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ITALY (2)

ITALIAN agriculture is naturally varied because of the great differences in its morphology and the broad latitude of the peninsula which shares both continental and Mediterranean climates. In order to understand its problems, therefore, it is necessary to bear in mind the variations in the development of the commercial system of production as between the different zones of the country. Owing to various circumstances in the history of the Italian *bourgeoisie*, the pre-commercial elements have been only partially dissolved by the new system of production which they still permeate, splitting its structure into a succession of aggregates of different types at different technical levels.

The fundamental effect of the malconformation of the productive structure is expressed by the fact that only 29 per cent. of the whole active population is employed in industry while 41 per cent. is engaged in agriculture and 30 per cent. in providing services. The corresponding distribution of income is of the following type. Forty per cent. of the net national income derives from industry, 26 per cent. from agriculture and 34 per cent. from services. The low level of productivity obtained by agriculture, for which accumulation of capital is extremely difficult in many zones, emerges from these relationships.

The distribution of a mass of 8 million peasants over an agricultural area of about 53 million acres causes acute disguised unemployment with a consequent maintenance burden which weighs heavily upon the production process, thereby drying up the capacity for saving, and hindering farm enterprises from being brought up to date.

The resistance of the pre-commercial elements to the introduction of new kinds of production may be expected to make its effect felt also on those institutions with which economic activity comes into contact—from the workers' unions to the co-operative organizations, from the credit system to the market structure. Here too the dual nature of the productive apparatus is felt, with the further implication that the most advanced part of the economy, within which political power has been concentrated since Italian unification, has shaped these institutions according to its own requirements. But such a structure is inadequate to the needs of the less well developed part.

The latter loses entirely, or almost entirely, the effects of the support that such institutions exert on the productive structure. So far as agriculture is concerned, the present type of agricultural lease allows a large extraction of rent to the advantage of those social categories who have already lost all contact and interest in farming except for submitting it to a constant and burdensome drain of wealth to be used outside the agricultural sector. The so-called zones of *latifundia* are typical examples with their extensive type of farming based upon a rotation of cereals and pasture and characterized by an extreme scarcity of fixed and circulating capital.

A broad idea of how the national territory can be divided between zones in which the processes of production have developed into modern forms and in which contacts with the market are therefore maintained (though in different ways and degrees) and those zones in which the economic activity is still dominated by pre-commercial forms and by a prevailing trend towards self-sufficiency, can be provided by the scheme of distribution explained by Rossi Doria in the *Yearbook of Italian Agriculture*.¹

From the present point of view, of the nine zones shown in Table 1, the Ist, Vth, VIIth, VIIIth and IXth could be regarded as representing the pre-commercial type, while the IIInd, IIIrd, IVth and VIth represent the type in which the processes of production reflect a more modern commercial economy.

In the Alpine mountains and in the *latifundia* zones the rate of agricultural progress is very slow, so that in nearly thirty years production has increased by only 8 per cent. and 5 per cent. respectively, and in the Apennines there has actually been a reduction during the same period. In the *mezzadria* zones of central Italy and in the orchard and vineyard zones of southern Italy, however, the higher rates registered (+31 per cent. and +13 per cent.) hide a progressive impoverishment of the land caused by failure to replace old plantations, by the slow pace at which mechanization has proceeded and by the difficulties of introducing adequate inputs.

The situation is different in the zones of the second group—that is in the belt along the Alpine foothills—where small properties and small tenancies prevail and are organized so as to be closely connected with urban activities. Here the index of gross saleable production is 134. Similar indices are to be found in the Po plain, where the rearing

¹ M. Rossi Doria, 'Labour', in the *Yearbook of Italian Agriculture*, vol. iv, 1950, INEA, Rome, 1951.

TABLE I. *General features of typical zones in Italian agriculture*

Typical zones	Per cent. distribution of arable land	Arable land (1) managed by						Per cent. distribution of peasant population	Per cent. distribution of gross saleable production 1950-3	Indices of gross saleable production 1950-3 (100 = 5-2261)
		Peasant owners	Peasant tenants	Share tenants	Share croppers	Wage- workers	Total			
I	2	3	4	5	6	7	8	9	10	11
I. Alpine mountains	4.5	80.4	11.7	3.5	2.2	2.2	100	6.5	4.4	108
II. Alpine foothills	13.9	51.8	25.3	15.7	2.4	4.8	100	15.0	17.2	134
III. Northern plain of high-yielding livestock industry	8.0	19.5	34.2	5.6	3.0	37.7	100	9.2	14.9	134
IV. Recently reclaimed Zones of lower Po plain	4.3	15.2	22.6	28.6	20.3	13.3	100	5.9	7.0	121
V. Zones of share tenancy	23.5	26.5	5.4	62.2	2.7	3.2	100	26.4	23.0	131
VI. Central and southern Italy's low plains under reclamation	5.5	23.1	23.9	13.0	13.4	26.6	100	3.9	5.7	164
VII. Extensively farmed zones (<i>lati- fundia</i>)	17.2	35.9	20.8	2.3	27.6	13.4	100	10.7	9.6	105
VIII. Southern Apennines	9.4	57.8	17.8	8.3	11.5	4.6	100	8.7	5.3	94
IX. Zones of orchards, olive and vineyards in southern Italy	13.7	36.8	21.8	5.2	24.4	11.8	100	13.7	12.9	113
ITALY	100.0	37.2	18.6	21.2	12.1	10.9	100	100.0	100.0	124

(1) Cropland, with and without trees; tree-, shrub- and bush-planted lands (including chestnut plantations); permanent meadows.

Note: The gross saleable production data are taken from G. G. dell'Angelo, 'The Effects of the Economic-Agricultural Features of the Typical Zones on the Agricultural Production Rate', *Documents of the XVIIth Scientific Meeting of the Società Italiana di economia, demografia e statistica*, Perugia, 1956.

of selected breeds of livestock is intensive, and in the Po Delta which was made available for agriculture recently through the work of land reclamation. In the plains of southern and central Italy, the index of gross saleable production showed the greatest increase of all zones between 1922-5 and 1950-3, because intensive farming has taken the place of a very poor extensive farming as a result of reclamation and irrigation.

Of the nine zones, the IVth, VIth and VIIth are for the most part included in the land-reform scheme which started in 1950 and in which 1,800,000 acres have been expropriated. This acreage is about 13 per cent. of the total area of these zones.

In singling out these nine typical zones and considering their varying rates of economic growth, the different aspects of the problems of capital formation and use become apparent, although sufficiently detailed information is not available for precise study.

Of the three sources of capital (self-finance, financial and money market and state), self-financing is realized through the partial use of the manual and managerial work of the entrepreneur himself in forming new capital instead of income, as well as through savings and direct allocation of a quota of the production to rebuild the exhausted capital (i.e. seeds) or to increase the original capital,¹ &c. It is to this form of self-financing (which in Italian literature is called labour capitalization) that the improvements in large tracts of land are due, especially in hilly areas.

Agriculture draws on the financial and money market mainly through credit institutions, as financing directly through the issue of shares and bonds is negligible. So far as circulating capital is concerned there are special banks which are authorized to grant farming loans, and normal banks in those zones where agriculture has a structure of a capitalist type. On the other hand, in the poorest zones the savings market still retains some aspects of personal credit, often performed by single individuals by way of usury. Banks for farming credit grant loans for the formation and increase of stock capital. These are repayable within five years and are guaranteed by special drafts. The granting of credit by co-operatives in kind (machines, &c.) and by delayed or instalment payments granted by suppliers

¹ A representative case of this form of capitalization concerns livestock. A part of the increase of the annual liveweight is used directly to increase the number of head of cattle instead of being sold for consumption.

against drafts and promissory notes discountable or not by the banks are noteworthy forms of credit. The banks which provide for the formation of fixed capital (buildings, plantations, &c.) belong to the special category of institutions which specialize in granting long-term mortgage loans. The normal rates of interest on such loans are not often applied, as the state provides an alleviation of them by special forms of intervention.

The state contributes to the formation of agricultural capital in four principal ways:

(a) Equipment and management of experimental stations and extension services, professional schools and special courses.

(b) Implementation of works of public interest in the field of land improvement, such as drainage and irrigation canals, watersheds, rural roads and hamlets, reforestation, &c. These investments are sometimes made entirely by the state. In all other cases, the state contributes at least three-quarters of the value of such public works.

(c) Allocation of capital for the purchase of inputs (for example, seeds) for land improvements on single farms (buildings, plantations, land breaking, well drilling, &c.). This form of contribution varies from a minimum of 10 per cent. to a maximum of 50 per cent. of the expenditure, according to the type of work and the location.

(d) Allocation of funds to credit institutions for loans to be extended to farmers at very low interest rates for land improvement and for the purchase of machines and other inputs.¹ When the state does not give direct financial subsidies by these means its action is indirectly felt in long-term credit, as it makes funds available towards the payment of interest charges. In so doing it brings the cost of money down to a level at which it becomes possible to borrow for farming operations.

A specific intervention of the state in the formation of agricultural capital is connected with land reform already under way. It is estimated that by the time these reforms are completed, the state will bear three-quarters of the financial burden required to establish the new farms, while only one-quarter of it will be borne by the peasants themselves. The amount of these investments is covered by budgetary appropriations already approved by Parliament or still pending final approval. The sum involved is equivalent to 934 million dollars.

¹ Lately an inquiry carried out by the *Banca d'Italia* showed that funds assigned by the state in 1955 represented 37·3 per cent. of land-improvement credit operations, while the share of the credit institutions was 62·7 per cent.

Only for the formation of fixed capital is it possible to make a reasonably reliable estimate of the proportion contributed by each of the three sources of financing. According to the data for 1954 and 1955 issued by the *Istituto Nazionale di Economia Agraria*,¹ the improvement work connected with the farms themselves (buildings, plantations, &c.), the reclamation works involving whole territories (afforestation, rural roads and hamlets, irrigation canals) and the settlement brought about by land reform, involved investments to a value of 371 million dollars per annum—152 million dollars in north Italy and 219 million dollars in south Italy—for the two-year period 1954-5. Leaving out of account the reclamation works of general benefit and also those connected with land reform, the annual rate of increase of fixed capital in private farms amounted to about 168 million dollars—96 million in the north and 72 million in the south—for the same two-year period. The distribution of finance through the three main sources was as follows:

TABLE 2

	<i>Fixed capital (per cent.)</i>					
	<i>including</i>			<i>excluding</i>		
	<i>public reclamation works and land reform</i>					
	<i>North</i>	<i>South</i>	<i>Italy</i>	<i>North</i>	<i>South</i>	<i>Italy</i>
(a) Self-financing . . .	19.6	19.9	19.8	27.0	54.5	38.7
(b) Credit market . . .	25.7	3.5	12.6	40.7	10.8	28.0
(c) State . . .	54.7	76.6	67.6	32.3	34.7	33.3

It would appear that about four-fifths of the self-financing of improvement work connected with the farms themselves has been stimulated by financial subsidies and mortgages at very low interest rates, approved by the state; only one-fifth of the value of the works has been obtained in an independent form such that not less than two-thirds derives from that particular form of investment (labour capitalization) which takes place specially in farms of the small and medium sizes. No information is available by which the amount of savings coming from non-agricultural activities carried on by the farmers and invested in their own farms may be estimated, but it seems that the proportion is not high except in those cases where the farm enterprise is associated with important industrial and financial concerns.

With regard to the proportion of finance obtained from the credit

¹ I.N.E.A., *Yearbook of Italian Agriculture*, vols. viii and ix, Rome, 1955-6.

market (28 per cent.), it must be remembered that the credit institutions draw 37 per cent. of their distributed funds from money advanced by the state (see footnote, p. 322) and their real share in terms of their own funds, therefore, would be 17.6 per cent., the state contributing 45.7 per cent. in direct subsidies and productive investments, in State demesne agricultural enterprises, and in indirect ways as by budgetary appropriations for mortgages.

A mainly conjectural valuation of the average contribution of each of the three sources of finance towards the formation of new stock capital for the two-year period 1954-5, would indicate the following distribution for machines, implements and other equipment (in all, 224 million dollars, of which 155 million dollars was invested in northern Italy), and for livestock (in all 30 million dollars of which 26 million was invested in northern Italy):

TABLE 3

	<i>New stock capital</i>					
	<i>Machines (per cent.)</i>			<i>Livestock (per cent.)</i>		
	<i>North</i>	<i>South</i>	<i>Italy</i>	<i>North</i>	<i>South</i>	<i>Italy</i>
(a) Self-financing	36	40	37	75	67	74
(b) Credit market	62	49	58	13	..	11
(c) State	2	11	5	12	33	15

The state is directly engaged in furnishing stock capital to the farms established by land reform, which are mainly located in southern Italy, and to the demesne agricultural enterprises. It is also involved in the problem through the money advances to the banks for developing farm mechanization. (In the period 1954-5, 26.9 million dollars a year were given for this purpose.) After deducting these funds which come from the state through its participation in the credit market, it would appear that the savings collected by the banks contributed 46 per cent. to the financing of the new machine pool; while the direct and indirect contributions of the State would amount to 17 per cent. Self-financing is prevalent in the case of livestock where the endowment is realized mainly through the accumulation in the form of livestock capital of a part of the normal gain in liveweight.

In the case of circulating capital, of which the total annual amount is estimated at 2,080 million dollars (1,440 million dollars in the north)

the distribution of financing can be deduced from the farming operation loans granted by agricultural credit banks, the expenditures on land-reform farms or on the state demesne agricultural enterprises, and the financial contribution of the state towards the purchase of certain inputs (selected seeds, fuel for farm operations, &c.). The distribution thus ascertained is given in the following table:

TABLE 4

	<i>Circulating capital (per cent.)</i>		
	<i>North</i>	<i>South</i>	<i>Italy</i>
(a) Self-financing	82	84	83
(b) Credit market	15	12	14
(c) State	3	4	3

There is a lack of methodical observation of the ways in which the financing of circulating capital is carried out. These data therefore are based on the interpretation of incomplete information, but they are truly representative of the actual situation in an agricultural sector which still contains large areas organized in a pre-commercial economy. There are no contacts with the commercial credit market in these areas, and when credit is obtained through the primitive forms of money lending by single private individuals in response to the imperative need of the peasants to find the means to cultivate their small plots of land, incredibly burdensome conditions are imposed. For these reasons, the various forms of financing circulating capital under the single heading of credit market have different weight and significance in the two regions, northern and southern Italy. In the former, where production has assumed a commercial type of structure as in the plains near the important industrial centres, agriculture has the advantage of the facilities typical of this system which are not enjoyed by the zones with extensive farming systems. A remedy for these deficiencies suffered in very large agricultural sectors, especially in southern Italy, has not yet been found. There are no comprehensive state measures aiming at the creation of credit institutions which could enter into useful relations with the agricultural people there. Nor is there any widespread peasant movement which could overcome innate individualism and establish institutions of the kind which have allowed many other agricultural economies based on family type farms to accumulate a very great deal of productive capital.

The data referred to allow an estimate to be made of the pattern of the distribution of the various categories of capital and their relative importance in the agriculture of the two areas:

TABLE 5

	<i>Total capital by regions and by categories</i>		
	<i>North</i>	<i>South</i>	<i>Italy</i>
Fixed capital of general interest (public reclamation works) .	28	72	100
Fixed capital of private interest	57	43	100
Stock capital	71	29	100
Circulating capital	69	31	100
Total	66	34	100

The markedly high proportion of general purpose fixed capital absorbed by the south emphasizes the still largely unsolved problems of this region relating to the setting necessary for an intensive agriculture. However, these problems are largely bound up with the general attitude towards work, the productivity of which is not in this case measurable in the usual terms of monetary profit and which can be changed only in the long run. The agricultural process continues to move less intensively in the south than in the north. The capital invested in new equipment represents only 29 per cent. of that invested in the whole country, and the total circulating capital is only 31 per cent. of that annually required by Italian agriculture as a whole. These percentages speak for themselves when it is considered that the agricultural area of the southern regions represents 40 per cent. of the total agricultural area and that 40 per cent. of the agricultural population lives in the south. In contrast to this, the gross saleable production which can be obtained from the south represents only 34 per cent. of the national product. Also, with regard to the fixed capital of private interest represented by the investment that independent enterprises make in building, plantations, wells, irrigation canals, land-reclamation, drainage, &c., southern Italy is relatively more heavily committed than the north. The reasons for this are largely the same as those for the great weight of investment in general-purpose fixed capital in the south. It is a question of creating on the farms those conditions which will in turn allow the use of more immediately productive inputs.

The necessity of preparing environmental conditions adapted to intensive farming presents a large problem of policy. When it is

recognized that there is also the closely connected problem of creating conditions of civil life for a dense agricultural population in places where such conditions have been lacking for centuries, it is clear that the initiation of such undertakings by the state showed, and is continuing to show, a keen appreciation of the difficulties. These have expressed themselves in a particularly accentuated form and in an autonomous way in the land reform areas during the post-war period. Nevertheless, the existence of an agriculture characterized by relatively low rates of productivity represents a strangling influence which is specially serious in a country like Italy, where development problems involving two-fifths of the population are pressing. There is an urgent need to set in motion a full programme of industrialization and an intensifying of international trade.

It seems imperative, therefore, that the agrarian policy which today aims above all at increasing fixed capital through public investment and by stimulating private investment should adjust itself better to means likely to bring about also a progressive accumulation of stock capital and a constant increase of circulating capital. Such a policy would not only and necessarily raise problems of additional public expense, but would also involve more difficult problems of institutional reform with regard to experimental services, agricultural instruction, professional training, extension services, credit, &c., together with problems of revision and better distribution of existing budget expenditure. From the solution of these problems, however, agricultural production would draw real and more immediate benefits; and the rate of formation of working capital, which is limited today not only by a low agricultural income but by the lack of a structure likely to stimulate and direct savings in the rural zones, would be raised to levels which could better serve the interests of the zones involved and of the economy of the whole country.