in wages

1. Bernard Crick in The Observer 4/8/74.

were only awarded when there were achieved increases in productivity to offset them. One could expect, too, that increases in productivity would tend to take place in industries which were expanding in response to changing patterns of demand.

Another means of ensuring fairness might be widespread resort to 'indexation', whereby prices (like rents and rates of interest) and incomes (such as wages and salaries) would be revised to take into account changes in the cost of living.¹ This might well be supported by the widened use of 'inflation accounting', which would, for example, attempt to calculate profits and depreciation allowances on a real basis and to deflate appropriately magnitudes stated in inflated monetary values.² It may be thought that acceptance of 'indexation' is an acknowledgement that inflation has come to stay - an admission of defeat, but it need not be. On a limited basis, indexation has been tried before. Thus, in Finland, which suffered from serious inflation throughout much of the earlier post-war period (indeed, the 'real' rate of interest was negative for every year - except 1949 - from 1938 to 1951), the banks decided in 1952 to investigate the possibility of tying interest rates for deposits and business loans to the cost of living index. If the index rose above a specified level as at a specified date, the banks would apply a surcharge to the ordinary interest rate charged to borrowers. At the same time, they would grant their depositors appropriate compensation in the form of a higher rate of interest on deposits. The scheme was first introduced in 1955 by the provincial savings banks and co-operative credit societies. The commercial banks also agreed to offer these facilities

-
1. The assets that have been most widely suggested as suitable for correction are Government securities, debentures, savings in life insurance or building societies, and bank loans and deposits. In fact, the United Kingdom Government announced two forms of index-linked savings schemes on August 6, 1974. But there are many unresolved questions surrounding indexation, not least of which is the measure of inflation that should be chosen - index of retail prices or of wholesale prices, or the gross domestic product deflator, all of which have tended to rise at different rates, with accelerations and decelerations that have not been synchronised. See Tim Congdon in The Times 8/8/74..
 2. Some steps have now been taken in this direction in the November 1974 Budget to allow for increases in the value of stocks on which tax is payable. This will now be limited to 10 per cent. of the trading profit. (See Financial Times 13/11/74.

as from January 1, 1957 and at one time (mid-1958) index-tied deposits rose to one-quarter of the total. Then, as greater monetary stability was achieved, the index-tied deposit began to lose its appeal, since if prices ceased to rise the return was 1 per cent. below the rate paid on ordinary accounts, which were now again preferred. Hence resort to indexation need not mean acceptance of inflation as a permanent phenomenon, though one would feel less confident about the indexation of wages, which is likely to result in an inbuilt inflationary pressure of the cost-push variety. This reservation would apply, for example, to the threshold payments¹ that have been triggered off by rises in the cost of living and which were added to the wages paid after April 1974 under Phase III of the Government's incomes policy.

Even so, a prices and incomes policy can only work (whether statutory or not) if the need for it is widely accepted throughout the economy. And all of the experience to date suggests that there is not likely to be such a general acceptance. Perhaps, if it was seen to be fair and had a positive ingredient by linking increases in wages to achieved increases in productivity, a more widely based acceptance might be possible, but so long as a prices and incomes policy is only another name for wages restraint, no amount of propaganda will persuade the public that it can ever be otherwise. And there is a case for propaganda, since, even if policy is made more positive, people must be persuaded to accept it. As already indicated, what is required is a social revolution; attitudes can only be changed if there is a persistent flow of propaganda having that end in view.

If, nevertheless, the Government of the day fails in persuading large sectors of the economy to accept a prices and incomes policy linked to achieved increases in productivity, what are the alternative weapons in the fight against inflation? Very simply, if we are not to face total economic collapse

1. The formula devised in October/November 1973 required the payment of an additional 40 p per week to all those coming under the 'threshold agreements' for every percentage point by which the increase in the cost of living since October 1973 exceeded 6 per cent.

as a result of slipping into a state of hyper-inflation, these must consist of monetary and fiscal discipline. It may be true that much of our inflation has been imported. Basically, one might argue that the inflationary upsurge was due to the conjuncture of poor to average seasons and bad to moderate harvests (in the United States, Russia, China and Australia, especially in 1972/73),¹ which greatly reduced the supplies of foods and feedstuffs that were available to meet the demand. In addition, there was much speculative buying, which forced prices still higher. There were also increases in the demand for non-food raw materials as a result of the world-wide increase in levels of output. There can be little doubt that commodity shortages triggered off the sharp rise in prices that hit all world economies in the early 1970s, but the situation was certainly exacerbated by monetary and fiscal indiscipline. Moreover, even an active monetary policy can achieve little, unless it is permitted to operate within an appropriate fiscal framework. The two must go together.

What do we mean by monetary and fiscal discipline? If we have a sudden cut-back in the supply of money to the economy, necessarily there would be a sharp fall in economic activity and heavy unemployment. Hence, there is much to be said in an inflationary situation for a gradual reduction - say, over a period of three to five years - in the supply of money, with the object of also reducing the rate of inflation to something in the region of 3 to 5 per cent. Obviously, a sharp deflationary cut-back in the money supply will result in a sharp rise in bankruptcies and unemployment, because no economy can adjust overnight to a significant loss of liquidity. However, even if the reduction in the money supply is gradual - giving time for adjustments to be made by industrial managers - it would seem inevitable that as flows of money are reduced throughout the economy there will have to be some cut-backs in economic activity and in employment, with the percentage of unemployment also rising gradually, though hopefully it will be possible to keep it within manageable

1. The 1973/74 harvests were better, though poor in China, and 1974/75 good, except for maize (corn) and soya in the United States.

limits.¹ Ultimately, a degree of 'equilibrium' might be achieved.

If we assume that a 1 per cent. increase in the price level will generally lead to a 1 per cent. increase in the demand for money balances, which experience suggests is a relatively accurate basis for forecasting and, if further one assumes an economy again growing at something like its productive potential - say 3 to 3½ per cent. per annum - some degree of 'equilibrium' might well be maintained with a money supply permitted to increase by (say) 6 to 8 per cent. per annum. Again, this would imply not only action by the monetary authorities to contain the rate of growth in the money supply, but also maintenance of fiscal discipline.

And by fiscal discipline is meant not merely a balanced budget, but one in which there is also some significant reduction in the levels of public expenditure, in order to alleviate the pressure of demand on scarce resources and thereby the real basis of inflationary pressure, which monetary factors only serve to exacerbate. At the same time, it must be remembered that all modern 'mixed' economies are geared to certain levels of Government expenditure. If, therefore, there are cut-backs, private industry will have to adjust to a new situation and this may again mean unemployment. Moreover, this will be true whether or not we are on the downward sweep of a Kondratieff 'long wave'. Hence, the need in this case also to reduce public expenditure gradually, thereby releasing resources that in due course may well be absorbed by new private investment geared to an expansion of production in the private sector. Indeed, over the longer run and especially if accompanied by tax cuts, lower rates of interest, and industrial retraining programmes, this may be the

1. Cp. Parkin's view, loc. cit., p. 43 "A five-year cure could probably be achieved from inflation rates around 10 per cent with a very small margin of unemployment."

means of restoring confidence to the private sector, inducing an increasing quantum of new investment and thereby an increase in productivity. If at the same time industrial relations can be improved, the economy as a whole will be able to benefit from the fruits of the new investment.

What is the relevance of this argument for agriculture? In the first place, as the rise in prices is moderated, one can expect some reduction in the rate of rise in costs and hopefully some widening of profit margins. Secondly, one would expect interest rates to fall to lower levels - partly for monetary reasons, but also because of the reduced pressure on resources deriving from the lower levels of public expenditure. It is unlikely that money rates of interest will ever decline again to (say) the levels of the early 1960s (when the clearing banks' 'blue chip' rate varied between $4\frac{1}{2}$ and $7\frac{1}{2}$ per cent.), but one might reasonably anticipate that they would be lower than 13 to $13\frac{1}{2}$ per cent. (1974). Perhaps, they might be expected to move within a band above and below 10 per cent. (perhaps from 8 to 12 per cent.). At such levels - and given appropriately remunerative end-prices for its products - agriculture might well invest profitably in its own expansion.

Now that we have considered probable developments in the economy as a whole, it is appropriate to discuss some of the likely characteristics of the agricultural industry in the United Kingdom over the coming years. Necessarily, this will be based on trends that are currently in evidence, but which are likely to be maintained. Alternatively, some attention might be given to possible reactions to current phenomena like the high prices of fertilizers and of feedstuffs.

At the present time in the United Kingdom, small businesses still predominate in agriculture mainly because agricultural technology does not in general favour large pieces of equipment that yield physical economies of scale; in addition, close personal supervision by an individual owner seems to have been a relatively efficient way of promoting the growth of crops

and livestock in climatic conditions where decisions are best taken frequently. In recent years, it is true that the most profitable scale of production has undoubtedly increased, notably for poultry and pigs. Indeed, if British agriculture were now to be organised ab initio, it would probably consist of a much smaller number of businesses, possibly with some vertical integration. The rate of concentration of British agriculture is limited in part by the natural rate of retirement of the owners of existing businesses;¹ hence, there will be a tendency for the typical small-scale organisation to persist. To the extent that this situation remains typical, the majority of farm businesses will continue to obtain finance for additional capital formation either from retained earnings or by borrowing. It will not be practicable for them to obtain finance by issuing share capital as is possible for quoted companies.

Nevertheless, the trend does seem to be in the direction of a gradual and continual reorganisation of agricultural capital into a smaller number of larger businesses.² This will probably be accelerated by two factors: (1) the tendency for farm labour to drift from the land though one might expect that the rate of drift will slow down - and quite materially; and (2) the related tendency for agricultural wages to rise. Thus, over the period 1960/62 to 1970/72, the price to the farmer of hired labour increased by 31

1. This is one reason, too, why it is difficult for the young man to break into farming.

2. Analyses of the June Agricultural Census returns indicate the concentration of agricultural capital into a smaller number of larger businesses. It is estimated that between 1967 and 1973 the number of full-time farm businesses (i.e., those that broadly speaking have enough crops and livestock to keep at least one man fully occupied) decreased from 183,000 to 164,000 and their average total acreage rose from 212 acres to 237 acres. This concentration involved exchanges between farmers and growers of moveable capital and current inputs, e.g., machinery, livestock, feeding stuffs, though such transactions also occur without one business growing at the expense of another. The annual value of these exchanges in the United Kingdom cannot be assessed reliably. But in England and Wales the value of annual transactions in agricultural land (excluding that sold for non-agricultural purposes) can be stated, from the compulsory returns to the Inland Revenue, to have risen from an average of £73 million for 687,500 acres in 1962/64 to £165 million for 472,000 acres in 1972/74. Cp. J.S.G. Wilson, Availability of Capital and Credit to United Kingdom Agriculture, 1973, p. 4.

per cent. relatively to the price of buildings and by 35 per cent. in relation to the price of machinery. Since agriculture employs only about 1.4 per cent. of the total hired labour force in the country, the level of agricultural hired earnings is set largely by the general level of wages elsewhere. Meanwhile, the number of persons engaged in United Kingdom agriculture fell from about 993,000 in 1962 to about 710,000 in 1972.

In terms of structure, what is likely to emerge is a dichotomy - on the one hand, one might expect (at least in the medium term) greater emphasis on the family farm, with members of the family working regularly on the farm; indeed, they already make up 55 per cent. of the total labour force and this is thought to be a continuing trend;¹ on the other hand, one would feel that there is scope for the formation of many more public companies in farming, especially in areas of production where large-scale organisation is possible - pigs, poultry, extensive dairying, and the fattening of livestock; where big industrial farming units are formed (and this would not applying to extensive dairying, where the operation seems to grow by building up a number of similarly sized dairy units), one would expect them to be organised under professional management and to employ a small highly skilled labour force paying industrial wages.² Under both of our main heads, one would expect a greater resort to labour-saving machinery and installations, some of which may be significantly more expensive than in the past. Necessarily, this shift towards more capital intensive production would result in agriculture making greater demands on the capital market, though there may be reservations about the extent to which the expansion will be continuous, since British agriculture is already fairly heavily capitalised. Thus, gross

1. See Ruth Gasson of the Department of Land Economy, Cambridge University, as reported in Financial Times 15/11/73.

2. With greater emphasis on family farms, on the one hand, and on industrial farming, on the other, it is likely that there will be additional reasons for phasing out the 'tied cottage'. This may reduce the capital needs of the individual farming enterprise, which may be able to sell off redundant cottages, but a population has to live somewhere and, for the economy as a whole, one would not expect any significant net change in capital needs on this account.

annual investment in buildings, works, plant, machinery, and vehicles in farming rose from an average annual rate of about £160 million in the years 1960-62 to about £296 million in the years 1970-72. Net investment, i.e., after deducting estimated depreciation provisions, rose from an average of £44 million to an average of £79 million. These estimates reflect in part increases in the cost of the capital goods. In terms of volume, at constant 1970 prices, gross investment rose from £211 million to £267 million, and net investment from £60 million to £71 million. To some extent, of course, the level of investment in buildings and works has been further assisted by Government grants. It must also be remembered that where an industry is highly capitalised, this will require a related provision for replacement and not all of this will necessarily derive from depreciation allowances. Some replacement (e.g. of more technologically advanced machinery) may represent new investment.

However, to the extent that contractors and syndicates organise arrangements that will economise in the use of expensive machinery (and this may well prove to be a facility that will require considerable expansion, if the needs of the family farm are to be met at all adequately), one would expect some lowering of the demand for capital and credit, but not sufficient to offset the general trend towards more capital-intensive production.

Another factor that may lead to an increasing demand by agriculture for more capital is the transfer of agricultural land to non-agricultural uses, which has the overall effect of driving up the prices of land, including those of agricultural land. Some idea of the magnitude of the problem is given by the fact that, on average over the period 1966/67 to 1970/71, there has been an annual net transfer of about 120,000 acres of land from agriculture to non-agricultural uses. About 60,000 acres of this has been used for forestry; of the remainder, the majority has been for such uses as building development and roads. This transfer mainly reflects the fact that, in a society where

real income per head is tending to grow, the demand for housing and communications grows more rapidly than the demand for agricultural products. The economic value of land for building, for example, has therefore been much higher than for agriculture, and without planning controls the amount of land transferred from agriculture would probably have been greater. The total of land so transferred between 1962 and 1972 represented 2 to 3 per cent. of the total for crops, grass, and rough grazings in the United Kingdom in mid-1972.

The other area of consideration where speculation may prove to be profitable relates to possible reactions to the high prices of fertilizers and of feedstuffs. Whatever the basis of the fertilizer produced, there have been sharp rises in the prices of raw materials during 1973/74¹ and, over the longer run, one must expect this higher level of prices at least to be maintained. This applies to phosphates, potash, and ammonia.² Imported feedstuffs include maize and soya beans - two of the major ingredients of animal feedstuffs that are not grown to any extent in Europe. Again, they have been subject to sharp price increases due to drought in North America.

It is possible that, given a somewhat different emphasis in farming methods, British agriculture could become rather less dependent on these imported inputs than has been the case in recent years. Thus, greater resort

1. Since mid-1970, the price of phosphatic rock has increased four times, which will tend to result in expanded production - e.g. Jordan, where there are proposals to triple production by 1976 (See Financial Times 23/10/74); the price of potash has gone up by 50 per cent.; and sulphur by 40 per cent. Fluctuations in the world price of ammonia have been erratic; in any event, the price of N in the United Kingdom is largely determined by the ICI ammonia price, although their supplies are insufficient to meet the United Kingdom demand. On an averaged index basis (since there are variations in the prices charged by the major United Kingdom manufacturers), taking an ex works February/May price published June 1, 1970 as equal to 100, the index for equivalent prices published August 1, 1974 would be approximately as follows:

	<u>Index</u>
2:1:1 compound	210
1:1:1½ "	220
34.5%N	161

(Note: the 2:1:1 compound consists of N-20 units; phosphate - 10 units; and K = potash - 10 units.)

2. One of the processes for extracting hydrogen, which is an essential component in the manufacture of ammonia, is based on the 'cracking' of petroleum, the price of which has risen dramatically as a result of action recently taken by the oil producing countries. This process replaced an older process based on steam and coke. However, if the price of petroleum becomes too high, doubtless there will be a resort to other methods of extracting hydrogen.

could be made in areas of mild climate to the use of certain crop plants (e.g. the legume family) which will fix atmospheric nitrogen in the soil by forming nodules on their roots. Greater resort to 'natural' fertilizing agents¹ may therefore be the means of reducing to some small degree dependence on imports of fertilizers.

However, fertilizers still only represent a relatively small proportion of total input costs for all crops and it must be emphasised that for intensive grassland management the sensible use of fertilizer is still essential. Indeed, on a balance of considerations, more will be achieved by applying fertilizer even more intensively to existing grassland, provided more efficient methods are employed to conserve grass. Many farmers know how to grow grass, but they are not so expert at conserving it properly. For maximum results, too, much more capital would have to be applied to provide for the inwintering of cattle on an intensive basis.

Alternatively, on the basis of a rotation of temporary grassland (ley) with cereals and other crops, output (largely of cereals) may be dramatically increased.² Such a response to fertilizer is, of course, far more typical of the lower grades of arable land, which means

1. See Financial Times 31/7/74; also The Times 14/8/74.

2. Although it may be regarded as a special case, the author could quote the specific example of a 784-acre farm on the Yorkshire Wolds, where the original 7-year rotation of Ley; Ley; Ley; Cereals; Cereals; Fodder Roots; Cereals was replaced by a rotation as follows: Ley; Cereals; Cereals; Cereals; Fodder Roots or Potatoes; Cereals; Cereals. Fertilizer application over a 20-year period was increased from 40 tons to over 150 tons. Meanwhile, cereals output increased dramatically - more than three-fold - and lamb output (on a smaller area of grass) by more than 50 per cent. Part of the increase in cereal output would, of course, be due to improvements in plant breeding.

a relatively high proportion of the total land in the country.¹

Clearly, what we need is the more effective management of grassland, such that it provides a significantly higher proportion of the feed required both by dairy cattle and animals for fattening. Already a large part of Britain's surface is under grass, but its potential has been somewhat neglected. The agricultural area of the United Kingdom is about 47 million acres, of which more than 16 million are classified as rough grazing, which may mean almost anything. Cropped areas - farming and horticulture - total about 12 million acres and permanent grass amounts to approximately the same area. In addition, there are nearly 6 million acres of temporary grass (which will include some legumes) that fit in to mainly arable or ley rotations. This 18 million acres of grassland can be converted into cash only through the animals that consume it to provide wool, milk, or meat and, over recent years, the value of British animal production has been three times as great as that from all types of cropping. But only half of it comes from grass-eating ruminant animals - cattle and sheep. In addition, cattle get a good deal of bought-in feed as well. Furthermore, it has been calculated that the average production of used feed from each acre is equivalent to about a ton of grain, whereas an optimum use could achieve the equivalent of $3\frac{1}{2}$ to 5 tons, depending on soil, weather, and management. Clearly, the potential of the 18 million acres of grassland is still not being fully realised.

Quality of management is the main key to the situation. Full use means taking not merely one, but virtually a series of crops from the same field in a single season, either by immediate grazing or for conservation as hay, silage, or dried grass. It involves at all times of the year constant

1. The national breakdown into grades of land is as follows: Grade I - 2.7 per cent.; Grade II - 14.5 per cent.; Grade III - 49.3 per cent.; Grade IV - 18.7 per cent.; and Grade V - 14.8 per cent.

The land referred to in the example was Grade III land.

adjustment between supply and the food needs of the stock. Grass management may look easy where temperatures are not severe and rainfall is relatively plentiful. But, historically, it is said "it has often been where the conditions are easiest that management has been slackest and production furthest from its potential."¹ The big difficulty, therefore, is persuading farmers to manage their grassland better. There is a lot of inertia and, in many cases, a lack of knowledge. Although the costs of improving grassland management are not very great compared with the costs of many other types of farming improvements (e.g. buildings), the rate of improvement may continue to be at a low level. Much potential may merely remain potential.

This might be backed up by resorting to a new process whereby grass-drying fuel costs can be cut by 40 per cent. and yield a valuable protein by-product as well as the usual high quality dried grass. Indeed, it has been suggested that utilizing the by-product from just 10 per cent. of Britain's grass acreage could lead eventually to a reduction of a third in the country's imports of protein feed.² There is still a lot of work to be done before the final staple protein feed could be produced commercially, but the new process is distinctly relevant when we are looking 10 to 20 years ahead. At the same time, it should be remembered that the capital required is likely to be considerable. Even the simplest single screw press costs £6,000 to £8,000 to instal with a throughput of only a few tons per hour, in addition to which (apart from fuel and fertilizers) storage will also be necessary.

Another source of animal feed could conceivably be the straw left after harvesting cereal crops and which is currently burnt off. Experiments have shown that by a new technique it could be turned into a valuable animal feed. In other words, a high proportion of the energy represented by the straw

1. See Leonard Amey in a Special Report on Grassland Management, The Times, 13/5/74.

2. See Financial Times 18/4/74.

could be recaptured via the digestive systems of farm livestock. Indeed, experiments at Nottingham University and elsewhere have shown that up to 20 per cent. of the cereal grain in feeding beef cattle and dairy cows can be replaced by barley straw just as it comes from the field. Some farmers are also overcoming the disadvantage of its bulk by drying and grinding it into a fine powder for use as an ingredient in livestock feeds. While this procedure certainly reduces bulk, it does little to overcome straw's other major handicap - its high content of indigestible fibre. It has been known for a long time that the digestibility of this fibre can be greatly improved by treating the straw with alkali. But the problem has been how to do this economically without consuming large quantities of energy. Now, as a result of a ten-year research programme, BOCM/Silcock, animal feedstuffs manufacturers, are installing a pilot plant in April 1975 to process barley straw up to 20,000 tons of straw per annum. By this means, it is hoped to double the digestibility of the straw and to produce an end-product suitable for use in compounding feeds.¹

Full exploitation of the grasslands will necessarily involve new investment. In particular, the water regime may need correction and, over most of Britain, drainage represents a bigger need than irrigation, valuable though the latter may be in a dry season. Whether imported or not, and whether prices are high or not, it will often pay dividends also to increase the use of fertilizers on Britain's grasslands. This is often true even where clover can be expected to contribute to the nitrogen needs of the sward. Likewise, the return to the land of animal wastes (where cattle are housed) is something that requires more emphasis.² Again, if the farmer keeps more cattle, he will require more housing. Overall, therefore, if policies such as these were followed, there would on balance be a significant amount of new investment in British agriculture and some saving of imports, even if there

1. See Sunday Times 8/9/74.

2. See Leonard Amey, loc. cit.

were a greater use of artificial fertilizers on grasslands.

Obviously, too, there would be implications for the balance of payments and, indeed, concern for this problem is one of the major reasons for attempting to develop British agriculture further, especially if this can be done without a great increase in imported inputs. North Sea oil may help, but it is doubtful whether it will solve all of Britain's balance of payments problems. As a result, Britain must continue to explore the import saving potential of domestic industries. In the present context, this means encouraging the development of a prosperous and more productive agriculture and, without prosperity, British agriculture is clearly not likely to become more productive. But, with good prices as an incentive, an increase in agricultural production could help to 'save' imports and to make the country more self-sufficient. This clearly has implications for the capital market, since any such expansion will require to be based on a significant amount of new investment.

Finally, what happens to agriculture in the United Kingdom over the next ten to twenty years will depend (a) on the cost of inputs; (b) on the end-prices for the products of agriculture; (c) the development of agricultural support policy; and (d) on taxation.

A good deal has already been said about inputs and ways in which there may be a substitution of cheaper for more expensive inputs (especially if the latter have to be imported). Probably, there is not very much that can be done about fuel oil until North Sea oil comes on stream, but in any event British agriculture and horticulture only make a relatively small demand on fuel resources. In total, it amounts to about 2 per cent. of the oil used and less than 1 per cent. of the coal.¹ So far as money rates of interest are concerned, it is the author's judgement that they will probably move within a band above and below 10 per cent. Obviously, given the level of such costs,

1. Leonard Amey in The Times 28/1/74.

efficient farm management must try to the greatest extent possible to economise in the use of the expensive resources and, wherever feasible, to substitute cheaper resources for those which are more expensive. For the rest, the profitability of agriculture - and therefore its ability to finance additional investment - will depend on the end-prices received for its products. Only in this way will a sufficient cash flow be generated to ensure either moneys for ploughing back into the enterprise by way of direct investment or the moneys on the basis of which to repay borrowed capital and to service it during the period of indebtedness. Essentially, end-prices will depend on the pricing policies pursued by the European Economic Community.

It is difficult at this stage to establish what modifications the EEC is likely to make to its Common Agricultural Policy and the matter will almost certainly remain under discussion for some time to come. Basically, the main ingredients of the policy were (i) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production as well as the optimum utilisation of the factors of production (and labour in particular); (ii) thereby to ensure a fair standard of living for the agricultural community by increasing the individual earnings of persons engaged in agriculture and providing European farmers with an income that would compare with the earnings in industry, though critics of the policy would maintain that it has never really lived up to that objective; in the early days of the EEC, an effort was made to draw up a schedule of prices, such that farmers in the different EEC countries should receive approximately the same prices for grain, meat, fruit and vegetables, and dairy products; (iii) each year, it was contemplated that there would be a widely ranging farm prices review, the details of which were to be debated in the European Parliament and then discussed by the Council of Farm Ministers; (iv) stabilisation of markets and assuring the availability of supplies to the consumer at reasonable prices; (v) following the entry of the

United Kingdom, Britain's prices were gradually to be brought into alignment with the general level of prices in the EEC; this was to be completed by 1978, using transitional compensatory amounts¹ (see below) to bridge the prices gap during the transition period, to which additional compensatory amounts have since had to be added following the further downward float of sterling; meanwhile, under the arrangements laid down by the Treaty of Accession, the existing United Kingdom system of guaranteed prices is being phased out over the transitional period. The guarantees for rye, fat cattle, eggs, and sugar beet have already disappeared; the remaining guarantees are, however, subject to amendment in the light of any increases in common prices agreed by the Council of Ministers.

But the Common Agricultural Policy as originally conceived ran into trouble especially in 1973/74, because of the chaos that then developed in international currency markets. In particular, it became increasingly difficult to negotiate farm prices on a basis that would be similar for each member country, when currencies were floating at different rates and in different directions. Ideally, what was required was a 'joint float' against the dollar. Even if it was only one currency that was devalued, it remained a relatively simple matter. For example, when the French franc was devalued in 1969, border taxes or monetary compensation amounts were applied to French agricultural exports and imports to the extent of the devaluation; these were gradually phased out over two years. But it was quite a different situation when one had to try to keep pace with simultaneous fluctuations in the parities of several of the EEC currencies as in the summer of 1971, when the German mark and the Benelux currencies were allowed to float upwards; and this was before the first devaluation of the dollar. Monetary compensatory amounts, which work like a rebate on the revaluing country's farm exports and a tax on those of the devaluing country, were introduced once more to offset most of the effects

1. Note that the transitional arrangements apply only to products covered by the Common Agricultural Policy and so exclude, for example, potatoes and sheep meat, the prices of which do not depend on decisions made by the Council of Ministers.

of the upward float on EEC farm trade, though the German Government was also given permission to protect its own farmers' incomes by means of VAT concessions (an upward float of the mark meant that they would otherwise receive lower EEC prices as expressed in marks). Subsequently, there were the further complications of a floating British and Irish pound, and a floating lira with a possibility of a further upward float in the mark and other currencies.

Because of this and other difficulties - such as the cost of the Common Agricultural Policy, its tendency to produce surpluses while at the same time making food expensive for the consumer, and its protectionist aspects and effects on international trade - the Common Agricultural Policy has been under almost continuous review since 1973.¹ It was felt that producers should bear some financial responsibility for surpluses and that in future farm prices should be fixed in relation to the experience of a modern efficient farm as well as the market situation, in order to avoid exaggerated price rises that will only serve to keep in production the small inefficient units. Nor did the Commission favour direct income support for farmers; it preferred measures to encourage structural reform, the expansion of producers' co-operatives and marketing organisations, and the extension of reforestation.

Indeed, it may be said of the Common Agricultural Policy that so far it has been interpreted most flexibly and, where they have been persistent enough, every effort has been made to meet the specific requirements of particular countries. It could be argued that the EEC has been too accommodating and that, if this degree of flexibility continues to be evidenced, there will be no Common Agricultural Policy left. There must be some ground rules that are acceptable to all the countries of the EEC and, once they have

1. In this context, see Rosemary Fennell, "The Common Agricultural Policy: A Synthesis of Opinion", Centre for European Agricultural Studies, Wye College (University of London), 1973, pp. vi + 106.

been agreed, they must be observed. But there are other problems like high costs and low returns (which have particularly affected British agriculture)¹ and a major cloud that may continue to hang over the effective operation of any such policy is a continuance of chaotic conditions in the international currency markets. Very little real progress can be made until these difficulties can be resolved. At all times, too, the Common Agricultural Policy must take into account the world production of and demand for foodstuffs. Further complications will be the state of the economies of the several EEC countries, the balance that comes to be struck between agricultural products from the north and south of Europe (also between cereals and livestock), and the action taken in respect of EEC products that are over-supplied, but which can no longer be dealt with on the 'managed market' formula simply by adjusting the flow of imports (e.g. poultry and pig meats, eggs, beef, butter, and certain types of fruit). Clearly, within the framework of agreed ground rules, the Common Agricultural Policy will have to be operated fairly flexibly. Inevitably, there will be periodic over- and under-supply situations, but over the longer run the aim should be to ensure that efficient family farms receive a reasonable income. Farm workers and small farmers will continue to leave the industry, though the former at a declining rate; farms will tend to become even more capital-intensive as a result. Large-scale intensive livestock enterprises will continue to increase in number, though perhaps rather slowly, and this will result in fairly substantial demands for new investment capital.

In addition to income tax and the indirect taxes to which the whole population is subject, there are at present two ways in which farming is directly and specifically affected by taxation provisions. It will be appropriate, too, to consider the possible implications of the proposed new

1. Indeed, for livestock producers, the high cost of inputs (partly due to bad weather) and very low prices has resulted in damaging losses (especially in 1974). In addition, cattle, pigs and poultry purchased when end-prices were more rewarding have during a period when the industry has been facing heavy losses fallen by nearly 50 per cent. in value. Much of this investment was financed with borrowed money - as were purchases of land (land prices have also fallen) - and, even if a borrower decided to sell up in order to repay his debt, the sale proceeds may well prove to be insufficient to repay the loan. (Cp. John Cherrington, Financial Times 15/11/74.)

gift and wealth taxes. At present (1974), if a farmer passes his farm over to his son during his lifetime the farmer will be liable for capital gains tax of 30 per cent. due to the much higher prices for land that had latterly obtained. Formerly, sales of land for development (at appropriately higher prices) need not attract immediate payment of capital gains tax, provided the proceeds were reinvested in land¹ within 12 months (increased to 3 years in the Finance Act of 1973). The Finance Act of 1974 abolished roll-over relief on development gains that are used in acquiring more land (but not buildings or fixed equipment).

The other major advantage that was enjoyed was the 45 per cent. estate duty relief that applied not merely to agricultural holdings but to industrial hereditaments as well. But over recent years - so far as farmers were concerned - this very advantage threatened to be their undoing. As a hedge against inflation, the purchase of land was seen to have many advantages. In addition, there was for individual owners the added attraction of the 45 per cent. estate duty relief. Agricultural land (especially in 1972) also stimulated a great deal of investment interest from institutions (and others) seeking an 'inflation-proof' outlet for their funds. This interest has probably now run its course. Certainly, there was a scramble to get into land as a hedge against inflation and this helped to force up prices, but the institutions only wished to incorporate a small percentage of land in their large investment portfolios and, once this had been achieved, their interest waned. There was also some support from issuers of property bonds and private persons of means with a tax problem. Farmers who themselves sought additional farms or parcels of land were caught up in the same process and, in many cases, paid extravagant prices for the additional land required, upon which capital base it must now be particularly

1. These arrangements applied not merely to agricultural land, In fact, they were introduced for the benefit of industry at large and applied equally (say) to a publishing firm that sold up its business near Covent Garden and moved to a factory outside London. It was merely necessary that the money arising from the sale of land be reinvested in a similar asset.

difficult to secure an adequate return.

But for all farmers there had been a sharp increase in the value of their farms, largely because of the rise in land prices. In these circumstances, a farmer could not afford to die and it seemed inevitable that the liability for taxation on the new basis could only be met by selling off parcels of land and the fragmentation of existing farms.¹ Subsequently, there was some recession in land values, which accelerated in the first six months of 1974,² probably due initially to the waning of institutional interest and the liquidity problems of property companies, and latterly to the impact of the Chancellor's new tax proposals, though the precise details are difficult to establish on the basis of the available statistics.³ As a consequence of the rise in prices over recent years, British

1. When prices were lower, this liability could probably have been covered quite adequately by life insurance, but today a farmer would find it virtually impossible to countenance this additional burden on his cash flow.
2. See Financial Times 7/3/74. The survey of land values realised in the first six months of 1974 was carried out by Farmland Market (published jointly by Estates Gazette and Farmers Weekly). It monitored sales worth over £20 million, but this only included successful sales (i.e., not farms which were offered and then withdrawn, to be sold subsequently at figures much lower than the apparent reserve price). Nor did it include private sales. Hence, the figures should be interpreted with caution. To the extent that they are typical of the wider experience, the decline has been general throughout the country. Farms of more than 200 acres and those of under 150 acres have suffered severely, while those in the 150-200 acre range have on the whole held their prices. The prices of farms of over 200 acres slumped by as much as 15 per cent. and this trend was particularly noticeable in the South East. It was believed that, after June 1974, the decline accelerated further. The main reasons given were high interest rates, the collapse in the market for development land, fears of the Chancellor's taxation plans, and the crisis in farming generally. See Financial Times 21/8/74.
3. In addition to the tables in the text, estimates have been prepared by Oxford University's Institute of Agricultural Economics based on data extracted from the Estates Gazette reports of farms sold at auction. (See Financial Times 7/2/74). However, these sales are only a part, and probably a small part, of all land disposals. The Ministry of Agriculture, on the other hand (see Table XXXVI), publishes the results of all disposals at six-monthly intervals whether by auction, private sale, or transfers between families; these include prices paid in public sales agreed for stamp duty by the District Valuer. But, because of delays in collecting this information, the figures tend to be badly out-of-date. Also, since the Ministry figures include simple transfers as well as general sales, it is thought that they can be no more than a rough guide to what is happening. For this reason, supplementary information has been added in Table XXXVII.

land prices, which for a long time were the cheapest in Europe, may now be the dearest for land of comparable farming potential, though - despite the more businesslike approach of institutional landlords and some private owners - rents in Britain are probably still amongst the lowest for any country that does not restrict them by statute.¹

If we now turn to the new tax proposals put forward by the Chancellor of the Exchequer on August 8, 1974, there is first the proposed elimination of estate duty reliefs for owners of agricultural land and woodlands, although the Government was said to be considering the continuation of some relief for full-time working farmers. This change was expected to have the effect of reducing the prices of agricultural land to lower levels. It was proposed that two new taxes should be introduced - the Capital Transfer Tax² and a Wealth Tax.³

The Government's proposals for a wealth tax appeared to be designed to collect something between £200 million and £500 million a year from the top 1 per cent. of wealth holders. If the tax is introduced on the basis of the Green Paper⁴ published on August 8, 1974, it will fall on all realisable

-
1. See John Cherrington in Financial Times Report on Farms and Estates, 15/6/74.
 2. See Capital Transfer Tax, Cmd. 5705. It was in fact announced by the Chancellor in his Budget Speech on November 12, 1974 that estate duty and the tax on gifts would be replaced by capital transfer tax at rates set out in the White Paper. A concession was also announced which would permit the working farmer to value his land at 20 times the open market gross rent, though it was anticipated that this would only apply to a minority of farms. Half of the land in Britain is tenanted and a proportion of the remainder is owned by trading companies and not individuals. It was expected that the latter would be very badly affected. (Working farmers have been defined as those mainly engaged in farming in 5 of the 7 preceding years and 75 per cent. of whose income is derived from farming. Relief will also be available for farm houses and buildings occupied by the farmer for up to 2 years before the transfer. All these reliefs will be subject to limits of £250,000 in value or 1,000 acres, whichever gives the greater relief. There is also relief for controlling shareholdings in farming companies.) It was feared, too, that, unless further concessions were accorded, capital transfer tax would mean the end of private forestry in the United Kingdom. It was argued that the Government should take into account the special case of forestry as a very long-term investment. (See Financial Times 13/11/74 and 10/12/74.)
 3. See Wealth Tax, Command 5704. For details, also see Financial Times and The Times 9/8/74.
 4. Note - a Green Paper comprises proposals put forward as a basis for discussion.

Table XXXVI

Half-Yearly Sales of Agricultural Land in England and Wales
Averages of Sales With and Without Vacant Possession
(10 acres and over) by Private Treaty and by Auction

Half Year Ended	1945-1972			
	Average Price £ per acre	Number of Transactions	Acreage Involved	Aggregate Value—£000
31 March 1945	36	3,966	360,906	12,818
30 Sept. 1945	38	2,889	243,061	9,202
31 March 1946	38	3,797	340,787	12,869
30 Sept. 1946	39	3,998	365,504	14,209
31 March 1947	41	4,131	387,187	15,713
30 Sept. 1947	43	4,129	396,185	16,912
31 March 1948	45	4,743	432,200	20,551
30 Sept. 1948	35	4,334	554,257	19,201
31 March 1949	53	4,755	422,810	22,329
30 Sept. 1949	49	3,935	381,495	18,791
31 March 1950	57	4,636	379,570	21,702
30 Sept. 1950	55	3,869	337,363	18,513
31 March 1951	57	4,406	378,388	21,495
30 Sept. 1951	57	5,051	449,513	25,634
31 March 1952	63	5,669	490,159	30,816
30 Sept. 1952	50	4,287	350,949	21,103
31 March 1953	58	4,900	449,309	25,879
30 Sept. 1953	57	4,576	381,152	21,862
31 March 1954	56	5,059	493,863	27,570
30 Sept. 1954	76	4,322	254,772	19,259
31 March 1955	54	4,830	449,390	24,070
30 Sept. 1955	55	4,179	344,818	18,935
31 March 1956	58	4,599	388,091	22,681
30 Sept. 1956	52	3,733	328,556	17,229
31 March 1957	57	4,358	364,651	20,778
30 Sept. 1957	57	3,920	332,673	18,931
31 March 1958	60	4,702	411,062	24,615
30 Sept. 1958	58	4,140	329,795	19,214
31 March 1959	64	5,210	452,968	28,806
30 Sept. 1959	68	5,049	402,047	27,331
31 March 1960	77	5,410	454,903	35,131
30 Sept. 1960	82	4,490	338,647	27,650
31 March 1961	93	5,010	395,622	36,649
30 Sept. 1961	97	4,400	353,008	34,251
31 March 1962	100	4,551	360,860	36,061
30 Sept. 1962	99	3,956	295,144	29,281
31 March 1963	113	4,545	365,167	41,354
30 Sept. 1963	105	3,610	274,204	28,863
31 March 1964	119	4,827	414,005	49,260
30 Sept. 1964	133	4,031	339,175	45,116
31 March 1965	161	4,600	393,023	63,402
30 Sept. 1965	166	3,801	290,354	48,063
31 March 1966	170	3,307	275,234	46,734
31 Oct. 1966 ⁽¹⁾	164	3,062	238,928	39,203
30 Apr. 1967	173	3,338	261,059	45,122
31 Oct. 1967	175	3,359	247,380	43,323
30 Apr. 1968	181	3,281	270,804	49,036
31 Oct. 1968	186	2,976	223,924	41,613
30 Apr. 1969 ⁽²⁾	202	3,685	317,765	64,309
30 Sept. 1969 ⁽²⁾	194	2,649	209,356	40,582
31 March 1970	201	2,915	215,210	46,218
30 Sept. 1970	199	2,818	209,218	41,714
31 March 1971	195	3,072	249,853	48,642
30 Sept. 1971	189	3,136	237,315	44,808
31 March 1972	208	3,429	275,961	57,880
30 Sept. 1972	234	2,758	224,320	52,821
31 March 1973	380	2,706	227,891	88,032
30 Sept. 1973	506	2,510	228,692	115,677
31 March 1974	612	2,452	221,784	135,636
30 Sept. 1974	581	N/A	N/A	N/A

⁽¹⁾ 7 months.

⁽²⁾ Including April 1969 in both half years.

Source: Ministry of Agriculture, Fisheries and Food.

Note to Table

The transactions recorded in this series:

- (a) Exclude sales of agricultural land for development and other non-agricultural purposes, e.g., gravel workings. Sales of agricultural land which may, in the purchaser's view, have an element of future development value will however be included.
- (b) Include sales of land at prices below the ruling open market level between, for instance, members of a family. But particularly low prices would not be agreed by local Valuation Officers since land values have to be properly assessed for Stamp Duty purposes.
- (c) Exclude gifts and inheritances.
- (d) Exclude compulsory purchases.
- (e) Include sales where the vendor retains certain rights over the land, e.g., sporting.
- (f) Include sales of agricultural land, generally small areas, in which the value of the farm dwelling represents a substantial part of the total.
- (g) Exclude legal fees and Stamp Duty.

Table XXXVII

Farm Sale Prices (England and Wales)

Collected by the Oxford University Agricultural Economics Research Institute from auction sale reports in the Estates Gazette.

AVERAGE PRICES £ PER ACRE

	<u>Vacant Possession</u>		<u>Without Possession</u>
	ALL FARMS	FARMS UNDER 300 ACRES	FARMS UNDER 300 ACRES
1946-48	69	82	42
1948-50	82	95	46
1951	88	98	46
1952	76	95	44
1953	73	83	41
1954	75	83	44
1955	80	90	49
1956	78	87	48
1957	85	94	53
1958	85	94	53
1959	101	110	68
1960	123	132	67
1961	124	132	81
1962	134	139	77
1963	168	168	98
1964	214	224	125
1965	235	238	150
1966	234	246	154
1967	258	264	135
1968	280	287	152
1969	299	302	-
1970	259	273	-
1971	317	335	-
1972	662	640	-
1973	924	929	-

Table XXXVII cont.

Country Landowners' Association

AVERAGE PRICES £ PER ACRE

Vacant Possession

3 months ending	ALL FARMS	SALES OVER 100 ACRES	
			Excluding Hill land
October 31, 1972	486	-	-
January 31, 1973	791	776	-
April 30, 1973	722	603	630*
July 31, 1973	861	844	844*
October 31, 1973	688	625	-
January 31, 1974	576	477	725*
April 30, 1974	781	767	845
July 31, 1974	671	628	652

* Estimated, as no distinction between hill land and lowland prior to April 1974.

assets, but where investments already yield an income subject to investment income surcharge, one tax may be set off against the other, so that the taxpayer pays only whichever is the higher. On the basis of the Green Paper, the starting point for the tax would be wealth above £100,000. A number of basic principles were listed: (1) liability is to be based on all realisable wealth, net of liabilities - including company assets, farm land and owner-occupied houses: the test proposed is market value (for example, the surrender value of a life insurance policy or the actuarial value of a reversion) or a realistic balance sheet value. Unsaleable assets - notably pension rights - are to be exempt; (2) there is to be some ceiling on total tax liability under income tax, investment income surcharge and wealth tax combined; the Government's aim is apparently to bear most heavily on low-yielding assets which largely

escape tax at present; (3) owners of assets which cannot readily be realised piecemeal - notably businesses and art treasures - will be able to defer tax payments, subject to an interest charge. Special measures to limit the burden on working farmers are also to be discussed by the Government; (4) the Government is determined to prevent any avoidance of the tax through the formation of trusts: trustees will be liable to pay tax at top rate, but can claim an abatement where the beneficiaries would not be liable at this rate; and (5) public companies and unincorporated associations will not generally be liable, nor will non-residents, except on land and premises in the United Kingdom.¹ One of the most important questions left open was whether married couples should be assessed jointly or separately: the Government apparently leans towards separate assessment (though it is implicit that this might involve higher rates of tax). Minors, on the other hand, would have to be assessed along with one of their parents. The tax would be based on self-assessment (in principle property will be valued on an open market basis), subject to sample checks. It should be noted that this would place a considerable burden on the taxpayer.

The underlying philosophy is that income by itself is not an adequate measure of taxable capacity. The ownership of wealth, whether it produces income or not, adds to the economic resources of a taxpayer, so that the person who has wealth as well as income of a given size necessarily has a greater taxable capacity than one who has only income of that size. At the same time, consideration must be given to the obvious clash between reducing inequality and running an efficient economy. Hence, the possibility is envisaged of a ceiling provision. Specific reference was made to Swedish

1. But shareholders of companies will be liable. In addition, the Green Paper suggests that in the case of private companies the shares will be realised not on a dividend yield basis but on the value of the underlying assets. Forming a company would therefore provide no protection from wealth tax to an individual or a family. The company as such might continue but it would be starved of cash because of the necessity to pay out money to majority shareholders so that they could pay the taxes.

practice, which limits the total liability of wealth tax and income tax combined. A ceiling provision would also help to ease the burden of wealth tax on unincorporated businesses, closely owned companies, and farms. Another expedient considered to prevent the wealth tax from biting too hard into productive assets is a deferment of the charge on owner-occupied farms¹ and closely owned businesses until sale, retirement, or death.

Nevertheless, the very high capital value of farm land will affect very directly a farmer's liability to wealth tax, unless some specific concession is in fact made to the farming community. On the other hand, the abolition of estate duty relief may be expected to generate a downward pressure on land prices and to make farmers less liable to the projected wealth tax. Even so, the farmers affected may be of the order of 35,000, since if £100,000 threshold is fixed many owner-occupied farms of more than 100 acres could be caught by it. Also, although deferment of payment of wealth tax until sale, retirement, or death may protect the farmer while he is actively farming, it still threatens fragmentation after the farm passes from him.

Most of the discussion has so far centred on the owner-occupier, but it must be remembered that the large estates (which are landlords to a large number of tenants) will under the proposed new regime inevitably have to pay very substantial taxes. Rented land in the United Kingdom comprises some 45 per cent. of total agricultural land. Hence, although tenant farmers may seem to be better off because in many cases they lack the wealth to expose themselves to fiscal attack, they do depend on their landlords for much of their capital and, if the position of the landlord is weakened, this may adversely affect a large number of tenants, though one way out may be for

1. Tenants would be affected less directly (and approximately half of all farmers in the United Kingdom are tenants); it is their landlords that will have to bear the initial impact, though this must have long-term effects on tenants also.

landlords to go into partnership with a farmer rather than to have a formal tenancy. On the other hand, the former tenant may lose some of his security, since in England and Wales a tenancy is secure for the life-time of the tenant as long as he keeps its terms and accepts arbitration for rent; the latter can be applied for either by landlord or tenant every three years (on the basis of the rent a willing tenant would offer). Also, security of tenure - sometimes by consent in England and by law in Scotland - passes to a competent heir. This is a situation that could be greatly changed. Almost inevitably, there will be a further breaking up of the large estates and the need for somebody else to provide the capital that was formerly supplied by the landlord.¹

Moreover, there is the fear both of working farmers and of landlords that cash flow will be inadequate both to meet the tax liability and to provide capital for the investment necessary to keep farming efficient. Already, some farmers have had difficulty in providing a sufficient cash flow to cover the needs of working capital and longer-term investment and some of the 'solutions' offered in this context might well also have to be looked at in connection with capital taxation. Thus, in order to avoid disruption of farming management,² units in the agricultural industry could borrow heavily as capital taxation liabilities became due, while at the same time broadening their ownership base so that duty payable on personal wealth will cease to be managerially disruptive. One way in which this might be achieved would be by allowing ownership of the land to pass to institutional landlords, such as financial institutions, better equipped to provide finance and able to wait for the gains that are expected to accrue over the longer term. Alternatively,

1. Landlords may attempt to offset the increase in their taxes by charging tenants higher rents. In these circumstances, tenants would find that their working capital had been reduced and this would mean an increase in the demand for capital and credit from other suppliers.

2. Cp. Alan Harrison in The Times 7/2/74.

resort might be made to the proposed Agricultural Mortgage Corporation scheme (see pp.226-7), whereby an unauthorised unit trust would purchase between 10 and 49 per cent. of the undivided shares in agricultural properties, letting them back to the original farmer on a full agricultural tenancy with an option to repurchase after ten years.¹ Or the Government could step in and offer sale and lease-back facilities as of right, though many would see in that the thin end of the wedge of land nationalisation. Similarly, if instead of paying taxes in cash, landowners were to transfer the equivalent in land to the State, while continuing to rent it.

The most obvious area in which one would expect developments in the provision of agricultural finance in the United Kingdom concerns the Agricultural Mortgage Corporation. Already, in 1973, the AMC had put forward proposals to set up a Land Investment Company.² These proposals were to be viewed against the background of rising land prices at a time when the capital invested in the industry was producing a relatively poor return (e.g., when compared with the yield on industrial ordinary shares). In addition and quite apart from the larger sums now required when purchasing land, increasing amounts of capital were seen to be necessary in the farming operation as a result of rising costs (including the increased cost of farm

1. This would seem to be a more viable proposal than the Agricultural Equity Corporation discussed in Wilson, op. cit., pp. 214-215.

2. See F. Clive de Paula, Land Prices and New Capital for Agriculture, pp.18-19, 11/1/73 and Future Farm Structure and Finance: The Prospects, pp. 10-11, 6/2/74.

implements and machinery) as well as the incidence of technological change. There were very real constraints inhibiting the growth both of individual farming enterprises and agriculture as an industry. If agriculture was to obtain access to the capital it required, new ways had to be found of providing it.

In particular, it was clear that many farmers would be unable to find sufficient capital to finance both land ownership and the operation of a farming business. In addition, the industry would have to find the future funds to meet the increased demands of capital taxation. At the same time, there has been evidence of the availability of institutional funds for investment in agricultural land. With this in mind, AMC originally proposed that a land investment company might be set up which would buy from an individual landowner a share in the equity of his land which would then be owned by the farmer in partnership with the AMC. It was envisaged that AMC would take not less than 10 per cent. and not more than 49 per cent. of the equity, the landowner retaining a controlling interest. If the landowner were an owner-occupier, he would continue to farm the land himself.

In this way, capital would be made available for the ownership of land holdings, which would not come on to the market in the normal course of events. The volume of land potentially available for such an operation was therefore likely to be very much greater than that coming on to the open market. It was also a means of releasing capital for actual farming operations. The plan would only be open to existing owners of agricultural land and was not designed to provide capital for the acquisition of agricultural properties. Moreover, AMC Agriland Trust - as it would be called - would be in a position to attract funds from gross pension fund investors, who wished to invest part of their portfolios in agricultural land. It might also be attractive to hold moneys in a fund managed by a company within AMC, which had a special

knowledge of agriculture and agricultural land and a degree of expertise which the investors might well like. There would be the further advantage of spreading investments over a greater range of holdings of agricultural land than each of these investors could obtain by direct land purchasing for their own account.

It was appreciated that there were a number of legal and tax problems still to be resolved, but if a sufficient number of individual owners of agricultural land required capital to finance themselves in this way, it was felt that there was no particular reason why AMC should not be able to set up the operation to channel the funds to them. At the same time, it must not be overlooked that under current tax laws the landowner would incur a liability to capital gains tax, when entering upon such a transaction. On the other hand, in situations where a family disposal gave rise to a capital gains tax liability, the sale of part of the equity to AMC could be a convenient way of raising the money required.

Since the original proposal, AMC has devised an outline scheme¹ which it has actively considered instituting; this is called a co-ownership plan. The basic features of the plan are as follows: an unauthorised unit trust to attract gross pension fund investors; the trust will purchase between 10 per cent. and 49 per cent. of undivided shares in agricultural properties; the property will be simultaneously let back to the original farmer/landowner on a full agricultural tenancy; the purchase price will reflect this fact and the trust will acquire an undivided share only; the normal rules of joint ownership will apply; mutual pre-emption rights will apply if either party wishes to sell; and there will be an option to re-purchase the trust's share at the end of the tenth and every succeeding fifth year (giving guaranteed opportunities to revert to full landowner status). In fact, the plan has been designed as a partial sale and leaseback operation which allows a farmer/landowner to retain a majority interest in his farm and to raise capital at a much lower annual running cost.

1. See F. Clive de Paula, loc.cit., 6/2/74, pp. 11-12.

It is possible that further innovations may be put forward in the future in addition to the co-ownership plan. Thus, a finance company might be set up under the auspices of the AMC to 'assist with the finance of marketing co-operatives and other developments linking the agricultural producer more effectively with the consumer' (e.g., through producer groups). AMC Finance Co. Ltd., which was the name proposed, could - if the agricultural industry expressed an interest in it - 'act as a general finance corporation for the industry, on somewhat the same sort of lines as the Industrial and Commercial Finance Corporation Ltd.' had done within its chosen sphere. It was appreciated that 'the type of finance provided by this projected company would have to come from complementary but separate sources from those available to AMC for its traditional lending operations.'¹

Given the experience and expertise possessed by the AMC in agricultural matters, together with its acceptance in the City of London as a creditworthy institution through which to channel medium- and long-term funds to agriculture, it is logical that the AMC should be the appropriate vehicle of expansion in these fields. There is little point in setting up alternative institutions to do the job. However, from an organisation point of view, there is a case for establishing a holding company to act as a kind of umbrella for the various subsidiary activities of the AMC and it is known that such a plan is now being actively considered in Whitehall. Shares in the holding company would be held by the present shareholders of the AMC; shares in the subsidiaries (of which the present AMC would become one) would be held by the holding company. Moreover, such a form of organisation would permit the holding company to undertake any new initiatives in the field of agricultural finance, which were considered desirable and which were likely to prove viable.

1. There was also a suggestion in F. Clive de Paula, loc.cit., 11/1/73, pp. 19-20 that AMC might consider the establishment of a Farm Finance Company as a means of securing access to outside equity capital to finance the farming operation. It was appreciated that the nature of farming risks was likely to inhibit the attraction of such capital; also that most farmers were unlikely to be prepared to sacrifice control over their enterprise. For these reasons, this seems to be a rather less viable proposition than that described in the text. See also Agricultural and Horticultural Marketing, Cmd. 5121, 1972, particularly para. 46.

In addition to the AMC, the Central Council for Agricultural and Horticultural Co-operation also has plans. In January 1974, the then Government had already announced their intention to make available an additional sum of £250,000 per annum for three years to promote producer marketing through co-operation in the United Kingdom. This new money was to be used in two ways:

(1) the setting up of a Marketing Unit within the Council, which would look at current marketing arrangements, recommend the strategies necessary to develop more effective marketing and give advice on carrying these into effect. The work of this Unit would be guided by a Marketing Policy Committee mostly nominated by producer organisations on a United Kingdom basis but appointed by the Council; and

(2) to provide additional resources to the four central co-operative organisations in the United Kingdom (for England, Wales, Scotland, and Northern Ireland) as agents of the Council to step up development work amongst producers in the field. In particular, it was envisaged that development effort would be directed to follow up ideas that came out of the work of the Marketing Unit.

These proposals were subsequently confirmed by the Minister of Agriculture in the House of Commons on March 14, 1974 and a Marketing Policy Committee of twelve members was appointed in April.

It planned to initiate development work in the field of agricultural co-operative marketing and has given particular attention to the further development of co-operative livestock enterprises already established, but funds were also made available for development posts connected with cereals, fruit, vegetables, and ornamentals.¹ It was foreseen that the increased development work would result in an increased requirement for legal advice. It was therefore decided to consider the appointment of a lawyer for this purpose

1. 'Ornamentals' are non-edible horticultural produce (e.g. pot plants).

in one of the Societies to provide a service on a United Kingdom basis. Similarly with computing - the initial appointment of a computer officer was to be financed to develop standard computer programmes for marketing co-operatives. It was assumed that these programmes would become self-financing quite quickly. The Marketing Policy Committee will be charged with the duty of monitoring the activities of the officers appointed and assessing the effects of their actions on the marketing situation.

Finally, it is felt that the Agricultural Credit Corporation Limited (see pp. 75-79) could play a wider role within the context of the EEC directives which make special provision for guarantee support.

C: Conclusions

Chapter 7 : Conclusions

What finally are our conclusions about the future? These are dependent, as we have seen, both on the general economic climate that will obtain over the next ten to twenty years and on the more specific factors that relate to agriculture in the United Kingdom.

If the leading industrial countries in the world are to get to grips with inflation, it would seem that this can only be achieved by an emphasis on monetary and fiscal discipline. This means, on the one hand, a gradual decrease in the rate of increase in the supply of money, until it approximates (say) 6 to 8 per cent. per annum (allowing for economic growth at - say - 3 to $3\frac{1}{2}$ per cent. per annum) and, on the other, not merely a balanced budget but also some significant reduction in the levels of public expenditure, in order to alleviate the pressure of demand on scarce resources and thereby the real basis of inflationary pressure, which monetary factors only serve to exacerbate. In these ways, the rate of inflation (percentage rise in prices per annum) might be reduced to something like 2 to 3 per cent. or even less. Moreover, if this objective could be achieved in general terms in most of the leading industrial countries, there would be little need to worry about imported inflation.

On both counts, one would expect a consequent reduction in economic activity. It would seem inevitable, even if the reduction in the supply of money is gradual, that there will be cut-backs in economic activity and employment, with the percentage of unemployment also rising gradually (say, to approaching 1 million, or about 4 per cent. of the working population), though hopefully the level of unemployment will be kept within manageable limits, ultimately reducing to something like an 'equilibrium' level of $2\frac{1}{2}$ to 3 per cent. So far as the maintenance of fiscal discipline is concerned, it must be accepted that all modern 'mixed' economies are geared to certain levels of Government expenditure. If, therefore, there are cut-backs in public expenditure, private

industry will have to adjust to a new situation and - in the short-run - this again means unemployment. Hence, the need in this case also to reduce public expenditure gradually, thereby releasing resources that in due course can be absorbed elsewhere in the economy. This could be greatly assisted by lower interest rates, tax cuts, and retraining programmes. Thus, if there is a tendency for the demands of agriculture to increase, there will be slack in the economy that can be absorbed without creating the probability of resurgent inflation.

Against this background, what are likely to be the main influences that will determine the demands made by agriculture on the supply of capital in the United Kingdom over the next ten to twenty years? First, there are structural reasons for believing that the capital demands of agriculture will tend to increase over the coming years. The combination of the drift from the land and higher agricultural wages (in relation to costs of buildings and machinery) will force farms to become even more capital intensive and effectively this will continue, whether farms are operated as family units or by public companies. And this will only be offset to a minor extent by organising syndicates or resorting to contractors for the purpose of economising in the purchase of machinery. Second, if the potentialities of grassland management are developed, there will be a greater need of permanent capital investment. Third, if from a balance of payments point of view an increase in agricultural production is seen as a major saver of imports (after allowing for any necessary imported inputs for fertilizers and feedstuffs), this will likewise require a significant increase in agricultural investment and therefore in the demand for capital. But servicing such additional capital will require the maintenance of a sufficient cash flow on the basis of an appropriate relationship between costs of inputs and end-prices. This will be the responsibility of the EEC's Common Agricultural Policy. Finally, there is the question of taxation. Projected tax changes may result in some downward pressure on land prices, in

which case farmers will require less finance for the purchase of land (but whether there will be any change in the net demand for capital for the community as a whole is a more open question); and if land prices fall, farmers will become less liable to any projected wealth tax. Nevertheless, the emphasis of capital taxation would suggest that, unless farms are operated increasingly by public companies, there will either be a slowing down or reversal of the recent trend towards improved structure, or ownership of farms will pass increasingly to institutional landlords and/or the State. In terms of the demands likely to be made on the capital market, it is probable that it will not be possible for farmers to meet taxes from cash flow and the moneys will have to be found by mortgaging or selling off property, though possibly following retirement or death of the farmer concerned. This will increase the demands made by the private sector on the capital market. Thus, though it may be difficult to put a figure on it, the probability is that United Kingdom agriculture will in real terms have need of significant amounts of additional capital over the next ten to twenty years.

So far as institutional arrangements are concerned, the present range of facilities that is offered in the United Kingdom is already fairly adequate. There is only one existing area, where one might anticipate some expansion and that is in clearing bank term loans to agriculture, where the development so far has been rather modest. Areas where new developments are likely have been examined in Chapter 6. These were three-fold: (1) an extension of the functions and activities of the Agricultural Mortgage Corporation, especially in fields requiring medium- and long-term finance, with the probability that a holding company might be established together with a number of subsidiaries, each of which would be responsible for a main function; (2) the further development of co-operative marketing under the auspices of the Central Council for Agricultural and Horticultural Co-operation; and (3) an expansion in the coverage provided by Agricultural Credit Corporation guarantees.

A further area to which some consideration should be given concerns the subsidisation of interest rates on loans to agriculture. Within this context, the Wilson Enquiry¹ had reservations. There seemed to be some merit in gearing economic activity to the judgements of the markets - in this case, by attempting to achieve some degree of approximation between the rates of interest that apply in the money and capital markets and the expected rates of profit whether on particular farming enterprises or arising out of movements in land values. Resources are scarce and in this way one can ration out the total supply and allocate resources to what are likely to be their most profitable uses. At the same time, it has been argued that interest rates in other parts of the European Economic Community tend to be lower than the United Kingdom and this distorts competition. But interest rates are only one factor among many that involve differences between the Member States and, until there is a much wider degree of monetary and fiscal harmonisation, agricultural finance will presumably continue to be seen in the United Kingdom rather than in a Community context. Also, interest rate subsidies encourage borrowing, whereas under a system of grants (which has been a favoured method in the United Kingdom)² the farmer himself has to put up some of the capital. Nevertheless, if capital grants are set at too high a level, they might lead a farmer into somewhat uncritically committing investment moneys to new projects. Subsidised loans for land purchase would also raise problems; for example, by increasing the demand for land they could induce a further rise in land prices and thereby largely defeat their objective.

If now one is to try to put a figure on the probable increase in the demand for capital and credit by United Kingdom agriculture over (say) the next twenty

1. J.S.G. Wilson, Availability of Capital and Credit to United Kingdom Agriculture. HMSO, 1973, p. 230.

2. Under EEC directive (72/159/EEC), Member States may choose whether to assist farm improvements by way of interest rate subsidy or by way of grant.

years, one might anticipate on the basis of the factors listed above that -- in real terms, i.e., abstracting from changes in price levels -- it could be of the order of up to 5 per cent., possibly as high as 10 per cent. of the present provision. This would be substantially because of the greater industrialisation of agriculture. At the same time, this is unlikely to create any difficulties on the institutional side, since both the banks and the AMC apply much the same criteria to the processing of loan applications whatever the size of the amount or the nature of the business. Furthermore, because of a general reduction in the pressure on real resources (for reasons already given), one would also expect there to be some relaxation in the upward pressures on interest rates, which might now move within a band above and below (say) 10 per cent. This in its turn would help to reduce the upward pressure on costs of production.

Moreover, as already indicated, it will be possible to accommodate an increase of this magnitude in the demand for capital and credit by agriculture, because there is likely to be slack in the economy as a result of reductions in the levels of economic activity elsewhere. In financial terms, the funds will come partly from the banks, which will now be under less pressure from the non-agricultural sectors of the economy, and partly from the capital market, where the AMC for similar reasons can now expect to make larger and more frequent issues of bonds and debentures with a view to supporting the expansion of its activities in the medium- and long-term lending fields. Finally, funds to assist in developing marketing co-operatives (including grain storage and egg packing stations) and extending the facilities of the Agricultural Credit Corporation might be had from the EEC's Fonds Europeen d'Orientation et de Garantie Agricole (FEOGA).

Table XXIII (1)

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES

Balance sheets for the beginning and end of 1969/70 accounting year for farms under 275 acres

Type of Farming	DAIRY			LIVESTOCK			CROPPING β	FIXED β	ALL TYPES		
	Tenanted		Owner-occupied	Tenanted		Owner-occupied			Tenanted		Owner-occupied
	1969	1970	Change	1969	1970	Change			1969	1970	Change
No of farms	11	8		5	6		β	β	19		
Average size of Business and Average size of Farm acres	207	227		155	170				199		
	37	48		70	78				56		
ASSETS											
Fixed Assets											
Land and buildings	15	20	5	5,679	5,786	107	-	14,191	14,188	-3	44
Machinery and equipment	482	430	-52	800	787	-13	232	886	796	-90	-74
Breeding livestock	986	858	-128	1,082	1,134	52	595	1,033	1,165	132	54
(Total Fixed Assets)	1,483	1,308	-175	7,561	7,707	146	827	16,110	16,149	39	24
Current Assets											
Trading Livestock	536	719	183	616	650	34	609	659	650	-9	51
Crops	107	117	10	120	122	2	73	195	205	10	19
Consumable	45	40	-5	109	116	7	5	20	15	-5	16
Debtors	150	116	-34	98	66	-32	23	52	61	9	5
Cash at bank and in hand	340	266	-74	228	388	160	291	860	918	58	214
(Total Current Assets)	1,173	1,283	50	1,171	1,352	181	1,005	1,786	1,849	63	305
TOTAL ASSETS (a)	2,656	2,591	-65	8,732	9,059	327	1,832	17,896	17,998	102	329
LIABILITIES											
Long and Medium Term Loans											
Agricultural Mortgage Corporation											
Lands Improvement Company											
Insurance Companies	14	14	-	63	63	-	-	29	29	-	-3
Building Societies											
Bank loans											
Loans from relatives											
Other											
(Total Long and Medium)	14	14	-	63	63	-	-	82	72	-10	3
Short Term Loans											
Hire purchase											
Creditors	318	308	-10	344	273	-71	85	117	106	-11	-9
Bank overdraft	281	307	26	46	350	304	185	52	44	-8	-10
Other											
(Total Short Term)	599	629	30	394	606	212	270	169	150	-19	-19
Net worth	2,057	1,962	-95	6,670	7,085	415	1,562	17,616	17,747	131	353
TOTAL LIABILITIES	2,656	2,591	-65	8,732	9,059	327	1,832	17,896	17,998	102	329

(a) After depreciation, sales of assets and government grants.

β Fewer than five farms in sub-sample.

Table XXIII (ii)

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES

Balance sheets for the beginning and end of 1970/71 accounting year for farms under 275 smds

£'s per farm

Type of Farming	DAIRY			LIVESTOCK			CROPPING MIXED			ALL TYPES			
	Tenanted		Owner-occupied	Tenanted		Owner-occupied	β		β		Tenanted		Owner-occupied
	1970	1971	Change	1970	1971	Change	1970	1971	Change	1970	1971	Change	
No of farms	7	7		7	7		8	8		20	21		
Average size of Business: smd	200	235		146	149		149	149		190	175		
Average size of Farm: acres	35	45		59	76		76	76		49	56		
ASSETS													
Fixed Assets													
Land and buildings	98	7,696	35	216	12,931	12	12,931	12,931		36	9,812	789	
Machinery and equipment	413	867	-38	873	656	-45	611	611		473	854	83	
Breeding livestock	1,087	1,227	-183	873	1,312	-519	793	793		523	757	133	
Total Fixed Assets	1,598	9,790	-221	1,089	14,899	-552	14,347	14,347		1,084	11,423	-1,005	
Current Assets													
Trading livestock	622	410	-40	436	634	-127	507	507		341	451	11	
Crops	125	119	-6	61	181	-73	108	108		227	194	248	
Consumable	54	133	9	25	12	8	20	20		36	70	22	
Debtors	141	50	32	41	46	144	190	190		300	146	65	
Cash at bank and in hand	206	1,080	43	433	768	244	1,030	1,030		296	926	15	
Total Current Assets	1,143	1,850	12	996	1,659	196	1,855	1,855		1,200	1,832	203	
TOTAL ASSETS (a)	2,746	11,587	-201	2,085	16,558	-356	16,202	16,202		2,204	12,250	-1,208	
LIABILITIES													
Long and Medium Term Loans	-	-	-	-	-	-	-	-		-	-	-349	
Agricultural Mortgage Corporation	-	-	-	-	-	-	-	-		-	-	-8	
Lands Improvement Company	21	-	-21	-	22	-22	-	-		4	8	-72	
Insurance Companies	-	-	-	-	-	-	-	-		-	158	86	
Building Societies	-	-	-	-	-	-	-	-		1	129	129	
Bank loans	-	-	-	-	-	-	-	-		52	275	21	
Loans from relatives	-	1,321	-143	-	91	116	207	207		-	254	21	
Other	-	1,464	-143	-	113	94	207	207		5	898	490	
Total Long and Medium	21	1,321	-143	-	113	94	207	207		52	490	-408	
Short Term Loans	-	-	-	-	-	-	-	-		-	-	-	
Hire purchase	256	185	-33	22	64	8	92	92		8	242	-31	
Creditors	229	258	87	190	111	-111	-	-		128	273	53	
Bank overdraft	-	-	-	221	31	-	-	-		173	446	-	
Other	-	-	-	-	-	-	-	-		-	-	-	
Total Short Term	485	443	-33	274	195	-103	92	92		309	439	-84	
Not worth	2,240	2,093	-147	1,811	16,250	-347	15,903	15,903		1,970	11,425	-716	
TOTAL LIABILITIES	2,746	11,587	-201	2,085	16,558	-356	16,202	16,202		2,204	12,250	-1,208	

(a) After depreciation, sales of assets and government grants.

β Fewer than five farms in sub-sample.

Table XXIII (iii)

Type of Farming	DAIRY						LIVESTOCK						CROPS INC	ALL TYPES (b)					
	Tenanted		Owner-occupied		Tenanted		Owner-occupied		Tenanted		Owner-occupied			Tenanted		Owner-occupied			
	1971	1972	Change	1971	1972	Change	1971	1972	Change	1971	1972	Change		1971	1972	Change	1971	1972	Change
No of farms	6			5			7			6			17			15			
Average size of Business: smd	192			215			124			115			164			166			
Average size of farm: acres	33			53			57			52			49			44			
ASSETS																			
Fixed Assets																			
Land and buildings (Of which valuation change)	115	115	-	11975	2036	-	7	7	-	9218	2625	-	141	153	11	8387	10155	1768	
Machinery and equipment	407	371	- 36	565	2000	-	60	179	- 41	778	83	-	841	778	- 63	752	755	4	
Breeding livestock (Of which valuation change)	1057	1246	189	1510	152	89	1359	536	261	622	5	-	701	660	- 40	753	818	65	
Total Fixed Assets	1579	1731	153	14050	2128	89	11922	722	301	10619	2713	-	1663	1591	- 92	9892	11729	1199	
Current Assets																			
Trading livestock	678	566	- 109	214	- 13	-	227	744	119	574	- 45	-	663	623	- 40	446	418	- 28	
Crops	138	192	54	129	48	88	82	61	28	128	149	-	193	170	- 23	151	262	110	
Consumable	53	18	- 35	31	28	43	58	23	20	43	17	-	82	69	- 13	51	30	21	
Debtors	124	107	- 16	247	127	8	120	79	8	11	68	-	107	88	- 18	157	221	64	
Cash at bank and in hand	214	315	100	744	305	317	439	350	33	847	233	-	213	305	93	808	866	78	
Total Current Assets	1205	1200	- 6	1365	439	439	926	1177	95	1603	379	-	1258	1256	- 2	1634	1817	203	
TOTAL ASSETS (a)	2785	2931	147	15414	2566	2106	12848	1899	206	12222	3092	-	2941	2847	- 94	11506	13546	2040	
LIABILITIES																			
Long and Medium Term Loans																			
Agricultural Mortgage Corporation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Building Societies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other Institutional	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Bank loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Loans from relatives	-	-	-	800	-	-	800	-	-	227	227	-	-	-	-	67	67	-	
Other	-	-	-	1200	-	-	1200	-	-	167	167	-	-	-	-	467	467	113	
Total Long and Medium	-	-	-	2000	-	-	2000	-	-	397	397	-	-	-	-	903	1015	113	
Short Term Loans																			
Hire purchase	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Creditors	223	206	- 17	378	87	18	291	73	1	73	92	-	194	225	31	271	184	- 87	
Bank overdraft	267	191	- 76	107	19	197	88	122	75	154	261	-	339	306	- 33	91	159	68	
Other	-	-	-	-	-	-	-	100	100	-	-	-	41	41	-	-	-	-	
Total Short Term	490	398	- 93	484	106	25	379	295	25	227	353	-	533	597	64	362	342	- 20	
Net worth	2295	2534	239	12930	2461	1855	10469	1604	231	11601	14567	-	2408	2250	- 159	10241	12188	1947	
TOTAL LIABILITIES	2785	2931	147	15414	2566	2106	12848	1899	206	12222	3092	-	2941	2847	- 94	11506	13546	2040	

(a) After depreciation, sales of assets and Government grants
 (b) Includes Pigs and Poultry and Mixed, excludes Horticulture.

∅ Fewer than five farms in sub-sample.

Table XXIII (iv)

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES

Balance sheets for the beginning and end of 1972/73 accounting year for farms under 275 acres

Type of Farming	DAIRY						LIVESTOCK						CROPPING	ALL TYPES (b)								
	Tenanted		Owner-occupied		Tenanted		Owner-occupied		Tenanted		Owner-occupied			Tenanted		Owner-occupied						
	1972	1973	Change	1972	1973	Change	1972	1973	Change	1972	1973	Change		1972	1973	Change	1972	1973	Change			
No of Farms	8	6		7	9		7	9		17	18		17	18		179	200		49	70		
Average size of Business: and Average size of Farm: acres	221 36	225 52		133 61	185 83		133 61	185 83		179 49	200 70		179 49	200 70		179 49	200 70		179 49	200 70		
ASSETS																						
Fixed Assets																						
Land and buildings (Of which valuation change)	95	103	8	7328	7328		34	59	26	20734	27384	7590	7400	7400	14	15687	17440	1753	6578	6578		
Machinery and equipment	336	387	51	730	728	-2	281	333	52	882	816	-66	342	342	15	838	721	-117	193	193		
Breeding livestock (Of which valuation change)	1483	1798	315	1574	1629	56	567	739	172	1035	1377	342	291	291	277	1095	1288	193	193	193		
Total Fixed Assets	1913	2287	374	9631	9685	54	882	1131	250	22051	29877	7826	7826	7826	307	17620	19449	1829	1829	1829		
Current Assets																						
Trading livestock	750	834	84	236	291	55	830	1210	379	1092	1761	669	669	669	247	703	1100	388	388	388		
Crops	184	182	-2	111	88	-23	150	168	18	530	525	-5	5	5	55	360	311	-49	-49	-49		
Consumable stores	17	39	22	33	30	-3	21	11	-10	33	59	26	26	26	14	60	53	-8	-8	-8		
Debtors	89	95	6	255	138	-117	-	-	-	134	73	-61	61	61	23	183	95	-89	-89	-89		
Cash at bank and in hand	332	386	54	503	718	209	336	273	-62	1250	1220	-29	29	29	25	824	2702	1878	1878	1878		
Total Current Assets	1372	1555	183	1149	1265	116	1316	1661	325	3038	3658	620	620	620	268	2131	4261	2131	2131	2131		
TOTAL ASSETS (a)	3285	3823	538	10780	10950	170	2218	2793	575	25089	33515	8426	8426	8426	574	19751	23710	3950	3950	3950		
LIABILITIES																						
Long and Medium Term Loans																						
Agricultural Mortgage Corporation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Building Societies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Institutional	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bank loans	-	-	-	-	-	-	-	-	-	35	36	1	1	1	55	910	355	-596	-596	-596	-596	
Loans from relatives	-	-	-	-	-	-	-	-	-	255	247	-8	8	8	-	460	401	-59	-59	-59	-59	
Other	-	-	-	-	-	-	-	-	-	289	282	-7	7	7	-	2214	811	-1403	-1403	-1403	-1403	
Total Long and Medium Term Loans	-	-	-	-	-	-	-	-	-	35	36	1	1	1	55	910	355	-596	-596	-596	-596	
Short Term Loans																						
Hire purchase	199	216	18	351	331	-20	16	9	-7	179	135	-44	44	44	2	302	203	-99	-99	-99		
Creditors	174	47	-128	89	57	-32	81	164	83	284	499	215	215	215	-26	262	271	-11	-11	-11		
Bank overdraft	-	-	-	-	-	-	100	126	26	26	26	0	0	0	11	11	11	0	0	0		
Other	373	265	-110	440	388	-52	196	299	102	463	635	172	172	172	-14	584	473	-111	-111	-111		
Total Short Term Loans	2912	5559	647	8641	9029	389	2021	2494	472	24338	32598	8260	8260	8260	588	16953	22425	5473	5473	5473		
Net worth	3285	3823	538	10780	10950	170	2218	2793	575	25089	33515	8426	8426	8426	574	19751	23710	3950	3950	3950		

(a) After depreciation, sales of assets and government grants.

(b) Includes Pigs and Poultry and Mixed, excludes Horticulture.

Table XXIV (i)

LIABILITIES AND ASSETS SURVEY, F. CLINE AND F. JES

Balance sheets for the beginning and end of 1969/70 accounting year for horticulture holdings

Size of Business: amd	275-599			600-1199			1200-199			Average full-time 275-4,199		
	Tenanted	Owner occupied	Change	Tenanted	Owner occupied	Change	Tenanted	Owner occupied	Change	Tenanted	Owner occupied	Change
	1969	1970	1970	1969	1970	1970	1969	1970	1970	1969	1970	1970
No of Farms		5		6			5			12		
Average size of Business: amd		828		1,723			1,311			969		
Average size of Farm : acres		22		44			31			26		
ASSETS												
Fixed Assets												
Land and buildings		5,424		5,455		31				8,056		9
Machinery and equipment		3,778		4,011		233				3,174		18
Breeding livestock												
(Total Fixed Assets)		9,202		9,466		264				11,229		8
Current Assets												
Trading livestock		178		129		49				110		6
Crops		936		949		13				1,083		307
Consumable stores		530		646		108				323		33
Debtors		370		470		100				540		36
Cash at bank and in hand		608		435		173				1,654		674
(Total Current Assets)		2,693		2,689		1				3,710		23
TOTAL ASSETS (a)		11,895		12,095		263				14,939		31
LIABILITIES												
Long and Medium Term Loans												
Agricultural Mortgage Corporation										1,887		34
Land Improvement Co												
Insurance Companies												
Building Societies												
Bank loans												
Loans from relatives		400		300		100				1,882		31
Other		400		300		100				662		65
(Total Long and Medium)		800		600		200				1,549		
Short Term Loans												
Hire purchase				93		93						29
Creditors		575		358		217				424		63
Bank overdraft		1,707		2,623		916				936		301
Other				17		17				263		261
(Total Short Term)		2,282		3,091		809				1,677		529
Net worth		9,150		8,704		446				8,031		455
TOTAL LIABILITIES		11,832		12,095		263				14,939		31

(a) After depreciation, sales of assets and government grants.

6 Fewer than five farms in sub-sample.

Table XXIV (ii)

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES

Balance sheets for the beginning and end of 1970/71 accounting year for horticulture holdings

Size of Business: sma	275-599			600-1199			1200-4199			Average full-time 275-4199				
	Tenanted	Owner occupied	Change	Tenanted	Owner occupied	Change	Tenanted	Owner occupied	Change	Tenanted	Owner occupied	Change		
	1970	1971	1971-70	1970	1971	1971-70	1970	1971	1971-70	1970	1971	1971-70		
No. of Farms	*	5		5			8		5		13			
Average size of Business: sma		896		896			1,950		1,214		1,359			
Average size of Farm : acres		22		22			72		9		44			
ASSETS														
Fixed Assets														
Land and buildings		11,027	11,037	10			18,238	18,551	313			14,255	14,401	146
Machinery and equipment		3,603	3,552	- 51			8,268	8,318	50			5,651	5,655	6
Breeding livestock		-	-	-			643	669	26			268	295	11
Total Fixed Assets		14,630	14,589	- 41			27,149	27,538	389			20,234	20,385	151
Current Assets														
Trading livestock		129	208	79			892	972	80			471	550	79
Crop		899	898	59			3,588	3,650	102			2,085	2,142	79
Consumable stores		625	690	65			690	553	- 137			21	6	- 25
Debtors		492	313	- 179			2,402	1,750	- 652			639	1,347	956
Cash at bank and in hand		808	667	- 141			2,025	1,323	- 702			933	961	392
Total Current Assets		2,855	2,776	- 117			9,557	8,283	- 1,309			2,124	1,415	- 650
TOTAL ASSETS (£)		17,523	17,365	- 158			36,746	35,826	- 920			7,505	6,795	- 710
LIABILITIES														
Long and Medium Term Loans														
Agricultural Mortgage Corporation		-	-	-			992	957	- 55			259	245	- 14
Land Improvement Co		-	-	-			-	-	-			-	-	-
Insurance Companies		-	-	-			-	-	-			-	-	-
Building Societies		-	-	-			-	-	-			-	-	-
Bank loans		-	-	-			-	-	-			321	259	- 62
Loans from relatives		-	-	-			438	458	20			-	-	-
Other		-	-	-			1,589	1,569	- 20			1,056	645	- 391
Total Long and Medium		-	-	-			3,019	2,964	- 55			1,616	1,149	- 467
Short Term Loans		-	-	-			-	-	-			-	-	-
Hire purchase		95	47	- 46			-	-	-			75	19	- 56
Creditors		385	385	-			1,261	1,345	84			526	192	- 334
Bank overdraft		2,624	2,181	- 443			4,940	4,992	142			284	306	22
Other		17	17	-			1,581	441	- 1,140			10	90	80
Total Short Term		3,119	2,613	- 506			7,682	6,768	- 914			695	607	- 288
Net worth		14,404	14,752	348			26,045	26,094	49			4,994	5,039	45
TOTAL LIABILITIES		17,523	17,365	- 158			36,746	35,826	- 920			7,505	6,795	- 710

(a) After depreciation, sales of assets and government grants.

* Over than five farms in sub-sample.

No farms in sub-sample.

Table XXIV (iii)

ILLUSTRATED ASSETS SURVEY, ENGLAND AND WALES

Balance sheets for the beginning and end of 1971/72 accounting year for horticulture holdings

Size of Business: and No of farms Average size of business: and Average size of farms: acres	275-599						600-1199						1200-4199						Average full-time 2/5-4/99					
	Tenanted		Owner occupied		Tenanted		Owner occupied		Tenanted		Owner occupied		Tenanted		Owner occupied		Tenanted		Owner occupied					
	1971	1972	Change	1971	1972	Change	1971	1972	Change	1971	1972	Change	1971	1972	Change	1971	1972	Change	1971	1972	Change			
ASSETS																								
Mixed Assets																								
Land and Buildings (of which valuation change)																								
Machinery and equipment																								
Breeding livestock																								
(or which valuation change)																								
Total Fixed Assets	17658	20881	3212	17658	20881	3212	17658	20881	3212	17658	20881	3212	17658	20881	3212	17658	20881	3212	17658	20881	3212	17658	20881	3212
Current Assets																								
Trading Livestock																								
Crops																								
Consumable stores																								
Debtors																								
Cash at bank and in hand																								
Total Current Assets	1055	1147	93	1055	1147	93	1055	1147	93	1055	1147	93	1055	1147	93	1055	1147	93	1055	1147	93	1055	1147	93
TOTAL ASSETS (a)	36125	40241	4116	36125	40241	4116	36125	40241	4116	36125	40241	4116	36125	40241	4116	36125	40241	4116	36125	40241	4116	36125	40241	4116
LIABILITIES																								
Long and Medium Term Loans																								
Agricultural Mortgage Corporation																								
Building Societies																								
Other Institutional																								
Bank loans																								
Loans from relatives																								
Other																								
Total Long and Medium	833	783	-50	833	783	-50	833	783	-50	833	783	-50	833	783	-50	833	783	-50	833	783	-50	833	783	-50
Short Term Loans																								
Hire purchase																								
Creditors																								
Bank overdraft																								
Other																								
Total Short Term	389	444	56	389	444	56	389	444	56	389	444	56	389	444	56	389	444	56	389	444	56	389	444	56
Net worth	26768	30921	4153	26768	30921	4153	26768	30921	4153	26768	30921	4153	26768	30921	4153	26768	30921	4153	26768	30921	4153	26768	30921	4153
TOTAL LIABILITIES	36125	40241	4166	36125	40241	4166	36125	40241	4166	36125	40241	4166	36125	40241	4166	36125	40241	4166	36125	40241	4166	36125	40241	4166

(a) After depreciation, sales of assets and government grants

δ Fewer than five farms in sub-sample.

* NO farms in sub-sample.

Table XXIV (iv)

LIABILITIES AND ASSETS SURVEY, HAWLAND AND WALES

Balance sheets for the beginning and end of 1972/73 accounting year for Horticulture holdings

Size of Business: smd	275-599				600-1199				1200-4199				Average full-time 275-4199				£'s per farm
	Tenanted		Owner-occupied		Tenanted		Owner-occupied		Tenanted		Owner-occupied		Tenanted		Owner-occupied		
	1972	1973	Change	1972	1973	Change	1972	1973	Change	1972	1973	Change	1972	1973	Change		
No of Farms																	
average size of Business: smd																	
average size of Farm: acres																	
ASSETS																	
Fixed Assets																	
Land and buildings																	
(of which valuation change)																	
Machinery and equipment																	
Breeding livestock																	
(of which valuation change)																	
Total Fixed Assets																	
Current Assets																	
Tracing Livestock																	
Crops																	
Consumable stores																	
Debtors																	
Cash at bank and in hand																	
Total Current Assets																	
TOTAL ASSETS (a)																	
LIABILITIES																	
Long and Medium Term Loans																	
Agricultural Mortgage Corporation																	
Building Societies																	
Other Institutional																	
Bank loans																	
Loans from relatives																	
Other																	
Total Long and Medium																	
Short Term Loans																	
Hire purchase																	
Creditors																	
Bank overdraft																	
Other																	
Total Short Term																	
Net worth																	
TOTAL LIABILITIES																	

(a) After depreciation, sales of assets and government grants.

Ø fewer than five farms in sub-sample.

* No farms in sub-sample.

Table XXV (i)

MARINERS AND ASSETS SURVEY, ENGLAND AND WALES

Source and classification of funds during 1959/70 by main type of farming and size of business on improved farms

TYPE OF FARMING	DAIRY										LIVESTOCK										CROPPERS										ALL TYPES (a)									
	275-599		600-1199		1200-4199		AV full-time 275-4199		275-599		600-1199		1200-4199		AV full-time 275-4199		275-599		600-1199		1200-4199		AV full-time 275-4199		275-599		600-1199		1200-4199		AV full-time 275-4199									
	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%										
Size of business: and	-		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-									
No of Farms	41	51	27	119	37	119	37	119	37	119	37	119	37	119	37	119	37	119	37	119	37	119	37	119	37	119	37	119	37	119										
Average size of business: and	451	624	1,810	799	866	799	866	799	866	799	866	799	866	799	866	799	866	799	866	799	866	799	866	799	866	799	866	799	866	799										
Average size of Farm: and	79	128	305	128	508	128	508	128	508	128	508	128	508	128	508	128	508	128	508	128	508	128	508	128	508	128	508	128	508	128										
Source of funds for New Investments	-		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-									
Retained farm earnings	76	9.5	344	18.1	368	11.1	141	8.9	64	10.1	300	37.8	6	1.1	1.2	0.2	389	30.5	573	14.4	875	10.7	589	14.2	46	5.7	281	14.0	1,051	19.1										
Depreciation provisions	27	32.6	508	25.7	1,045	31.7	469	29.7	275	44.0	519	61.8	407	44.6	405	31.9	1,045	26.2	1,849	22.7	1,052	24.9	62	36.5	62	30.7	1,477	26.9	618	30.0										
Sale of assets	95	11.5	174	9.2	442	15.5	175	11.0	75	12.5	102	20.7	141	15.5	228	17.5	419	10.5	880	10.8	880	10.8	479	11.5	165	13.0	219	10.8	658	11.6										
Total from the farm business	291	34.6	1,026	54.0	1,855	56.3	789	49.6	422	66.6	433	48.7	552	61.3	1,022	80.2	2,097	51.1	3,682	44.2	3,682	44.2	2,100	50.6	445	55.2	3,429	55.5	3,166	57.6										
New capital funds	341	40.6	368	18.8	315	9.6	325	20.6	164	25.3	102	11.5	133	14.6	158	12.4	356	8.9	1,689	20.7	664	16.0	664	16.0	293	36.9	293	14.5	768	14.5										
Loans:	-		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-									
1. long and medium term	44	5.2	107	5.6	77	2.3	72	4.6	-	-	26	2.9	36	4.0	490	38.0	697	16.5	306	3.8	497	11.9	101	12.5	145	7.4	299	5.5	151	7.3										
ii. short term	133	15.8	282	14.0	743	22.6	274	17.4	49	7.5	285	31.8	151	16.6	-426	-33.4	720	18.1	2,145	26.4	699	16.7	-10	-1.2	326	16.2	935	17.0	275	13.4										
Government grants (b)	52	3.0	177	9.3	504	15.2	124	7.9	-	-	45	5.1	35	3.6	29	2.3	216	5.4	399	4.9	197	4.8	4.8	2.1	2.6	6.7	308	5.6	112	5.4										
Total	241	100	1,900	100	3,225	100	1,578	100	634	100	809	100	912	100	1,275	100	3,956	100	8,141	100	4,147	100	806	100	2,030	100	5,496	100	2,653	100										
Description of Funds Received	-		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-									
New fixed assets at gross cost including grant	-		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-									
i. Land and buildings	157	18.7	450	22.6	805	24.4	349	22.1	44	6.9	122	13.7	109	11.9	20	1.6	1,655	41.5	1,362	16.7	947	22.8	94	11.7	553	27.2	1,100	20.0	434	21.0										
ii. Machinery, motor-vehicles, building and equipment	408	48.5	875	46.0	1,698	51.6	782	48.3	341	53.9	790	84.4	566	62.1	680	53.3	1,284	32.2	3,008	37.0	1,549	37.4	422	49.9	898	44.2	2,333	42.5	917	44.5										
iii. Investing livestock	62	7.4	268	14.1	66	2.0	199	8.0	36	5.7	328	36.9	186	20.4	-1	-0.1	327	8.2	437	5.4	294	5.6	48	6.0	269	13.3	1,06	7.4	190	9.2										
Net additions to current assets	38	4.5	147	7.7	631	19.2	162	10.3	441	69.7	9	1.0	297	32.6	782	61.3	387	9.7	2,817	34.6	1,236	29.8	257	31.9	195	9.6	1,359	24.7	427	20.7										
ii. Physical working assets and debtors	175	20.8	182	9.6	93	2.8	166	10.5	229	36.2	-220	-36.0	-246	-27.0	-206	-16.2	335	8.4	517	6.3	181	4.4	4	0.5	115	5.7	298	5.4	95	4.6										
Total	841	100	1,900	100	3,225	100	1,578	100	634	100	809	100	912	100	1,275	100	3,956	100	8,141	100	4,147	100	806	100	2,030	100	5,496	100	2,653	100										

(a) Includes pigs and poultry and mixed, exclusive horticulture

(b) Such as Farm Improvement Scheme

β Fewer than 5 farms in sub-sample.

Table XXV (ii)

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES

Subsided and dissipation of funds during 1970/71 by main type of farms and size of business on tenanted farms

TYPE OF FARMING	DAIRY						LIVESTOCK						CROPPING						ALL TYPES (a)						
	275-599		600-1199		1200-4199		AV full-time 275-4199		275-599		600-1199		1200-4199		AV full-time 275-4199		275-599		600-1199		1200-4199		AV full-time 275-4199		
	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	
SIZE OF BUSINESS: AND																									
No of Farms	27		47		27		101		12		34		39		48		54		94		62		210		
Average size of business: and	471		862		1,805		804		465		883		685		985		466		866		2,056		887		
Average Size of farm: acres	78		132		272		1,25		190		487		360		237		105		210		421		198		
SOURCES OF FUNDS FOR NEW INVESTMENT																									
1. Sales of land	-		-		-		-		-		-		-		-		-		-		-		-		
2. Sales of other fixed assets	128		156		582		202		81		232		183		98		216		251		586		334		
3. Depreciation provisions	276		482		1,978		453		269		492		357		283		545		729		1,614		913		
4. Farm savings retained in business	1		0.2		536		1,873		500		1,877		367		264		-288		-11		1,170		223		
5. Capital funds introduced	170		30.1		284		19.4		292		18.6		460		31.3		309		55		4.5		194		
6. Grants on fixed assets (b)	33		5.8		40		2.6		276		5.3		70		4.5		42		113		2.8		236		
7. Increase in loans	-115		-20.4		-14		-0.9		331		6.4		-15		-1.0		-		172		7.2		10		
(1) Long and medium term	72		12.7		-84		-5.5		437		8.4		65		4.2		-8		302		8.4		163		
(2) Short term	-187		-33.1		-70		-4.1		-187		-10.9		-80		-5.6		131		172		7.2		333		
Total	565		100.0		1,514		100.0		1,567		100.0		1,287		100.0		1,689		100.0		5,203		100.0		
DISPOSITION OF FUNDS BETWEEN ASSETS																									
8. New fixed assets at gross cost including grants	65		11.5		111		7.3		416		8.0		132		8.4		112		386		16.0		125		
(i) Land and buildings	371		66.7		619		40.9		1,975		38.1		691		44.1		419		642		26.7		1,142		
(ii) Machinery, motorable buildings and equipment	-22		-3.9		446		29.5		823		15.9		270		17.2		224		361		15.0		129		
(iii) Breeding livestock	-36		-6.4		157		10.4		984		18.9		179		11.4		118		932		39.7		281		
(iv) Physical working assets	181		32.0		181		12.0		989		19.1		295		18.8		25		86		3.6		172		
(v) Liquid assets and others	565		100.0		1,514		100.0		1,567		100.0		1,287		100.0		1,689		100.0		5,203		100.0		
Total	565		100.0		1,514		100.0		1,567		100.0		1,287		100.0		1,689		100.0		5,203		100.0		

(a) Includes pigs and poultry and mixed, excludes horticulture
 (b) Such as Farm Improvement Schemes

Table XXV (iii)

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES

Sources and disposition of funds during 1971/72 by main type of farming and size of business on FARMED FARMS

TYPE OF FARMING	DAIRY						LIVESTOCK						CROPPING						ALL TYPES (a)											
	275-599		600-1199		1200-4199		AV Full-time 275-4199		275-599		600-1199		1200-4199		AV Full-time 275-4199		275-599		600-1199		1200-4199		AV Full-time 275-4199							
	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%						
Size of business: smd	26	55	871	1829	271	33	114	43	13	20	22	7	701	18.5	155	13.5	673	23.7	1,454	22.0	702	21.4	345	21.4	711	21.9				
Average size of Business: smd	490	871	1829	271	33	114	43	13	20	22	7	701	18.5	155	13.5	673	23.7	1,454	22.0	702	21.4	345	21.4	711	21.9					
Average size of Farm: acres	75	121	121	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122				
SOURCES OF FUNDS FOR NEW INVESTMENT																														
1. Sales of land	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
2. Sales of other fixed assets	465	24.6	743	27.0	1,427	21.5	719	24.4	360	25.9	722	13.6	2,196	22.9	701	18.5	155	13.5	673	23.7	1,454	22.0	702	21.4	345	21.4	711	21.9		
3. Depreciation provisions	307	16.2	517	18.6	1,017	15.3	496	16.8	232	16.7	544	9.5	1,021	10.4	422	11.2	509	44.5	1,025	28.2	1,071	32.6	322	19.9	631	18.6	1,357	19.8		
4. Farm earnings retained in business	745	39.3	1,022	37.2	3,056	46.0	1,266	40.9	61	4.4	662	11.5	2,158	22.5	492	13.0	340	29.7	171	6.0	2,622	39.6	942	28.7	522	32.3	852	25.1		
5. Capital funds introduced	175	9.2	472	17.2	463	7.0	333	11.3	460	33.0	2,127	37.0	1,036	10.8	1,110	29.3	-	-	399	14.0	208	3.1	192	5.8	255	15.8	720	21.2		
6. Grants on fixed assets (b)	100	5.3	132	4.8	450	6.8	166	5.6	35	2.5	71	1.2	637	6.6	110	2.9	5	0.4	79	2.8	266	4.1	105	3.2	59	3.7	150	4.4		
7. Increase in loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
(1) long and medium term	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
(11) short term	113	6.0	111	4.0	181	2.7	123	4.2	227	16.3	1,551	27.0	2,470	25.7	929	24.5	136	11.9	540	19.0	299	4.5	317	9.6	93	5.8	414	12.2		
Total	1,694	100.0	2,750	100.0	6,641	100.0	2,949	100.0	1,392	100.0	5,744	100.0	9,594	100.0	3,785	100.0	1,145	100.0	2,845	100.0	6,816	100.0	3,286	100.0	1,614	100.0	3,396	100.0	6,878	100.0
DISPOSITION OF FUNDS BETWEEN ASSETS																														
8. New fixed assets at gross cost including grant	136	7.2	266	7.5	694	10.5	349	8.4	123	8.6	3,017	32.5	437	4.6	1,179	31.2	29	2.5	146	5.1	564	8.5	222	6.7	112	6.9	683	20.1	725	10.6
(1) Land and buildings	652	34.4	1,166	43.1	2,703	40.7	1,171	39.7	250	18.7	749	13.0	3,363	35.0	756	20.0	556	48.6	1,455	51.1	1,221	18.7	1,623	49.4	502	31.1	1,155	34.0	2,900	43.5
(11) Machinery, movable buildings and equipment	598	31.6	420	15.3	2,254	34.0	630	21.4	477	34.3	479	8.3	997	10.0	527	13.9	-	-	218	7.6	105	1.6	98	3.0	443	27.4	420	12.4	632	9.2
(11) Breeding livestock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
9. Net additions to current assets	351	18.5	470	17.1	1,395	20.8	555	18.8	713	51.2	1,471	25.6	2,103	21.9	1,126	29.7	508	51.4	1,119	39.3	2,584	39.1	1,340	40.8	476	29.5	823	24.2	1,778	25.9
(1) Physical working assets	157	3.3	468	17.0	607	9.1	345	11.7	161	11.7	1,430	28	0.5	2,796	29.5	197	5.2	4	0.3	118	4.1	142	2.1	3	0.1	82	5.1	315	9.3	
(11) Liquid assets and debtors	1,694	100.0	2,750	100.0	6,641	100.0	2,949	100.0	1,392	100.0	5,744	100.0	9,594	100.0	3,785	100.0	1,145	100.0	2,845	100.0	6,816	100.0	3,286	100.0	1,614	100.0	3,396	100.0	6,878	100.0
Total	490	848	1,452	775	549	902	1,409	764	78	92	162	359	107	693	977	599														
Fixed asset revaluation net included above (c)																														

(a) Includes pigs and poultry and mixed, excludes horticulture.

(b) Such as Farm Capital Grants Scheme.

(c) Fixed asset revaluation is the increase in the estimated market value of land, buildings and breeding livestock as reflected in the end-year balance sheets.

Table XXV (iv)

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES

Sources and disposition of funds during 1972/73 by main type of farming and size of business on TENANTED FARMS

TYPE OF FARMING	DAIRY						LIVESTOCK									
	275-599		600-1199		1200-4199		275-599		600-1199		1200-4199		Ave full-time 275-4199			
	£	%	£	%	£	%	£	%	£	%	£	%	£	%		
Size of Business: amd																
Average size of Business: amd	28	492	54	867	47	1802	18	464	26	851	6	1568	50	720	399	
Average size of Farm: acres	73		119		301		206		427		1276					
SOURCES OF FUNDS FOR NEW INVESTMENT																
1. Sales of land	172	7.9	447	11.3	885	10.5	142	5.0	484	9.4	574	12.4	310	8.1		
2. Sales of other fixed assets	361	16.7	617	15.6	1318	15.6	347	12.3	487	9.5	933	20.1	459	12.0		
3. Depreciation provisions	731	33.8	2108	53.3	4654	55.2	1381	49.2	2582	50.2	1585	34.2	1834	47.7		
4. Farm earnings retained in business	509	23.5	426	10.8	464	5.5	438	15.6	972	18.9	201	4.3	604	15.7		
5. Capital funds introduced	86	4.0	181	4.6	368	4.4	59	2.1	75	1.5	299	6.5	90	2.4		
6. Grants on fixed assets (b)																
7. Increase in loans																
(i) long and medium term	114	5.3	16	0.4	-156	-1.9	-10	-0.3	-18	-0.3	-290	-6.3	-42	-1.1		
(ii) short term	190	8.8	156	4.0	906	10.7	453	16.1	562	10.9	1332	28.7	585	15.2		
Total	2163	100.0	3951	100.0	8438	100.0	2810	100.0	5144	100.0	4634	100.0	3840	100.0		
DISPOSITION OF FUNDS BETWEEN ASSETS																
8. New fixed assets at gross cost including grants																
(i) Land and buildings	202	9.3	477	12.1	1248	14.8	410	14.6	207	4.0	635	13.7	361	9.4		
(ii) Machinery, moveable buildings and equipment	1065	49.2	1823	46.1	3431	40.7	463	16.5	1463	28.4	2857	61.7	1076	28.0		
(iii) Breeding livestock	228	10.5	357	9.0	633	7.5	274	9.7	773	15.0	605	13.0	488	12.7		
9. Net addition to current assets																
(i) Physical working assets	608	28.1	1078	27.3	2604	30.9	1619	57.6	2571	50.0	1888	40.7	1989	51.8		
(ii) Liquid assets and debtors	61	2.8	217	5.5	523	6.2	45	1.6	130	2.5	-1350	-29.1	-73	-1.9		
Total	2163	100.0	3951	100.0	8438	100.0	2810	100.0	5144	100.0	4634	100.0	3840	100.0		
Fixed asset revaluation not included above (c)																
	727		898		1820		401		1161		2827		931			

(a) Includes pigs and poultry and mixed, excludes horticulture.

(b) Such as Farm Capital Grants Scheme.

(c) Fixed asset revaluation is the increase in the estimated market value of land, buildings and breeding livestock as reflected in the end-year balance sheets.

Table XXV (iv) cont.

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES

Sources and disposition of funds during 1972/73 by main type of farming and size of business on ENHANCED FARMS

TYPE OF FARMING	CROPPING												ALL TYPES (a)											
	275-599		600-1199		1200-4199		Ave full-time 275-199		275-599		600-1199		1200-4199		Ave full-time 275-4199									
	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%								
Size of Business: sma	10		21		25		56		64		106		85		235									
Average size of Business: act	14.1		0.9		20.5		10.7		49.1		88.6		18.25		91.1									
Average size of Farm: acres	87		2.3		4.5		24.8		107		205		4.59		212									
SOURCES OF FUNDS FOR NEW INVESTMENT																								
1. Sales of land	-		-		-		-		-		-		-		-									
2. Sales of other fixed assets	314	5.9	1078	20.6	2675	17.7	1266	16.1	180	7.0	591	13.3	13.8	561	12.0									
3. Depreciation provisions	8.8	12.3	1005	19.2	2288	15.8	1346	17.1	440	17.2	695	15.7	16.2	773	16.6									
4. Farm savings retained in business	1600	35.5	2855	54.7	5535	36.8	3193	40.5	955	37.3	2106	47.5	43.7	2031	45.5									
5. Capital funds introduced	1195	26.4	283	5.4	1766	11.9	1065	13.5	555	21.7	468	10.6	8.1	557	12.2									
6. Grants on fixed assets (b)	-		77	1.5	741	4.9	244	3.1	56	2.2	114	3.3	5.0	173	3.7									
7. Increase in loans	-		-		-		-		-		-		-		-									
(i) long and medium term	586	12.9	- 74	- 1.4	1600	11.2	688	8.7	363	12.6	392	8.9	12.6	516	11.3									
(ii) short term	-		-		-		-		-		-		-		-									
Total	4531	100.0	5233	100.0	15104	100.0	7879	100.0	2562	100.0	4430	100.0	9742	100.0	4656	100.0								
DISPOSITION OF FUNDS BETWEEN ASSETS																								
8. New fixed assets at gross cost including grants	-		86	1.6	1595	10.6	498	6.3	185	7.6	483	10.9	12.4	562	10.8									
(i) Land and buildings	-		2989	57.1	7224	47.8	3702	48.1	1004	39.2	2064	47.1	43.2	2054	44.0									
(ii) Machinery, motorable buildings and equipment	1787	39.4	136	2.6	315	2.1	150	1.9	190	7.4	361	8.6	4.8	317	6.8									
(iii) Breeding livestock	32	0.7	-		-		-		-		-		-	-										
9. Net addition to current assets	2921	64.5	2474	47.2	4993	33.1	3800	42.9	1210	47.2	1487	33.6	36.2	1787	37.9									
(i) Physical working assets	-209	-4.6	-151	-2.8	977	6.5	58	0.7	- 37	-1.5	- 5	-0.1	2.3	28	0.6									
(ii) Liquid assets and debtors	-		-		-		-		-		-		-	-										
Total	4531	100.0	5233	100.0	15104	100.0	7879	100.0	2562	100.0	4430	100.0	9742	100.0	4656	100.0								
Fixed asset revaluation not included above (c)	146		238		769		361		515		723		1395		765									

Table XXVI (i)

LIABILITY AND ASSETS SURVEY, SGLANTS AND TALES
 Source and disposition of funds during 1969/70 by main type of farming and size of business on Owner-occupied farms

TYPE OF FARMING	DAIRY						LIVESTOCK						CROPPING						ALL TYPES (a)											
	275-599		600-1199		1200-4199		275-599		600-1199		1200-4199		275-599		600-1199		1200-4199		275-599		600-1199		1200-4199							
	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%						
Size of business and	30		30		17		15		15		5		10		19		11		62		75		37							
Average size of business and	422		840		1,873		416		794		1,848		421		904		2,017		442		832		1,859							
Average size of farm	64		133		388		128		323		457		144		268		519		92		193		391							
Source of funds for new investments	£		£		£		£		£		£		£		£		£		£		£		£							
Retained farm earnings	- 61	7.2	163	8.5	- 73	-1.4	75	4.4	474	19.5	1,736	49.0	348	59.5	1,736	49.0	3,124	71.6	1,662	29.3	173	13.6	635	29.0	1,750	31.5	603	26.0		
Depreciation provisions	215	25.5	489	25.5	1,278	24.6	267	15.9	573	23.6	1,002	9.6	424	16.1	537	61.0	1,646	37.8	1,123	39.4	284	22.4	647	29.6	1,229	22.0	571	24.6		
Sale of assets	47	5.6	114	5.9	422	8.1	53	3.1	175	7.2	305	2.9	113	4.3	57	6.5	789	22.3	762	16.1	506	17.8	231	10.6	617	11.0	218	9.4		
Total from the farm business	201	38.3	766	39.9	1,627	31.3	395	23.4	1,222	50.3	1,975	18.9	788	29.9	942	107.0	5,472	131.7	3,291	115.5	523	41.2	1,513	69.2	3,604	64.5	1,392	60.0		
New Capital funds	411	48.7	676	35.2	1,021	19.7	1,208	71.7	186	7.6	90	0.7	790	30.0	148	16.8	115	3.2	67	1.5	112	3.9	538	42.3	372	17.0	482	20.1		
Loans:																														
i. long and medium term	31	3.7	101	5.3	43	0.8	67	4.0	110	4.5	9,991	95.7	883	33.6	- 5	- 0.6	- 379	-10.7	-1,192	-27.4	45	3.5	- 9	- 0.4	646	11.6	127	5.5		
ii. short term	101	12.0	52	2.7	1,765	34.0	- 26	-1.5	748	30.0	-1,793	-17.2	80	3.0	-245	-27.8	- 323	- 9.1	-133	- 3.1	-239	- 8.4	69	5.4	422	7.6	125	5.4		
Government grants (b)	99	11.7	324	16.9	740	14.2	41	2.4	165	6.8	176	1.7	92	3.5	40	4.6	340	9.6	138	3.2	175	6.1	96	7.6	250	11.4	444	20.9		
Total	843	100	1,919	100	5,196	100	1,695	100	2,431	100	10,439	100	2,632	100	880	100	3,542	100	4,352	100	2,850	100	1,271	100	2,187	100	5,579	100	2,320	100
Disposition of funds between																														
i. Fixed assets at gross cost including grant																														
ii. Land and buildings	400	47.4	545	28.4	2,252	43.3	795	47.2	825	33.9	8,121	77.6	1,397	53.1	126	14.3	1,391	39.3	1,092	25.1	859	30.1	514	40.4	640	30.2	2,226	39.9	854	36.8
iii. Machinery, motorable buildings and equipment	294	34.9	773	40.3	2,000	38.5	356	21.1	855	35.2	1,686	15.6	619	23.5	479	54.4	1,952	55.1	2,555	58.7	1,615	56.7	365	28.7	946	43.2	2,388	42.8	911	39.3
iv. Breeding livestock	111	13.2	335	17.4	773	14.9	75	4.5	410	16.9	1,259	12.1	278	10.6	- 31	-3.5	27	0.8	537	12.3	158	5.5	69	5.4	319	14.6	587	10.5	244	10.5
v. Additions to current assets																														
i. Physical working assets	38	4.5	232	14.7	562	10.8	245	14.5	558	22.9	- 580	-5.6	279	10.6	44	5.0	20	0.6	1,335	31.1	426	14.9	199	15.7	129	5.9	1,086	19.5	324	14.0
ii. Liquid assets and liabilities	-	-	-	-	-	-	213	12.6	- 217	-0.9	13	0.1	559	2.2	263	29.9	132	4.3	-1,187	-27.3	-207	-7.2	124	9.6	133	6.1	- 709	-12.7	- 14	-0.6
Total	843	100	1,919	100	5,196	100	1,695	100	2,431	100	10,439	100	2,632	100	880	100	3,542	100	4,352	100	2,850	100	1,271	100	2,187	100	5,579	100	2,320	100

(a) Includes pigs and poultry and mixed, excludes horticulture
 (b) Such as Farm Improvement Scheme

Table XXVI (ii)

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES

Sources and disposition of funds during 1970/71 by main type of farming and size of business on owner-occupied farms

TYPE OF FARMING	DAIRY						LIVESTOCK						CROPPING						ALL TYPES (a)															
	275-599		600-1199		1200-4199		AT full-time 275-4199		275-599		600-1199		1200-4199		AT full-time 275-4199		275-599		600-1199		1200-4199		AT full-time 275-4199											
	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%										
SOURCES OF FUNDS FOR NEW INVESTMENT																																		
1. Sales of land	-	-	55	1.4	157	2.7	40	1.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-									
2. Sales of other fixed assets	84	11.5	225	5.5	402	6.8	177	6.8	164	15.1	182	13.2	293	5.9	316	17.5	432	8.5	268	11.3	114	12.0	224	7.4	491	8.2	216	8.5						
3. Depreciation provisions	226	31.0	486	11.9	1,018	17.4	423	16.1	254	23.5	411	29.8	1,059	21.2	369	24.7	492	61.6	1,072	56.1	1,391	24.5	963	36.5	309	32.0	574	19.0	1,109	18.5				
4. Farm earnings retained in business	177	24.3	411	10.0	2,618	44.6	575	21.9	116	10.7	849	61.5	2,557	51.2	540	36.7	-12	-1.5	990	51.0	2,729	48.4	1,153	43.8	204	21.5	623	20.6	1,850	30.9				
5. Capital funds introduced	256	35.2	1,215	29.8	-	-	578	22.0	427	39.4	210	15.2	559	11.2	363	24.6	311	39.0	196	10.2	210	3.7	240	9.1	271	28.6	787	26.0	713	11.9				
6. Grants on fixed assets (b)	59	8.1	217	5.3	374	6.4	158	6.0	21	1.9	80	5.8	336	6.5	65	4.4	40	5.0	235	12.2	837	14.8	346	13.1	44	4.6	202	6.7	659	11.0				
7. Increase in loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
(1) Long and medium term	-	-	118	2.9	1,032	17.6	175	6.7	29	2.7	190	13.8	198	4.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
(11) Short term	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Total	728	100.0	4,082	100.0	5,868	100.0	2,624	100.0	1,083	100.0	1,380	100.0	4,990	100.0	4,624	100.0	728	100.0	1,924	100.0	5,444	100.0	2,635	100.0	540	100.0	3,022	100.0	5,933	100.0	2,536	100.0		
DISPOSITION OF FUNDS BETWEEN ASSETS																																		
8. New fixed assets at gross cost including grants																																		
(i) Land and buildings	174	23.9	2,336	57.2	2,751	46.8	1,302	49.6	416	38.4	176	12.7	809	16.2	371	24.8	281	35.2	445	23.1	1,970	34.9	841	31.9	254	26.8	1,381	45.7	2,286	38.4	995	39.4		
(ii) Machinery, movable buildings and equipment	358	49.2	983	24.1	1,996	34.0	798	30.4	582	53.8	800	58.0	1,582	31.7	733	49.1	507	63.5	1,301	67.6	2,240	39.7	1,302	49.4	450	47.5	994	32.9	2,445	37.5	944	37.4		
(iii) Breeding livestock	64	8.8	401	9.8	274	4.7	215	8.2	-	-	146	10.5	397	8.0	36	2.4	175	21.9	-	-	163	2.9	76	2.9	19	2.0	181	6.0	274	4.6	119	4.7		
9. New additions to current assets																																		
(i) Physical working assets	179	24.6	103	2.5	620	10.6	207	7.9	-	-	176	12.8	2,132	42.7	178	11.9	-	-	-	-	998	17.7	219	8.3	89	8.7	130	4.3	1,037	17.3	261	10.3		
(ii) Liquid assets and debtors	-	-	47	6.5	259	6.3	227	8.9	101	9.3	82	6.0	70	1.4	176	11.8	-	-	-	-	381	19.2	270	4.8	197	7.5	145	15.0	336	11.2	132	2.2	293	8.2
Total	728	100.0	4,082	100.0	5,868	100.0	2,624	100.0	1,083	100.0	1,380	100.0	4,990	100.0	4,624	100.0	728	100.0	1,924	100.0	5,444	100.0	2,635	100.0	540	100.0	3,022	100.0	5,933	100.0	2,536	100.0		

(a) Includes pigs and poultry and mixed, excludes horticulture

(b) Such as Farm Improvement Scheme

Table XXVI (iv)

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES
 Estimated and classified by main type of business on 31/12/77

TYPE OF FARMING	DAIRY						LIVESTOCK						CROPPING						ALL TYPES (a)											
	275-599		600-1199		1200-4199		AY full-time 275-499		600-1199		1200-4199		AY full-time 275-499		600-1199		1200-4199		AY full-time 275-499		600-1199		1200-4199		AY full-time 275-499					
	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%				
Site of Business: and	37		32		39		108		20		16		50		20		13		39		83		62		223					
Average Size of Business: acres	161		671		1667		341		125		165		665		836		1967		1067		266		1633		854					
Average Size of Farm: acres	67		150		265		125		130		145		245		288		448		279		196		444		168					
SOURCES OF FUNDS FOR NEW INVESTMENT																														
1. Sales of land							1																							
2. Sales of other fixed assets	132		432		818		333		153		54		256		310		494		645		1184		1045		694		979			
3. Depreciation provisions	203		1568		528		1340		375		1342		1041		524		806		1204		266		1947		1325		1920			
4. Farm earnings retained in business	1065		527		2763		472		537		5312		1659		3242		5934		1528		2710		6984		6093		2663			
5. Capital funds increased	268		1940		411		944		569		368		836		777		1142		383		841		135		245		560			
6. Grants on fixed assets (b)	121		618		401		842		51		148		58		588		1044		285		364		228		257		670			
7. Increase in loans (i) long and medium term (ii) short term	-205		-1145		-200		-441		-157		-146		64		-41		-98		743		64		144		841		285			
	119		67		198		1042		632		2244		400		71		143		1644		640		-542		389		215			
Total	1783		1000		4888		1000		2832		1000		4164		5462		7844		1000		4488		11282		6660		10263			
DISPOSITION OF FIXED INVESTMENT ASSETS																														
8. New fixed assets at Gross cost including grant (i) Land and buildings (ii) Machinery, vehicles, buildings and equipment (iii) breeding livestock	433		2443		1067		394		578		3446		1145		1290		1676		702		2954		2853		1238		204		202	
9. Net additions to current assets (i) Physical working assets (ii) Liquid assets and debtors	377		2243		895		327		779		2746		1239		1822		3145		2637		6344		2774		2389		3944		2653	
	157		846		668		244		-56		-210		419		520		1661		-1927		833		833		744		750		448	
Total	1783		1000		4888		1000		2832		1000		4164		5462		7844		1000		4488		11282		6660		10263		1000	
Fixed asset revaluation not included above (c)	2770		2818		9400		3815		2560		1538		2355		2224		1538		30580		98964		98964		51727		6775		35607	

(a) Includes pigs and poultry and mixed, excludes horticulture.
 (b) Such as Farm Capital Grants Scheme.
 (c) Fixed assets revaluation is the increase in the estimated market value of land, buildings and breeding livestock as reflected in the end-year balance sheets.

Table XXVII (iii)

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES

Sources and disposition of funds during 1977/78 by main type of farming and size of business on farms with mixed tenure

TYPE OF FARMING	DAIRY						LIVESTOCK						CROPPING						ALL TYPES (a)															
	275-599		600-1199		1200-4199		AV full-time 275-4199		275-599		600-1199		1200-4199		AV full-time 275-4199		275-599		600-1199		1200-4199		AV full-time 275-4199											
	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%										
Size of business: and																																		
Average size of business: and	14	468	34	802	30	2024	78	568	9	474	15	898	22	917	31	1892	50	1160	32	464	80	995	79	1911	1009									
Average size of farm: acres	7	155	155	351	351	167	167	167	203	303	303	303	247	247	379	379	270	270	171	171	200	200	408	408	226									
SOURCES OF FUNDS FOR NEW INVESTMENT																																		
1. Sales of land	-	-	-	-	801	9.1	173	4.1	-	-	724	17.0	60	0.7	273	7.1	7.1	7.1	-	-	-	-	179	3.9	285	2.9	141	2.8						
2. Sales of other fixed assets	417	17.8	973	27.2	1247	14.2	817	19.3	515	24.6	877	20.5	1519	18.8	803	21.0	307	13.0	529	8.0	1344	11.7	774	10.7	436	19.8	766	16.6	1347	13.9	778	15.7		
3. De-recognition provisions	228	9.7	576	16.1	1392	35.8	617	14.6	373	17.8	466	10.9	900	11.1	409	12.8	559	23.6	995	15.0	1796	15.7	1173	16.3	335	15.2	707	15.3	1555	16.0	776	15.7		
4. Farm earnings retained in business	976	41.5	1470	41.1	2073	23.8	1413	33.4	817	39.0	541	12.7	3711	45.9	1166	30.5	523	22.1	1573	23.7	3473	30.3	1990	27.6	794	36.1	1282	27.7	3051	31.4	1572	30.9		
5. Capital funds introduced	167	7.1	211	5.9	1033	11.8	372	8.8	299	14.2	964	22.6	1255	15.5	690	18.1	741	31.3	902	13.6	2399	21.0	1445	19.7	278	12.6	604	14.8	1338	13.8	708	13.9		
6. Grants on fixed assets (b)	244	6.1	305	8.5	769	8.7	343	8.1	160	7.6	311	7.3	371	4.6	248	6.5	117	4.9	340	5.1	877	7.7	479	6.6	131	6.0	285	6.1	782	1.1	560	7.1		
7. Increase in loans (1) long and medium term	424	18.1	-81	-2.3	369	4.2	212	5.0	-27	-1.3	-42	1.0	369	4.6	29	0.8	60	2.5	1966	29.6	412	3.6	817	11.3	205	9.3	376	8.1	208	2.1	268	5.3		
(1) short term	-7	-0.3	125	3.5	1092	12.4	283	6.7	-40	-1.9	428	10.0	-100	-1.2	122	3.2	60	2.5	336	5.0	1144	10.0	563	7.9	22	1.0	346	7.5	1144	11.6	430	8.6		
Total	2319	100.0	3578	100.0	8795	100.0	4229	100.0	2097	100.0	4269	100.0	8095	100.0	3820	100.0	2367	100.0	6641	100.0	11445	100.0	7221	100.0	2201	100.0	4625	100.0	9710	100.0	5080	100.0		
DISPOSITION OF FUNDS BETWEEN ASSETS																																		
8. New fixed assets at gross cost																																		
(i) Land and buildings	570	41.3	530	14.8	3410	38.8	1323	31.3	281	13.4	1143	26.8	3783	46.8	1139	29.8	235	9.9	3697	55.6	5150	45.0	3237	44.0	586	26.6	1469	32.2	3660	37.7	1732	34.1		
(ii) Machinery, motorable	621	26.4	1264	35.3	2824	32.1	1352	32.0	750	35.8	928	21.7	1138	14.1	875	22.9	1015	42.9	1369	20.6	3534	30.9	2090	28.9	729	33.1	1291	27.9	3012	31.0	1540	30.3		
(iii) Buildings & equipment	508	21.6	427	11.9	775	8.8	532	12.6	140	6.7	339	7.9	492	6.1	268	7.0			164	2.4	64	0.6	78	1.1	272	12.4	318	6.9	494	5.1	348	6.9		
(iii) Breeding livestock	294	12.5	914	25.6	1709	19.4	846	20.0	960	45.8	2134	50.0	1360	17.1	1454	38.1	208	8.8	1253	18.9	2680	23.4	1491	20.7	468	21.3	1308	30.0	2287	23.6	1287	25.3		
9. Net additions to current assets	-44	-1.9	443	12.4	78	0.9	176	4.1	-34	-1.6	-278	-6.4	1292	16.0	84	2.2	909	38.4	162	2.4	17	0.1	325	4.5	146	6.6	139	3.0	257	2.6	173	3.4		
(1) Liquid assets and debtors	2319	100.0	3578	100.0	8795	100.0	4229	100.0	2097	100.0	4269	100.0	8095	100.0	3820	100.0	2367	100.0	6641	100.0	11445	100.0	7221	100.0	2201	100.0	4625	100.0	9710	100.0	5080	100.0		
Total	192	4801	8350	3783	2190	4034	3250	3027	-59	101	946	2889	6245	2940	2940	2940	2940	2940	2940	2940	2940	2940	2940	2940	2940	2940	2940	2940	2940	2940	2940	2940		
Fixed asset revaluation not included above (c)																																		

(a) Includes pigs and poultry and mixed, excludes horticulture
 (b) Such as Farm Capital Grants Scheme
 (c) Fixed asset revaluation is the increase in the estimated market value of land, buildings and breeding livestock as reflected in the end-year balance sheets.

Table XXVII (iv)

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES

FIGURES AND PERCENTAGES OF CAPITAL SURVEY 1972/73 IN MAIN TYPE OF BUSINESS AND SIZE OF BUSINESS, BY FARMS WITH MIXED FARMING

TYPE OF FARMING	DAIRY						LIVESTOCK						CROPPING						ALL TYPES (c)						
	275-599		600-1199		1200-4199		AT full-time 275-4199		275-599		600-1199		1200-4199		AT full-time 275-4199		275-599		600-1199		1200-4199		AT full-time 275-4199		
	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	
Size of Business and																									
Average size of Business: and	13		35		29		77		12		32		71		60		57		51		263		263		
Average size of Farm: and	411		890		1949		956		468		830		1619		1152		673		1923		569		569		
Average size of Farm: mixed	60		159		300		151		167		267		566		329		182		375		261		261		
SOURCES OF FUNDS FOR NEW INVESTMENT																									
1. Sales of land	-		214		204		132		360		-		-		173		199		182		255		255		
2. Sales of other fixed assets	270		396		1053		497		61		192		606		48		749		81		510		510		
3. Depreciation provisions	446		527		1107		723		344		142		1008		840		1023		1023		668		668		
4. Farm earnings retained in business	8202		1769		4292		1095		498		189		7995		2107		2747		2747		1823		1823		
5. Capital funds introduced	12		1487		2845		159		586		243		1107		1592		2005		2005		1775		1775		
6. Grants on fixed assets (b)	49		413		974		407		136		56		300		164		515		515		335		335		
7. Increase in loans	-33		331		-284		48		-48		-65		-283		-72		162		162		177		177		
(1) Long and medium term	756		748		454		449		353		1446		2780		1079		844		844		513		513		
(11) Short term	9776		5651		10952		10952		2424		10952		12671		5795		10952		10952		6285		6285		
Total																									
DISPOSITION OF FIXED BETWEEN ASSETS																									
8. New fixed assets at gross cost including grant	7493		2409		2779		4392		694		3351		1491		1777		2372		2372		2567		2567		
(1) Land and buildings	1057		1731		3733		1946		237		828		2512		975		2433		2433		1644		1644		
(11) Machinery, horse-drawn buildings & equipment	-24		593		943		424		274		611		697		473		153		153		1427		1427		
(111) Breeding livestock	1016		1011		2647		1390		727		1895		5847		1974		2007		2007		1795		1795		
(11) Physical working assets	24		-58		-74		47		119		594		1174		595		-171		-171		121		121		
(11) Liquid assets and cash																									
Total	9776		5651		10952		10952		2424		10952		12671		5795		10952		10952		6285		6285		
Fixed asset revaluation not included above (c)	6862		3648		20846		9548		12645		3755		19093		10460		25881		25881		8327		8327		
Total																									

(a) Includes pigs and poultry and mixed, excludes horticulture.

(b) Such as Farm Capital Grants Scheme.

(c) Fixed asset revaluation is the increase in the estimated market value of land, buildings and breeding livestock as reflected in the end-year balance sheets.

Table XXVIII (i)

LIABILITIES AND ASSETS SURVEY ENGLAND AND WALES

Frequency distribution of items from the 1970 balance sheet

Bank overdraft

Size of business unit	LIVESTOCK															
	DAIRY				LIVESTOCK				CROPPING							
	TENANTED		OWNER OCCUPIED		TENANTED		OWNER OCCUPIED		TENANTED		OWNER OCCUPIED					
	600-1199	1200-4199	275-599	275-4199	600-1199	1200-4199	275-599	275-4199	600-1199	1200-4199	275-599	275-4199	600-1199	1200-4199	275-599	275-4199
£ 0-249	3	1	7	6	2	1	1	6	1	2	1	1	1	1	1	1
250-499	5	2	9	2	1	1	2	2	1	1	1	2	1	1	1	1
500-999	5	3	15	5	2	2	2	5	1	1	1	3	1	1	1	1
1000-4999	8	6	32	17	6	3	8	10	3	3	8	3	5	1	2	8
5000-9999	-	5	6	2	2	2	2	-	1	4	1	5	1	1	4	9
10000 +	-	1	1	8	2	6	8	-	2	2	2	2	-	-	1	1
	ALL TYPES EXCL. HORTICULTURE															
	PIGS AND POULTRY				HORTICULTURE				HORTICULTURE							
	TENANTED		OWNER OCCUPIED		TENANTED		OWNER OCCUPIED		TENANTED		OWNER OCCUPIED		TENANTED		OWNER OCCUPIED	
	600-1199	1200-4199	275-599	275-4199	600-1199	1200-4199	275-599	275-4199	600-1199	1200-4199	275-599	275-4199	600-1199	1200-4199	275-599	275-4199
£ 0-249	-	-	-	-	6	1	11	8	2	1	1	8	1	1	1	1
250-499	-	-	-	-	3	3	13	3	2	2	1	3	-	-	-	-
500-999	-	-	1	2	8	5	21	10	4	3	3	10	-	-	-	-
1000-4999	1	1	3	3	34	11	55	33	16	7	7	33	1	1	1	2
5000-9999	-	-	-	-	3	10	13	14	9	5	5	14	-	-	2	1
10000 +	-	-	-	1	-	6	-	13	4	9	9	13	-	-	1	1

Table XXIX (iv)

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES
 Percentage distribution of items from the 1973 balance sheet - Creditors

Size of Business: £sd	DAIRY						LIVESTOCK						CROPPING					
	TENANTED		OWNER-OCCUPIED		TENANTED		OWNER-OCCUPIED		TENANTED		OWNER-OCCUPIED		TENANTED		OWNER-OCCUPIED			
	600-1199	1200-4199	600-1199	1200-4199	600-1199	1200-4199	600-1199	1200-4199	600-1199	1200-4199	600-1199	1200-4199	600-1199	1200-4199	600-1199	1200-4199		
No creditors	25.0	5.6	4.3	9.3	32.4	27.8	7.7	16.7	16.0	25.0	31.8	75.0	35.0	-	6.3	10.0	7.7	8.2
1 - 499	32.1	16.7	6.4	16.3	27.0	33.3	42.3	-	34.0	25.0	27.3	12.5	24.0	-	3.6	40.0	30.7	45.9
500 - 749	3.6	12.9	6.4	8.5	13.5	5.6	7.7	16.7	4.0	25.0	18.2	19.0	19.0	4.0	7.1	5.0	7.7	6.1
750 - 999	14.3	7.1	4.3	10.1	5.1	11.1	11.5	16.7	12.0	5.0	4.5	12.5	4.0	9.5	5.4	10.0	7.7	4.1
1,000 - 1,299	7.1	7.4	2.1	5.4	8.1	5.6	7.7	-	6.0	15.0	4.5	-	8.0	14.3	12.5	5.0	8.2	8.2
1,300 - 1,599	34.6	34.7	6.4	44.6	7.4	5.6	3.8	-	3.0	-	4.5	-	2.0	4.7	3.6	-	-	2.0
1,600 - 1,799	34.6	11.1	2.1	6.2	5.4	5.6	11.5	-	3.0	5.0	-	-	2.0	4.7	1.7	5.0	7.7	4.1
1,800 - 1,999	34.5	1.8	2.1	3.6	-	5.6	4.0	-	4.0	-	-	-	-	4.7	7.1	5.0	15.4	8.2
2,000 +	7.1	20.4	57.4	31.0	8.1	5.6	15.4	16.7	12.0	-	13.5	-	6.0	10.0	35.7	10.0	23.1	10.2

Size of Business: £sd	PIGS AND POULTRY						MIXED						ALL TYPES (excluding horticulture)							
	TENANTED		OWNER-OCCUPIED		TENANTED		OWNER-OCCUPIED		TENANTED		OWNER-OCCUPIED		TENANTED		OWNER-OCCUPIED		TENANTED		OWNER-OCCUPIED	
	600-1199	1200-4199	600-1199	1200-4199	600-1199	1200-4199	600-1199	1200-4199	600-1199	1200-4199	600-1199	1200-4199	600-1199	1200-4199	600-1199	1200-4199	600-1199	1200-4199	600-1199	1200-4199
No creditors	-	-	-	-	-	16.7	-	16.7	6.7	100.0	20.0	-	-	20.3	6.6	3.5	17.7	19.4		
1 - 499	-	-	-	-	33.3	33.3	33.3	-	20.0	6.7	20.0	-	25.0	24.5	8.2	8.2	17.7	25.4		
500 - 749	-	-	-	70.0	-	16.7	-	-	6.7	6.7	20.0	-	12.5	9.4	5.9	7.1	14.3	28.9		
750 - 999	50.0	-	-	20.0	-	16.7	-	-	6.7	-	-	-	14.1	11.3	3.5	9.4	6.5	10.4		
1,000 - 1,299	50.0	-	-	20.0	-	16.7	-	-	13.3	-	20.0	-	12.5	7.8	5.9	7.8	4.8	4.1		
1,300 - 1,599	-	-	-	-	33.3	16.7	-	-	8.7	-	20.0	-	12.5	3.1	3.0	4.7	3.2	7.2		
1,600 - 1,799	-	-	-	-	-	16.7	-	-	6.7	-	20.0	-	12.5	4.7	4.7	2.3	4.8	5.8		
1,800 - 1,999	-	-	-	-	-	16.7	-	-	6.7	-	-	-	-	1.6	3.8	3.5	1.6	0.9		
2,000 +	100.0	100.0	60.0	60.0	33.3	-	33.3	50.0	26.7	-	20.0	100.0	37.5	6.3	20.7	55.3	4.3	3.2		

Size of Business: £sd	HORTICULTURE					
	TENANTED		OWNER-OCCUPIED		OWNER-OCCUPIED	
	600-1199	1200-4199	600-1199	1200-4199	600-1199	1200-4199
No creditors	-	-	-	-	-	-
1 - 499	-	57.1	-	44.4	-	30.0
500 - 749	-	50.0	-	11.1	-	10.0
750 - 999	-	-	-	11.1	-	10.0
1,000 - 1,299	-	-	-	-	-	10.0
1,300 - 1,599	-	-	-	-	-	10.0
1,600 - 1,799	-	-	-	-	-	10.0
1,800 - 1,999	-	-	-	-	-	10.0
2,000 +	-	-	-	-	-	10.0

Table XXX (i)

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES

Frequency distribution of items from the 1970 balance sheet

Loans from relatives

Type of farming

Size of business and

£
0-249
250-499
500-999
1000-4999
5000-9999
10000 +

£
0-249
250-499
500-999
1000-4999
5000-9999
10000 +

Bank loans

£
0-249
250-499
500-999
1000-4999
5000-9999
10000 +

£
0-249
250-499
500-999
1000-4999
5000-9999
10000 +

DAIRY												
		TENANTED			OWNER OCCUPIED					OWNER OCCUPIED		
275-599	600-1199	1200-4199	275-4199	275-599	600-1199	1200-4199	275-4199	275-599	600-1199	1200-4199	275-4199	
-	3	-	3	1	2	-	3	-	1	-	3	
-	1	1	8	1	1	-	2	-	1	-	2	
-	6	6	18	6	3	2	11	-	3	2	11	
-	8	4	5	1	1	2	4	-	1	4	4	
-	1	-	-	-	3	2	5	-	3	2	5	
-	-	-	-	-	-	-	-	-	-	-	-	
CROPPING												
		TENANTED			OWNER OCCUPIED					OWNER OCCUPIED		
275-599	600-1199	1200-4199	275-4199	275-599	600-1199	1200-4199	275-4199	275-599	600-1199	1200-4199	275-4199	
-	-	-	-	-	-	-	-	-	-	-	-	
-	2	-	-	-	1	-	-	-	1	-	-	
-	4	7	11	2	1	-	3	-	1	-	3	
-	1	2	3	-	-	-	-	-	-	-	-	
-	-	1	1	-	1	3	4	-	1	3	4	

LIVESTOCK												
		TENANTED			OWNER OCCUPIED					OWNER OCCUPIED		
275-599	600-1199	1200-4199	275-4199	275-599	600-1199	1200-4199	275-4199	275-599	600-1199	1200-4199	275-4199	
-	-	-	-	1	-	-	-	-	-	-	1	
-	2	-	2	1	-	-	-	-	-	-	1	
-	5	2	7	1	2	-	3	-	2	-	3	
-	1	-	1	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	2	2	
ALL TYPES EXCL. HORTICULTURE												
		TENANTED			OWNER OCCUPIED					OWNER OCCUPIED		
275-599	600-1199	1200-4199	275-4199	275-599	600-1199	1200-4199	275-4199	275-599	600-1199	1200-4199	275-4199	
-	4	-	4	2	2	-	4	-	2	-	4	
-	1	1	2	1	1	-	2	-	1	-	2	
-	10	-	12	2	1	-	12	-	1	-	3	
-	4	16	38	12	10	2	24	-	10	2	24	
-	3	6	9	1	3	2	6	-	3	2	6	
-	-	1	1	-	5	7	12	-	5	7	12	

DAIRY												
		TENANTED			OWNER OCCUPIED					OWNER OCCUPIED		
275-599	600-1199	1200-4199	275-4199	275-599	600-1199	1200-4199	275-4199	275-599	600-1199	1200-4199	275-4199	
-	-	1	1	2	-	1	3	-	1	-	3	
-	1	-	1	1	1	-	2	-	1	-	2	
-	1	3	6	3	3	-	6	-	3	-	6	
-	-	1	1	-	2	-	2	-	2	-	2	
-	-	-	-	-	-	3	3	-	-	3	3	
CROPPING												
		TENANTED			OWNER OCCUPIED					OWNER OCCUPIED		
275-599	600-1199	1200-4199	275-4199	275-599	600-1199	1200-4199	275-4199	275-599	600-1199	1200-4199	275-4199	
-	-	-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	-	-	
-	1	1	3	-	1	-	1	-	1	-	1	
-	-	-	-	-	-	-	-	-	-	-	-	
-	1	-	-	-	2	-	2	-	2	-	2	

LIVESTOCK												
		TENANTED			OWNER OCCUPIED					OWNER OCCUPIED		
275-599	600-1199	1200-4199	275-4199	275-599	600-1199	1200-4199	275-4199	275-599	600-1199	1200-4199	275-4199	
-	-	-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	-	-	
-	1	-	1	-	1	-	1	-	1	-	1	
-	-	-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	-	-	
ALL TYPES EXCL. HORTICULTURE												
		TENANTED			OWNER OCCUPIED					OWNER OCCUPIED		
275-599	600-1199	1200-4199	275-4199	275-599	600-1199	1200-4199	275-4199	275-599	600-1199	1200-4199	275-4199	
-	-	1	1	2	-	1	3	-	-	1	3	
-	1	-	1	1	1	-	1	-	1	-	2	
-	6	4	12	3	5	-	8	-	5	-	8	
-	-	1	1	-	3	-	3	-	3	-	3	
-	-	-	-	-	2	-	2	-	2	-	2	

Table XXX (ii)

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES

Frequency distribution of items from the 1971 balance sheet - Loans from relatives

Type of farming	DAIRY																	
	TENANTED						OWNER-OCCUPIED											
	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199						
£	2	1	1	2	-	-	2	-	-	1	1	3	CROPPING					
0-249	1	4	9	16	2	2	1	1	1	1	1	2	CROPPING					
250-499	3	4	9	16	2	2	1	1	1	1	1	7	CROPPING					
500-999	-	2	-	2	-	-	-	-	-	3	3	3	CROPPING					
1000-4999	4	13	10	27	5	5	11	11	10	10	10	26	CROPPING					
5000-9999	-	-	-	-	-	-	-	-	-	-	-	-	CROPPING					
10000 +	-	-	-	-	-	-	-	-	-	-	-	-	CROPPING					
Total	1	2	10	13	3	3	5	5	3	3	3	11	CROPPING					
Bank loans																		
£	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199						
0-249	-	-	-	-	-	-	-	-	-	-	-	-	CROPPING					
250-499	1	1	2	3	1	1	1	1	2	2	2	5	CROPPING					
500-999	1	1	6	8	2	2	1	1	2	2	2	5	CROPPING					
1000-4999	-	-	2	2	-	-	-	-	-	-	-	-	CROPPING					
5000-9999	-	-	-	-	-	-	-	-	-	-	-	-	CROPPING					
10000 +	1	2	10	13	3	3	5	5	3	3	3	11	CROPPING					
Total	1	2	10	13	3	3	5	5	3	3	3	11	CROPPING					
LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES																		
Frequency distribution of items from the 1971 balance sheet - Loans from relatives																		
Type of farming	LIVESTOCK																	
Size of Business: seed	TENANTED						OWNER-OCCUPIED											
	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199						
£	-	-	-	-	-	-	1	-	-	-	-	1	ALL TYPES EXCL. HORTICULTURE					
0-249	-	2	-	2	-	-	2	-	-	-	-	-	ALL TYPES EXCL. HORTICULTURE					
250-499	1	1	3	11	1	1	1	1	2	2	2	3	ALL TYPES EXCL. HORTICULTURE					
500-999	4	7	17	29	5	5	8	8	5	5	5	18	ALL TYPES EXCL. HORTICULTURE					
1000-4999	-	4	2	6	-	-	3	3	6	6	6	9	ALL TYPES EXCL. HORTICULTURE					
5000-9999	-	-	-	-	-	-	-	-	-	-	-	-	ALL TYPES EXCL. HORTICULTURE					
10000 +	5	22	22	49	10	10	17	17	14	14	14	41	ALL TYPES EXCL. HORTICULTURE					
Total	5	22	22	49	10	10	17	17	14	14	14	41	ALL TYPES EXCL. HORTICULTURE					
LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES																		
Frequency distribution of items from the 1971 balance sheet - Loans from relatives																		
Type of farming	LIVESTOCK																	
Size of Business: seed	TENANTED						OWNER-OCCUPIED											
	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199						
£	-	-	-	-	-	-	-	-	-	-	-	-	ALL TYPES EXCL. HORTICULTURE					
0-249	-	-	-	-	-	-	-	-	-	-	-	-	ALL TYPES EXCL. HORTICULTURE					
250-499	-	1	-	1	-	-	-	-	-	-	-	-	ALL TYPES EXCL. HORTICULTURE					
500-999	-	1	4	3	1	1	5	5	8	8	8	10	ALL TYPES EXCL. HORTICULTURE					
1000-4999	-	3	1	4	3	1	2	2	3	3	3	3	ALL TYPES EXCL. HORTICULTURE					
5000-9999	-	-	3	3	1	1	2	2	1	1	1	2	ALL TYPES EXCL. HORTICULTURE					
10000 +	-	4	5	9	5	5	7	7	1	1	1	4	ALL TYPES EXCL. HORTICULTURE					
Total	-	4	5	9	5	5	7	7	1	1	1	4	ALL TYPES EXCL. HORTICULTURE					

Table AXX (iii)

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES

Percentage distribution of items from the 1972 balance sheet - loans

Loans from relatives

DAIRY											
TENANTED			OWNER-OCCUPIED			TENANTED			OWNER-OCCUPIED		
275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199
84.6	70.9	51.5	68.4	69.4	64.3	67.4					
-	3.6	-	1.8	8.3	-	3.1					
3.9	-	-	0.9	2.9	-	1.0					
-	3.6	9.1	4.4	5.9	-	3.1					
11.5	20.0	36.4	22.8	16.7	25.0	17.3					
-	1.8	3.0	1.8	2.8	10.7	6.1					
-	-	-	-	5.9	-	2.0					

Size of Business: £

No Loans
1-249
250-499
500-999
1000-4999
5000-9999
10000 +

CROPPING											
TENANTED			OWNER-OCCUPIED			TENANTED			OWNER-OCCUPIED		
275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199
100.0	85.0	68.2	81.8	90.0	83.3	82.6					
-	-	-	-	-	-	-					
-	5.0	9.1	5.5	-	-	-					
-	5.0	18.2	9.1	10.0	-	6.5					
-	-	4.5	1.8	-	22.2	2.2					
-	-	-	-	5.6	-	8.7					

Bank Loans

£

No Loans
1-249
250-499
500-999
1000-4999
5000-9999
10000 +

DAIRY											
TENANTED			OWNER-OCCUPIED			TENANTED			OWNER-OCCUPIED		
275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199
92.3	94.6	81.8	90.3	86.1	82.4	86.7					
-	-	-	1.8	2.8	-	1.0					
7.7	-	-	1.8	2.8	-	1.0					
-	5.4	6.1	4.3	8.3	14.7	8.2					
-	-	6.1	1.8	-	2.9	1.0					
-	-	6.1	1.8	-	-	2.1					

CROPPING

CROPPING											
TENANTED			OWNER-OCCUPIED			TENANTED			OWNER-OCCUPIED		
275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199
100.0	100.0	95.5	98.2	100.0	83.3	89.1					
-	-	-	-	-	-	-					
-	-	-	-	-	-	-					
-	-	-	-	-	5.6	2.2					
-	-	4.5	1.8	1.6	16.7	8.7					

£

No Loans
1-249
250-499
500-999
1000-4999
5000-9999
10000 +

LIVESTOCK											
TENANTED			OWNER-OCCUPIED			TENANTED			OWNER-OCCUPIED		
275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199
89.9	93.3	57.1	81.4	64.7	100.0	76.9					
-	-	-	-	5.9	-	2.6					
5.6	5.6	-	4.7	5.9	-	2.6					
5.5	11.1	28.6	11.6	11.8	11.8	10.2					
-	-	14.3	2.3	-	-	2.6					

ALL TYPES EXCL. HORTICULTURE

ALL TYPES EXCL. HORTICULTURE											
TENANTED			OWNER-OCCUPIED			TENANTED			OWNER-OCCUPIED		
275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199
86.9	76.2	59.7	73.9	68.6	71.8	71.9					
-	1.9	-	0.8	6.0	-	2.0					
1.6	1.0	-	0.8	1.5	1.3	1.0					
9.9	15.2	27.8	17.7	17.2	14.1	14.8					
-	0.9	2.8	1.3	3.0	5.1	4.4					
-	-	1.4	0.4	-	3.8	3.4					

LIVESTOCK

LIVESTOCK											
TENANTED			OWNER-OCCUPIED			TENANTED			OWNER-OCCUPIED		
275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199
94.4	100.0	100.0	97.7	94.1	80.0	92.3					
-	-	-	-	-	-	-					
5.6	-	-	2.3	-	-	-					
-	-	-	-	-	-	-					
-	-	-	-	-	5.9	2.6					
-	-	-	-	-	-	5.1					

ALL TYPES EXCL. HORTICULTURE

ALL TYPES EXCL. HORTICULTURE											
TENANTED			OWNER-OCCUPIED			TENANTED			OWNER-OCCUPIED		
275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199
95.1	96.2	90.3	94.1	91.0	88.4	88.7					
-	1.0	-	0.4	1.5	-	0.5					
4.9	-	-	1.3	1.5	-	0.5					
-	2.8	2.9	2.1	4.5	7.7	4.4					
-	-	2.8	0.8	2.6	2.6	1.5					
-	-	4.1	1.3	1.3	1.3	1.3					

Table XXI (ii)

NO TABLE AVAILABLE

Table XXXI (iv)

LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES

Percentage distribution of items from the 1971 balance sheet - Interest from profit and loss account

Type of farming

LIVESTOCK											
TENANTED						OWNER-OCCUPIED					
275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199
38.9	53.9	33.3	46.0	45.0	50.0	50.0	50.0	12.5	42.0	42.0	42.0
22.2	11.5	16.7	16.0	5.0	13.6	5.0	13.6	37.5	14.0	14.0	14.0
16.7	11.5	-	12.0	10.0	9.1	10.0	9.1	25.0	6.0	6.0	6.0
22.2	-	-	8.0	15.0	-	15.0	-	25.0	10.0	10.0	10.0
-	7.7	16.7	4.0	5.0	9.1	5.0	9.1	-	6.0	6.0	6.0
-	7.7	-	4.0	5.0	4.5	5.0	4.5	-	4.0	4.0	4.0
-	3.8	33.3	6.0	5.0	9.1	5.0	9.1	-	6.0	6.0	6.0

DAIRY											
TENANTED						OWNER-OCCUPIED					
275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199
57.1	42.6	19.1	37.2	35.1	31.3	28.2	31.3	28.2	31.5	31.5	31.5
14.3	27.8	23.4	23.3	18.9	12.5	10.3	12.5	10.3	13.9	13.9	13.9
17.9	11.1	14.7	13.9	10.8	6.2	2.6	6.2	2.6	6.5	6.5	6.5
7.1	11.1	12.8	10.8	13.5	9.4	7.7	9.4	7.7	10.2	10.2	10.2
3.5	1.9	10.6	5.4	10.8	9.4	7.7	9.4	7.7	5.6	5.6	5.6
-	3.7	2.1	2.3	5.4	12.5	-	12.5	-	4.6	4.6	4.6
-	-	8.5	3.1	2.7	3.1	7.7	3.1	7.7	4.6	4.6	4.6
-	1.9	4.3	2.3	2.7	3.1	10.3	3.1	10.3	5.6	5.6	5.6
-	-	4.3	1.6	-	12.5	25.6	12.5	25.6	13.0	13.0	13.0

Size of business: £

no interest
1 - 99
100 - 199
200 - 299
300 - 399
400 - 499
500 - 749
750 - 999
1000 +

PIGS AND POULTRY											
TENANTED						OWNER-OCCUPIED					
275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199
50.0	-	-	-	-	-	-	33.3	50.0	42.9	42.9	42.9
50.0	-	-	20.0	-	-	20.0	-	25.0	14.3	14.3	14.3
-	50.0	-	20.0	-	-	20.0	-	-	14.3	14.3	14.3
-	-	-	-	-	-	-	33.3	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	100.0	20.0	-	-	20.0	-	-	-	-	-
-	50.0	-	20.0	-	-	20.0	-	25.0	14.3	14.3	14.3

CROPPING											
TENANTED						OWNER-OCCUPIED					
275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199
60.0	47.6	24.0	39.3	31.2	30.0	15.4	30.0	15.4	26.5	26.5	26.5
40.0	14.3	16.0	19.6	25.0	-	-	-	-	8.2	8.2	8.2
-	14.3	8.0	8.9	12.5	-	-	-	-	4.1	4.1	4.1
-	19.0	20.0	16.1	6.3	-	-	-	-	2.0	2.0	2.0
-	-	4.0	1.8	6.3	-	23.1	-	23.1	8.2	8.2	8.2
-	4.8	-	1.8	-	20.0	-	20.0	-	8.2	8.2	8.2
-	-	4.0	3.6	6.3	15.0	1.7	15.0	1.7	10.2	10.2	10.2
-	-	16.0	7.1	12.5	35.0	53.8	35.0	53.8	32.6	32.6	32.6

£

no interest
1 - 99
100 - 199
200 - 299
300 - 399
400 - 499
500 - 749
750 - 999
1000 +

ALL TYPES EXCL. HORTICULTURE											
TENANTED						OWNER-OCCUPIED					
275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199
50.0	45.3	23.5	39.2	37.7	37.4	24.2	37.4	24.2	33.8	33.8	33.8
23.4	20.8	18.8	20.8	15.6	10.8	11.3	10.8	11.3	12.6	12.6	12.6
15.6	11.3	10.6	12.2	11.7	4.3	4.8	4.3	4.8	7.2	7.2	7.2
9.4	10.4	12.9	11.0	11.7	3.6	4.8	3.6	4.8	6.8	6.8	6.8
1.6	2.8	8.2	4.3	9.1	7.2	12.9	7.2	12.9	9.4	9.4	9.4
-	3.8	2.4	2.4	5.2	6.0	-	6.0	-	4.0	4.0	4.0
-	1.9	9.4	3.5	2.6	7.2	4.8	7.2	4.8	5.0	5.0	5.0
-	0.9	7.1	2.7	3.9	15.1	29.0	15.1	29.0	16.2	16.2	16.2

MIXED											
TENANTED						OWNER-OCCUPIED					
275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199	275-599	600-1199	1200-4199
50.0	33.3	50.0	46.6	100.0	40.0	50.0	40.0	50.0	50.0	50.0	50.0
33.3	33.3	-	20.0	-	20.0	-	20.0	-	12.5	12.5	12.5
16.7	-	-	6.7	-	-	-	-	-	-	-	-
-	-	16.7	6.7	-	20.0	-	20.0	-	12.5	12.5	12.5
-	-	-	-	-	-	-	-	-	-	-	-
-	33.3	16.7	13.3	-	-	-	-	-	-	-	-
-	-	16.7	6.7	-	-	-	-	-	-	-	-
-	-	-	-	-	20.0	50.0	20.0	50.0	25.0	25.0	25.0

£

no interest
1 - 99
100 - 199
200 - 299
300 - 399
400 - 499
500 - 749
750 - 999
1000 +

Appendix B

A calendar of economic events
1968

	Tax changes		National Insurance, etc., contributions and benefits	Prices and incomes policy	Hire purchase regulations	Bank rate	Lending	Savings	Industrial disputes	Other events
	Income and capital	Expenditure								
1st qtr		Mar. 19(1), Increases in duties on tobacco, wines, spirits, petrol, betting and motor vehicles; purchase tax increased.	Mar. 20, 3½% ceiling on pay increases, except those associated with increases in productivity.	Mar. 21, 7½%				National savings certificates maximum holding raised to £1,000.		Jan. 16, Government cuts in spending of £716 million in next two financial years. Mar. 15, Gold crisis.
2nd qtr	Budget(4), Corporation tax for 1967/68 raised from 40% to 42½%. Special charge on personal investment income in 1967/68. Personal allowance offsets to family allowances.	April 1, Export rebate ended (saves £100 million). Sept. 2, 50% increase in SET.	April, Family allowances increased. May 6, N.I. contributions increased.			Sept. 19, 7%	April, Building societies new mortgage interest rate increased from 7½% to 7¾%. May 23, Ceilings of bank lending amended to 104% of Nov. 1967 level (including loans for exports).	April 1, British savings bond introduced. April, Building societies interest rate on shares increased from 4½% to 4¾%.		April 1, SET premiums in excess of tax payments (subsidies) withdrawn, except in development areas. April 1, School meals charges increased to 1/6d. May 1, Maximum payment of 30s. for dental treatment (excluding dentures). June 10, Prescription charge of 2/6d. per item.
3rd qtr		Nov. 22(3) Customs and Excise Regulator activated: surcharge of 10% on rates of duty and on rates of purchase tax.	Sept. 2, Redundancy Fund contributions increased.					Sept. 1, Weekly draw for premium bonds.		July 1, First stage Kennedy Round tariff cuts by UK. Sept., End of free milk in secondary schools.
4th qtr			Oct. 8, Family allowances and supplementary benefits increased.		Nov. 2, Tighter controls.		Nov. 22, Clearing and Scottish banks loans to private sector (excluding exports) to 98%, other banks to 102%, of Nov. 1967 level by Mar. 1969.	Oct., Maximum share holdings in building societies raised from £5,000 to £10,000.	Dec. 20, Dock strike on East Coast USA commenced.	Nov. 22, Import deposits began: 50% of value of certain imports repaid after six months (maximum net receipts expected to be £600 million in May 1969).

(1) Effects of Budget, March 19:

	£ million	
	1968/69	Full year
Customs and Excise	277½	314
of which: Purchase tax	127	163
Hydrocarbon oils	76	76
Tobacco	30	30
Betting and gaming	29½	30
Selective employment tax (net yield)	151	152

(2) Effects of Budget, March 19:

	£ million	
	1968/69	Full year
Inland Revenue	+227	+331
of which: Reduction in personal allowances	+57	+83
Corporation tax	+57	+98
Special charge	+70	+100
Motor vehicle duties	119	126

(3) Regulator, November 22. Increase in revenue for full year estimated at about £230 million.

A calendar of economic events
1969

	Tax changes		National insurance, etc., contributions and benefits	Prices and incomes policy	Hire purchase regulations	Bank rate	Lending	Savings	Industrial disputes	Other events
	Income and capital	Expenditure								
1st qtr						Feb. 27, 8%			Feb. 17, Dock strike in New York, USA ended. Feb. 21 to Mar. 19, Work stoppage in motor industry; production affected.	Jan. 1, Investment grant rates reverted to 20% and 40%.
2nd qtr	April 15(f), Corporation tax increased from 42½% to 45%. Personal allowances raised; reduced-rate band changed—nil effect on standard rate tax payments. Estate duty, lower limit raised from £5,000 to £10,000.	April 15(a), 10% Regulator consolidated. Duties on petrol and wines increased. Betting and gaming duties extended. Range of purchase tax extended.					April, Building societies new mortgages increased from 7½% to 8½%. June 2, Rate of interest on special deposits by clearing banks to be halved until lending is below ceiling.	National savings made more attractive— gilt-edged market to be exempted from long-term capital gains tax. April 1, Building societies interest rate increased from 4½% to 5%.	April 12, Dock strike on East Coast, USA—complete return. May 19-June 23, Lancashire heavy motor vehicle factories stoppage, production affected. June 27, Port Talbot steel works strike commenced.	May 22, Letter of intent to IMF. Domestic Credit Expansion less than £400m.
3rd qtr		July 7, 28% increase in SET.							Aug. 24, Port Talbot strike ended. Sept. 22, Stoppage in motor industry commenced. Oct. 13 to 27, Coal miners dispute.	Aug. 8, Devaluation of French franc by 11-11%. Sept. 30, Floating of Deutschemark.
4th qtr		Oct. 1, Betting and gaming duties extended.	Nov. 3, N.I. benefits increased; three-quarters by an extension of graduated contributions.				Oct. 1, Clearing banks increased interest on new advances to private sector (excluding exports) by ½%.	Oct. 1, Save As You Earn scheme started.	Nov. 10, Motor industry production fully resumed.	Oct. 1, Vesting of GPO Corporation. Oct. 21, Announcement of continuation of import deposits at reduced rate of 40% for a further year. Oct. 27, Revaluation of Deutschemark by 9.29%. Dec. 5, Import deposits reduced to 40%.

(1) Effects of Budget, April 15: £ million

	1969/70	Full year
Inland Revenue	+60	+ 97
of which: Corporation tax	+75	+105
Income tax	-6	-
SET (net yield)	+123	+130
of which: Gross yield	+313	+453
Refunds, etc.	+190	-323

(2) Effects of Budget, April 15: £ million

	1969/70	Full year
Customs and Excise	+86½	+118½
of which:		
Light hydrocarbon oils and duty	+44	+45
Purchase tax	+26	+25
Betting and gaming	+9	+12
Wine and British wine	+10	+10

A Calendar of economic events

1970

	Tax changes		National insurance, etc., contributions and benefits	Bank rate	Lending	Savings	Industrial disputes	Other events
	Income and capital	Expenditure						
1st qtr.				March 5, 7½%			March 10 to April 3, Dispute in motor industry. March 13, Dispute in shipbuilding industry, ended on July 10.	Jan. 1, UK travel restrictions lifted.
2nd qtr.	April 14(f), Personal allowances raised; reduced rates of income tax abolished. Surtax exemption limit raised to £2,500. Initial allowances on capital expenditure increased for period to April 5 1972.	April 14(f), Stamp duties: some to be abolished. Betting and gambling: minor changes in rates.		April 15, 7%	April 8, PWLB quota lending capacity up £250m, to £900m. for 1970/71. April 14, London clearing and Scottish banks restricted sterling lending and finance houses restricted lending allowed to grow by 5% over 12 months from March 1970; lending by other banks to grow by 7% over same period. Call for special deposits made. London clearing banks level increased from 2% to 2½%.		April 3 to May 21, Dispute in glass-making industry affected car production. May 4 to June 15, Dispute in rubber tyre industry. June 4 to July 7, Motor industry component abolished from Dec. 4. June 16 to July 10, Steel industry dispute.	April 1, SET additional payments in development areas withdrawn, only regional employment premiums paid. May 14, Import deposits reduced to 30% and to be abolished from Dec. 4. June 18, General election.
3rd qtr.	July 22, Betterment levy abolished.		July 6, Employers' contribution (national health service) increased.		July 28, Bank of England warning, London clearing and Scottish banks to slow growth of advances.	July 1, National Savings Bank interest on investment accounts increased from 7% to 7½%.	July 13 to July 31, Stoppage by dock workers. Aug. 10 to Sept. 18, Dispute at component manufacturers for motor industry. Aug. 28 to Oct 12, Dispute in motor industry.	Sept. 1, Import deposits reduced to 20%.
4th qtr.	Oct. 27(2), Announcement of 6d cut in standard rate of income tax and a reduction from 45% to 42½% in rate of corporation tax.		Nov. 2, Supplementary benefits increased. National Insurance Act 1970: Old persons' pensions introduced.		Oct. 29, Call for special deposits made; London clearing banks level increased from 2½% to 3½%.	Oct. 5, New decimal issue of national savings certificates.		Oct. 27, Changes in public expenditure announced to save £330m. in 1971/72 rising to £1,600m. 1974/75. Dec. 4, Import deposits abolished.

(f) Effects of Budget, April 14 :

	£ million	
	1970/71	Full year
Inland Revenue	-145	-203 (f)
Customs and Excise	34	+ 1
Net effect (including SET change)	-179½	-202½(f)

(f) Excludes effect of increased initial allowances on capital expenditure before April 5, 1972.

(2) Effects of measures, October 27 :

	£ million	
	1970/71	1971/72
Inland Revenue of which:		
Corporation tax	-60	-90
Income tax	-	-315
Full year		-405

1971

A calendar of economic events

	Tax changes		National Insurance, etc., contributions and benefits	Prices and incomes policy	Bank rate	Lending	Savings	Industrial disputes	Other events
	Income and capital	Expenditure							
1st qtr.				March 31, National board for Prices and Incomes wound up.		Jan. 12, Restriction on foreign borrowing by UK firms. March 24, Money ceilings on finance available for local authority mortgage lending to be abolished.	Jan. 1, National Savings Bank interest raised to 3½%.	Jan. 20 to March 6, Strike by Post Office workers. Jan. 29 to April 7, Stoppage in motor industry.	Feb. 15, British currency decimalised. Feb. 18, Creation of new special development areas announced; increase in operational grants to 30% of first three years' wage bill.
2nd qtr.	March 30 Abolition of upper limit to earned income relief: £40 increase in child allowance. Estate duty lower limit raised to £12,500. Corporation tax cut by 2½% to 40%. New capital allowances.	March 30 Stamp duty on mortgages, etc. abolished.			April 1, 6%	March 30, Lending guide lines issued to banks and finance houses for June qtr.: clearing banks limited to 107½% of March 1970 level. May 14, Bank of England restricts support of the gilt-edged market. June 30, Lending guide lines extended to mid-Sept.: clearing banks limited to 110% of March 1970 level.	April 1, National savings certificates (decimal issue) and premium bonds: limit on individual holdings increased. May 3, New issue of British savings bonds.		April 1, Increases in charges for prescriptions, dental treatment, welfare, milk and school meals.
3rd qtr.	July 19 Increase in first year allowance on capital expenditure and free depreciation (up to August 1973) in service industries in development areas. This will benefit industry in 1972/73, 1973/74.	July 5, SET rates halved. July 19 (*), Purchase tax rates reduced by 2/11ths.	Aug. 3, Family Income Supplement began; weekly rate up to £4 maximum. Sept. 20, 20% increase in pensions and benefits. Increase in rates of graduated contribution by a maximum of 65p per week. Sept. 23, Introduction of invalidity benefit, effective after 28 weeks of sickness.	July 15, CBI asks industry to avoid price increases or limit them to 5% or less up to 31 July 1972.	Sept. 2, 5%	Sept. 15, 'Ceilings' for lending by banks abolished. Outstanding special deposits repaid. Sept. 16, More flexible scheme for control of banks and finance houses. All banks required to observe a reserve ratio of 12½% and subject to calls for special deposits. (Larger finance houses subject to 10% reserve ratio to be achieved within a year.)	Sept. 1, Save As You Earn: maximum contract limit raised from £10 to £20; minimum period before starting a further contract reduced from 1 year to 1 month.	July 1, USA dock strike began on West and South coasts. Sept. 6 to Nov. 15, One day a week stoppages by Coventry toolroom workers.	July 1, TV licence fees increased. July 14, Government announced additional capital expenditure up to March 1973; £164m. was eventually authorised. July 20, All restrictions on hire purchase, credit sale and rental agreements removed. Aug. 15, US dollar made non-convertible; 10% import surcharge and 10% cut in foreign economic aid. Aug. 23, £ sterling to float.
4th qtr.			Dec. 6, Attendance allowance of £4.80 a week payable to severely disabled people who need looking after by day and by night.			Oct. 1, Clearing banks interest rate agreement abandoned. Nov., Building societies new mortgage interest rate cut by ¾% to 8%. Oct./Nov. Clearing banks cut base rate to 4½%.		Oct. 1, USA dock strike: East coast workers came out, West coast workers began return to work.	Nov. 22, Additional capital expenditure by the nationalised industries of about £100m. in 1972/73 and 1973/74 announced. Further government expenditure to provide additional employment; to cost £60m. over the next two years. Dec. 18, Devaluation of US dollar; revaluation of other currencies.

A calendar of economic events

1972

	Tax changes		National insurance, etc., contributions and benefits	Prices and incomes policy	Bank rate	Lending	Savings	Industrial disputes	Other events
	Income and capital	Expenditure							
1st qtr.							Jan., Building societies interest rate on shares cut by 1% to 4 1/2%.	Jan. 10 to Feb. 25, Strike by coal-miners. Jan. 17 to Feb. 8, USA West coast dock strike. March 15, Manchester area engineers begin overtime ban, work-to-rule, and 'sit-ins'. Feb. 10 to Mar. 1, Electricity supplies restricted on rota basis. Feb. 14 to 27, 3-day working week for industry.	Feb. 1, Government announced £100m. expansion of re-training system. Feb. 8, Government to spend £13,000m. on NHS and social services up to 1975/76. Feb. 10 to Mar. 1, Electricity supplies restricted on rota basis. Feb. 14 to 27, 3-day working week for industry.
2nd qtr.	Budget . Personal allowances raised; relief for interest restored. Surtax exemption limit raised to £3,000. First year allowances for certain capital expenditure increased to 100%. Estate duty exemption limit raised to £15,000; extra relief for widows and charities. Corporation tax on the capital gains of unit and investment trusts cut to 15%.	Budget . Maximum rate of purchase tax to be 25%. April 20, Exemption limit for stamp duty on houses raised to £10,000.			June 22, 6%	June 9 to 15, London clearing banks raise base rate to 5%. June 30, Further rise in base rate to 6%.		May 25, Manchester area engineers resume normal working. June 26, Selective strikes by building workers commence.	April 27, £80m. government loan announced to local authorities for private housing development land. June 23, £ sterling to float; exchange controls on UK capital transactions with overseas sterling area.
3rd qtr.				July 18, First tripartite meeting between Government, CBI and TUC on the economy and inflation. July 19, CBI asks industry to continue price restraint until 31 October.		July 21 to 25, Most London clearing banks raise base rate to 7%. Aug. 7, Bank of England asks banks to restrict lending for property and financial transactions and to give priority to financing industrial expansion.		July 28 to Aug. 18, National dock strike. Sept. 22, Selective strikes by building workers end.	
4th qtr.			Oct. 2, Increases in national insurance contributions. Change in graduated contribution rates and assessment. Dec. 4, Special bonus of £10 paid to all retired pensioners.	Nov. 2, Tripartite talks break down. Nov. 6, Government imposes 90 day statutory freeze on prices, incomes, rents and dividends.	Oct. 13, 7 1/2% Oct. 27, 7 1/2% Dec. 1, 7 1/2% Dec. 8, 8% Dec. 22, 9%	Oct., Building societies raise new mortgage interest rate by 1% to 8 1/2%. Nov. 9, Bank of England calls for special deposits from banks and finance houses (1% Nov. 30; 1% Dec. 14). Dec. 12 to 13, London clearing banks raise base rate to 7 1/2%. Dec. 21, Further call for special deposits from banks and finance houses (1% Jan. 3; 1% Jan. 17).	Oct., Building societies interest rate on shares raised by 1% to 5 1/2%. Nov. 21, Trustee savings banks interest raised to 4% on ordinary accounts and 8% on investment accounts.	Nov. 23, One day stoppage by railway workers.	Dec. 11, Government announced £1,200m. aid to National Coal Board over next 5 years. Dec. 21, Government approval given for £3,000m. investment programme by British Steel Corporation over the next decade.

A calendar of economic events

1973

	Tax changes		National insurance etc., contributions and benefits (1)	Prices and incomes policy	Bank minimum lending rate	Lending	Savings	Industrial disputes	Other events
	Income and capital	Expenditure (1)							
1st qtr.				Jan. 17, Statutory freeze on prices, incomes, rents and dividends; Phase I extended by 60 days. March 31, Pay and dividend standstill under Phase I ended.	Jan. 19, 8½% March 23, 8½%	Jan. 3 to 4, Most London clearing banks raise base rate to 8½%. Feb. 15, Further rise in base rate to 9½%.	Jan. 1, National Savings Bank interest raised to 4% (8% on investment accounts). Feb., Building societies interest rate on shares raised by 0.35% to 5.6%. March 7, National savings certificate (decimal issue) limit on individual holdings increased to £1,500.	Jan. 17 to March 23, Selective stoppages and overtime ban by gas workers. Feb. 28, One day stoppage by rail workers. March 1, Industrial action begun by hospital ancillary workers. March 8, One day stoppage by rail workers.	Jan. 1, UK, Denmark and Irish Republic became members of the EEC. Feb. 1, EEC Common Agriculture Policy applies to UK, Denmark and Irish Republic. Feb. 13, 10% devaluation of US dollar against SDRs. Yen and lira to float. March 19, Joint float of all EEC currencies except £ sterling and lira.
2nd qtr.	Budget (1). New unified system of personal taxation introduced; rates of tax vary with income from 30% to 75%. Surcharge of 15% on investment income in excess of £2,000. Surtax abolished. Corporation tax—imputation scheme introduced.	Budget (1). VAT and car tax introduced at 10%. Food, children's clothing and footwear relieved from VAT. Other taxes reduced to compensate for VAT. Purchase tax and SET ended.		April 1, Phase II brought into effect. Pay Board and Price Commission set up to regulate pay and prices. Pay increases restricted to £1 per week plus 4% of average wage bill, with maximum of £250 a year. Rigid control on prices. Dividend increases restricted to 5%. April 28, Prices standstill under Phase I ended. May 1, Controls on prices under Phase II to be based on allowable costs and profit margins.	April 13, 8% April 19, 8½% May 11, 8% May 18, 7½% June 22, 7½%	April 3 to 5, London clearing banks reduce base rate to 9%. April 4, £18m. government 'bridging grant' to building societies to keep new mortgage interest rate increase to 1% making rate 9½%. May 22 to 23, London clearing banks reduce base rate to 8½%. June 15 to 26, Further reduction in base rate to 8%.	April, Building societies interest rate on shares raised by 0.7% to 6.3%. May, Building societies interest rate on shares raised by 0.45% to 6.75%. May 7, 8½% British savings bond issued.	April 2 to 6, Strike by London dockers. April 2 to June 25, Disputes in motor industry. April 17, Industrial action by hospital ancillary workers ended. May 1, One day strike by 1½ million workers in protest against Phase II of counter-inflation policy.	April 13, Electricity Council to borrow £400m. on Euro-dollar markets. May 21, Changes in public expenditure announced to save £100m. in 1973/74 rising to £500m. in 1974/75 (1972 Survey prices).
3rd qtr.					July 20, 9% July 27, 11½%	July 19, Bank of England calls for special deposits from banks and finance houses (½% Aug. 6; ½% Aug. 13). Aug., Building societies raise new mortgage interest rate to 10%. Aug. 2, London clearing banks raise base rate to 10%. Aug. 22 to 23, Further rise in base rate to 11%. Sept. 11, Bank of England asks banks to restrict personal credit, to further restrict lending on property and financial transactions and to combat inter-branch activities.	July 1, New premium savings bond prize structure. Prize fund interest rate increased to 4½%. Sept. 11, Bank of England asks banks to limit interest paid on deposit of less than £10,000 to 9½%.	Sept. 5 to 21, Dispute in motor industry.	
4th qtr.	Dec. 17, 10% surcharge on 1972/73 assessment of surtax; half payable on 1 July 1974 and half on 1 Jan. 1975. In 1974/75, capital gains tax to be charged on the 'development gain' in property values.		Oct. 1, Increases in national insurance benefits and contributions. Dec., Pensioners to receive £10 Christmas bonus.	Nov. 7, Under Phase III pay increases limited to £2.25 per week or 7% of average wage bill, with maximum increase of £350 a year, plus 1% flexibility margin. Threshold agreements to run for 12 months allowing extra 40p (maximum) per week if retail prices index rises by 7% over October 1973 level, plus further 40p per week for every further percentage point rise. Controls maintained on prices. Interest on part of special deposits to be withheld.	Oct. 19, 11¼% Nov. 13, 13%	Oct., Building societies raise new mortgage interest rate to 11%. Nov. 13, Bank of England calls for special deposits from banks and finance houses (½% Nov. 28; ½% Dec. 12; ½% Dec. 27; ½% Jan. 2). Nov. 14, London clearing banks raise base rate to 13%. Dec. 17, Stricter terms for credit cards. Banks and finance houses asked not to offer better terms than those permitted for hire purchase. Hire purchase controls re-introduced; minimum deposit 33%; maximum repayment period 2 years for most goods. Special deposits due on 2 Jan. cancelled. Further calls if bank deposits increase by more than 8% in first half of 1974.	Oct., Building societies interest rate on shares raised by 0.75% to 7.5%. Nov. 21, Trustee savings banks interest raised to 9% on investment accounts. Dec. 1, Introduction of SAYE-linked share savings scheme.	Nov. 1, Industrial action by electricity power engineers begins. Nov. 12, Coal miners start overtime ban. Dec. 12, Rail drivers start overtime ban and work-to-rule.	Oct. 4 to Nov. 12, Arab-Israeli War. Oct. 9, £115m. cuts in public expenditure. Oct. 18, Arab oil production to be cut by 5% per month and prices increased by 70%. Nov. 13, State of Emergency declared. Nov. 14, Restrictions on use of electricity for certain purposes. Nov. 19, Government orders cut of 10% in oil deliveries. Nov. 28, Government approves plans to spend £891m. over 5 years on railways. British Gas Corporation borrowed £100m. from abroad. Dec. 13, Use of electricity restricted for most of industry and commerce. Dec. 17, Public expenditure to be cut by £1,200m. in 1974/75 (1973 Survey prices). Dec. 22, Crude oil prices doubled by producing States, effective from 1 Jan. 1974.

(1) (2) For further details see Appendix Tables 1 and 2.

(1) See footnotes on page vii

FOOTNOTES to 1973 Table

(1) (2) For further details see Appendix Tables 1 and 2.

(2) Effects of Budget, March 30, 1971:		£ million	
	1971/72	Full year	
Inland Revenue	-256	..*	
of which: Corporation tax	-55	-105	
Income tax	-184	-279	
Capital gains tax	-1	-19½	
Estate duty	-14½	-20	
Stamp duty	-2	-3½	
Selective employment tax (net yield)	-290	-245	

* A total figure is not given because the 'full year' effects of the various tax changes do not fall simultaneously in any one year.

(4) Effects of measures, July 19, 1971:		£ million	
	1971/72	Full year	
Customs and Excise (Purchase tax)	-110	-235	
Inland Revenue (increased allowances on new capital expenditure)	-	-40	

(3) From 13 October 1972 Bank of England's minimum lending rate will normally be ½% above the average rate of discount for Treasury bills established at the most recent tender, rounded to the nearest ¼% above.

(4) Effects of Budget, March 21, 1972:

(4) Effects of Budget, March 21, 1972:		£ million	
	1972/73	Full year	
Inland Revenue	-1,070	..*	
of which: Corporation tax	-17	-230	
Income tax and surtax	-982	-1,231	
Capital gains tax	-	-15	
Estate duty	-71	-143	
Customs and Excise	-141	-175	
of which: Purchase tax	-135	-175	
Spirits	-6	-	

* A total figure is not given because the 'full year' effects of the various tax changes do not fall simultaneously in any one year.

(5) Effects of Budget, March 6, 1973(6):

(5) Effects of Budget, March 6, 1973(6):		£ million	
	1973/74	Full year	
Inland Revenue	..	..(7)	
of which: Corporation tax	..	-283(8)	
Income tax	..	-	
Estate duty	-2	-5	
Stamp duty	+3	+5	
Customs and Excise	-47	+283	
of which: VAT (net)	+1,150(9)	+2,200	
Car tax	+120	+175	
Purchase tax	-1,250	-1,600	
Other duties(10)	-491	-492	
Selective employment tax	-112	-224	

(6) Includes the effects of changes announced in the 1972 Budget which did not come into effect until 1973/74.

(7) A total figure is not given because the 'full year' effects of the various tax changes do not fall simultaneously in any one year.

(8) No allowance has been made for the effects of introducing the imputation system of corporation tax.

(9) After deducting £315 million for relief for tax- and duty-paid stocks.

(10) This item reflects the reduction in duties on tobacco products, spirits, beer, wine, matches and mechanical lighters necessary to offset the application of VAT to these commodities.

APPENDIX TO 1973 TABLE

Taxes on expenditure

Main rates charged—1965 to 1973

TABLE 1

	1 January 1965	7 April 1965	20 July 1966 Regulator: percentage increase	12 April 1967 (Consoli- dation of Regulator)	20 March 1968	22 Nov. 1968 Regulator: percentage increase	16 April 1969 (Consoli- dation of Regulator)	19 July 1971	21 March 1972	6 March 1973
Purchase tax: percentage rates in use	10, 15, 25		+10	11, 16½, 27½	12½, 20, 33½, 50	+10	13½, 22, 36½, 55	11½, 18, 30, 45	11½, 18, 25	—
Spirits: duty per proof gallon	£ 12.87½	£ 14.60	+10	£ 16.06½	£ 17.14	+10	£ 18.85			£ 15.45
Beer: duty per barrel	7.35	8.55	+10	9.43½		+10	10.37½			6.90
additional duty per extra degree	0.36½		+10	0.40		+10	0.44			0.39
Wine: Light: duty per gallon	0.77½	0.92½	+10	1.01½	1.16½	+10	1.61½			0.37½
Heavy: duty per gallon	1.52½	1.82½	+10	1.96½	2.26½	+10	2.71½			1.97½
Tobacco: duty per lb.	3.87	4.37			4.58½	+10	5.041			4.305
Hydrocarbon oils (basic duty): duty per gallon	0.16½		+10	0.18	0.19½	+10	0.22½			
Motor vehicle duties: private vehicles	15.00	17.50			25.00					
Betting: general (percentage on stakes)			2½ ⁽¹⁾		5 ⁽¹⁾					
football pools (percentage on stakes)					33½ ⁽²⁾					
Value added tax: percentage	25									
Car tax: percentage										Zero rate and 10

(¹) From 24 October 1966.

(²) From 25 March 1968.

(³) Increased to 6% from 27 April 1970 (except 'on course').

Selective employment tax: rates for adult male (full-time)

Note: More detailed information is available in the Financial Statement published at the time of the Budget in which the changes were made, except when the changes were due to the application of the Regulator.

Appendix to 1973 Table cont.

National insurance, etc. contributions and benefits
Changes in rates of contributions and principal benefits—1971 to 1973

TABLE 2

Weekly rates (£)

	Weekly rates (£)						Weekly rates (£)						
	Rate at			Increase in rate			Rate at		Increase in rate		Rate at		
	1 Jan. 1971	5 July 1971	20 Sept. 1971	2 Oct. 1972	2 April 1973	1 Oct. 1973	31 Dec. 1973	1 Jan. 1971	Sept. 1971	Dec. 1971	Oct. 1972	Oct. 1973	31 Dec. 1973
Contributions—Men													
Employed persons, ordinary ⁽¹⁾	0.88	—	—	—	—	—0.04	0.84		1.00	—	0.75	0.60	7.35
Employee	3.35	-1.20	— ⁽²⁾	—	-1.20	0.14 ⁽³⁾	1.19		0.70	—	0.55	0.40	5.15
Employer	4.23	-1.20	—	—	-1.20	0.10	2.03		0.55	—	0.40	0.35	4.05
Total									1.60	—	1.20	1.60	12.50
of which:									1.00	—	0.75	0.60	10.10
National health service	0.241	—	—	—	—	—	0.241		1.60	—	1.20	1.60	12.80
Redundancy Fund	0.063	—	—	—	—	—	0.063		0.50	—	0.35	0.50	3.80
Selective employment tax	2.40	-1.20	—	—	-1.20	—	—		0.60	—	0.45	0.40	4.55
Self-employed									1.55	0.30	0.25	0.20	2.30
Non-employed	0.99	—	0.26	0.18	—	0.25	1.93		0.90	—	—	—	0.90
			0.21	0.13	—	0.19	1.52		—	—	—	—	1.00
									—	4.80	0.60	0.80	6.20

(1) Flat rate contributions payable in the case of persons not contracted out of the graduated pensions scheme.
 (2) For employed persons, graduated contributions increased for that part of weekly remuneration that exceeds £18 per week, from 3.25% to 4.35%; limit for maximum rate raised from £30 to £42 per week.
 (3) For employed persons, graduated contributions increased for that part of weekly remuneration that exceeds £18 per week from 4.35% to 4.75%; limit for maximum rate raised from £42 to £48 per week.
 (4) For employed persons, graduated contributions increased for that part of weekly remuneration that exceeds £9 per week from 4.75% to 5%; limit for maximum rate raised from £48 to £54 per week.
 (5) Excluding earnings-related supplement. The maximum weekly supplement is £7 (earnings of £30 a week or more).
 (6) The rates shown in this line are also paid for single person retirement pension, widow's pension, and maternity allowance.

National Insurance Fund—effect of changes
As estimated by the Government Actuary

TABLE 2 (continued)

£ million

	Financial year	Extra contribution income	Extra outgoings
National Insurance (No. 2) Act, 1969 (Cmnd. 4074) (1)	1971/72	361	243
National Insurance (Old Persons' and Widows' Pensions and Attendance Allowance) Act, 1970 (Financial Memorandum)	1971/72	—	13(2)
Social Security Act, 1971 (Financial Memorandum)	1971/72	—	—12(3)
National Insurance Act, 1971 (Cmnd. 4651) (4)	1971/72	181	287
	1972/73	481	539
	1973/74	549	559
	1972/73	116	188
	1973/74	332	380
	1973/74	108	237
	1974/75	311	481
	1973/74	14	77
	1974/75	90	—

(1) Projections assume earnings rise by 3% per annum.
 (2) Extra outgoings for age-related widows' pensions only; old persons' pensions and attendance allowances will be paid out of money provided by Parliament.
 (3) Savings on sickness and unemployment benefits now that benefit is never paid for the first three days.
 (4) Projections assume earnings rise by 8% per annum.
 (5) Projections assume earnings rise by 9% per annum.
 (6) Projections assume earnings rise by 7½% per annum.
 (7) Projections assume earnings rise by 10% per annum.

Appendix C

Table A

	Total Bank Advances by Banks in Great Britain to Agriculture	AMC Total loans outstanding	SASC Loans Secured on Agric- ultural Subjects
	£ million	£ million	£ million
1964 February	458		
March		57.6	4.4
May	478		
August	502		
November	515		
1965 February	505		
March		64.2	5.6
May	513		
August	526		
November	524		
1966 February	523		
March		71.5	5.9
May	529		
August	530		
November	512		
1967 February	474		
March		87.1	6.3
May	477		
August	504		
November	511		
1968 February	490		
March		103.1	6.6
May	508		
August	528		
November	533		
1969 February	528		
March		128.1	7.8
May	519		
August	543		
November	527		
1970 February	504		
March		153.5	8.8
May	505		
August	538		
November	536		
1971 February	528		
March		170.3	10.0
May	537		
August	566		
November	591		
1972 February	575		
March		178.9	10.3
May	608		
August	659		
November	690		
1973 February	708		
March		205.8	10.9
May	748		
August	793		
November	795 (806)		
1974 February	837		
March		244.2	11.6
May	892		
August	973		
November	965		

Table B

Date	Bank Rate	Clearing Bank 'Blue Chip' Rate* (Minimum)	Average Clearing Bank Rate*	Maximum Clearing Bank Rate*	AMC Fixed Rate	AMC Variable Rate	SASC Fixed Rate
	%	%	%	%	%	%	%
24/2/64							6½
27/2/64	5	5½	6½-7	8-9	6¾		6¾
22/5/64							
23/11/64	7	7½	8½-9	10-11			
22/1/65					7¼		
25/1/65							7¼
26/5/65					7¾		
27/5/65							7¾
3/6/65	6	6½	7½-8	9-10			
14/7/66	7	7½	8½-9	10-11			
1/8/66					8½		
31/8/66							8½
26/1/67	6½	7	8-8½	9½-10½			
16/3/67	6	6½	7½-8	9-10			
19/4/67					7½		
4/5/67	5½	6	7-7½	8½-9½			7½
22/8/67					7¾		
19/10/67	6	6½	7½-8	9-10			
9/11/67	6½	7	8-8½	9½-10½			
17/11/67					8		
20/11/67	8	8½	9½-10	11-12			
8/12/67					8½		8¼
21/3/68	7½	8	9-9½	10½-11½			
16/7/68					8¼		
19/9/68	7	7½	8½-9	10-11			
22/1/69					8¾		
13/2/69							9¼
18/2/69					9¼		
27/2/69	8	8½	9½-10	11-12			
29/4/69					10¼		
29/5/69							10½
1/10/69		9					
5/3/70	7½	8½	9-9½	10½-11½			
13/3/70					9¾		
15/4/70	7	8	7½-8	10-11			
16/12/70					10¾		
17/12/70							11
22/3/71					10¼		
1/4/71	6	7	7½-8	9-10			
2/9/71	5	6	6½-7	8-9			
10/9/71					9½		
16/9/71							10
18/10/71					9		
	Clearing Bank Base Rate						
26/11/71	4½	5½	6-6½	7½-8½			
16/12/71							9
22/2/72					8-8½	7	
1/6/72						(7)	

Table B cont.

Date	Clearing Bank Base Rate	Clearing Bank 'Blue Chip' Rate* (Minimum)	Average Clearing Bank Rate*	Maximum Clearing Bank Rate*	AMC Fixed Rate	AMC Variable Rate [∧]	SASC Fixed Rate
	%	%	%	%	%	%	%
9/6/72	5	6	6½-7	8-9			
30/6/72	6	7	7½-8	9-10			
24/7/72	7	8	8½-9	10-11			
1/8/72					9-9½ [∅]	8½	
17/8/72							9½
13/10/72					10	9	
7/11/72							10
1/12/72						(9)	
13/12/72	7½	8½	9-9½	10½-11½			
3/1/73	8½	9½	10½-11	11½-12½			
12/1/73						9½	
14/2/73	9½	10½	11½-12	12½-13½			
19/2/73						10½	
2/4/73					11¼		
4/4/73	9	10	11-11½	12-13			
19/4/73						12	11
22/5/73	8½	9½	10½-11	11½-12½			
1/6/73						11½(11½)	
18/6/73					10¾		
26/6/73	8	9	10-10½	11-12			
2/8/73	10	11	12-12½	13-14			
15/8/73					11½	12½	
16/8/73							12
23/8/73	11	12	13-13½	14-15			
14/11/73	13	14	15-15½	16-17			
1/12/73					13	15(15)	
1/2/74					14		
21/3/74							14
11/4/74	12½	13½	14½-15	15½-16½			
13/5/74	12	13	14-14½	15-16			
8/6/74					14½		
6/8/74							15
19/8/74					15¾		
1/12/74						15½(15½)	

Note - There is a degree of approximation in the rates charged by the Clearing Banks, especially for average and maximum rates. The average rate in Scotland may at times have been up to 1 per cent. higher than in England and Wales and the maximum ½ per cent. higher. In Northern Ireland, up to September 1971, the rates charged by banks tended to be ½ per cent. higher than in England and Wales. After September 1971, there was virtual parity. This Table is based on Table XXXII (not qualifications to Base Rate listed in the present Table); Graph at p. 85; Table XXXIVA; and Table XXXVA.

*These are the rates charged on overdrafts; on loan account, ½ to 1 per cent. above the overdraft rate would be charged and, on term loans, 1 to 2 per cent. above the overdraft rate.

∧ For new loans. As reviewed for existing loans has been placed in brackets.

∅ First rate relates to 8-10 year loans and the second to 10-40 year loans.

Table of Contents

	Page
Introduction	1
<u>A: The Current Situation with regard to Agricultural Credit</u>	
Chapter 1 The Relative Importance of Agricultural Credit with respect to the Capital Market	2
Chapter 2 The Indebtedness of Agriculture	17
Chapter 3 Influence of State agencies on the availability of credits in general and of agricultural credits in particular	35
- Grants available to agriculture	35
- Financing of Nationalised Industries	44
- ACC Guarantees	47
- Monetary policy framework within which credit is made available	51
Chapter 4 The Structure and Costs of Agricultural Credit	59
- The Clearing Banks	60
- The Agricultural Mortgage Corporation	76
- The Scottish Agricultural Securities Corporation	99
- Agricultural Merchants	103
- Agricultural Machinery Dealers	110
- Co-operatives	113
- Syndicates	122
- Auctioneers	124
(including Fatstock Marketing Corporation - FMC Ltd. - 127-8)	
- Hire Purchase	130
- Contract Hire	144
- Leasing	146
Chapter 5 External Variables Influencing Availability of Credit to Agriculture	152
- General Economic Policy	152
- Regional Policy	174
(i) Highlands and Islands Development Board	174
(ii) Crofters Commission	180
(iii) DANI Loans	182

B: Future Evolution in the Field of Agricultural Credit

Chapter 6	Future Developments in the Capital Market and Possible Legislative Changes	185
	- Developments in the Capital Market to 1985-95	185
	- Possible Legislative Changes relating to agricultural credit	225

C: Conclusions

Chapter 7	Conclusions	231
-----------	-------------	-----

Appendix A (i)

Appendix B (xxxviii)

Appendix C -XLVII-

Tables

		Page
Table I	Bank Advances in Great Britain	4
II	Agricultural Output and Employment for the United Kingdom	6
III	Advances by Scottish Clearing Banks	6
IV	Advances by Northern Ireland Banks	7
V	AMC - Loans Granted as Per Published Balance Sheet Figures	9
VI	AMC - Loans Outstanding 31 March as Per Published Balance Sheet Figures	10
VII	AMC - Loans Granted: Purposes	11
VIII	Scottish Agricultural Securities Corporation - Loans	11
IX	SASC - Purpose of Borrowing - New Loans 1973/74	12
X	SASC - 'Additional' loans 1973/74	12
XI	Distribution of Farmer Borrowings - All Farms - England and Wales	18
XII	Scotland: Distribution of Borrowings - Rearing and Arable (Non-Coys)	19
XIII	Scotland: Distribution of Borrowings - Hill Sheep and Upland Farming (Non-Coys)	19
XIV	Scotland: Distribution of Borrowings - Dairying (Non-Coys)	20
XV	Northern Ireland: Distribution of Borrowings - Dairying (Non-Coys)	20
XVI	Northern Ireland: Distribution of Borrowings - Livestock (Non-Coys)	21
XVII	Balance Sheet for England and Wales Average for 3 years - 1967/68 to 1969/70	21
XVIII	Balance Sheet for Scotland Average for 3 years - 1967/68 to 1969/70	22
XIX	Balance Sheet for Northern Ireland Average for 3 years - 1967/68 to 1969/70	23
XX	A Balance Sheet for United Kingdom Agriculture, June 1970	24

		Page
Table XXI	Analysis of the Sources and Disposition of Funds in Agriculture at the Aggregate Level	27
	LIABILITIES AND ASSETS SURVEY, ENGLAND AND WALES 1969/70-1972/73	
XXII	Balance Sheets for all types of farming (excluding horticulture)	30-33
XXIII	Balance Sheets for farms under 275 SMDs	Appendix A (i)-(iv)
XXIV	Balance Sheets for Horticulture Holdings	" (v)-(viii)
XXV	Sources and disposition of funds: Tenanted farms	" (ix)-(xiii)
XXVI	Sources and disposition of funds: Owner-occupied farms	" (xiv)-(xvii)
XXVII	Sources and disposition of funds: farms with mixed tenure	" (xviii)-(xxi)
XXVIII	Frequency distribution of items from balance sheet - Bank Overdraft	" (xxii)-(xxiii)
	Percentage distribution of items from balance sheet - Bank Overdraft	" (xxiv)-(xxv)
XXIX	Frequency distribution of items from balance sheet - Creditors	" (xxvi)-(xxvii)
	Percentage distribution of items from balance sheet - Creditors	" (xxviii)-(xxix)
XXX	Frequency distribution of items from balance sheet - loans from relatives	" (xxx)-(xxxi)
	Percentage distribution of items from balance sheet - loans from relatives	" (xxxii)-(xxxiii)
XXXI	Frequency distribution of items from balance sheet - interest from profit/loss account	" (xxxiv)-(xxxv)
	Percentage distribution of items from balance sheet - interest from profit/loss account	" (xxxvi)-(xxxvii)
XXXII	Interest Rates 1962 to 1974	73-74
XXXIII	AMC - Debentures and Bonds Issued	80-81
XXXIV	AMC - Holdings of last four debenture stock issues at the fully paid stage	83
XXXIVA	AMC - Variable Rate of Interest	94
XXXIVB	Loan completions: Year to 31 March, 1974: Percentage of Lending for year by Loan Types	97

		Page
Table XXXV	SASC - Loan Capital	100
XXXVA	SASC - Interest Rates	102
XXXVI	Half-Yearly Sales of Agricultural Land in England and Wales: Averages of Sales with and without Vacant Possession (10 acres and over) by Private Treaty and by Auction	219
XXXVII	Farm Sale Prices (England and Wales)	220-221
	Calendar of Economic Events	Appendix B -XXXVIII- -XLVI-
A	Summary Table	Appendix C -XLVII-
B	Summary Table	Appendix C -XLVIII- -XLIX-

Graphs and Diagrams

	Page
Bank Advances in Great Britain	5
Grants Available to Agriculture in the United Kingdom 1970/73	35-36
Schedule of Capital Grants	41-43
Gross Redemption Yields on Gilts	85
AMC - Analysis of Purposes for Loans completed during the year ended 31 March, 1974	88
Highlands and Islands Development Board - Grants and loans to approved projects 1965-1973	177

