Chapter 21

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Farmers' Attitudes Toward Credit and Capital[1]

IN THIS CHAPTER the attitudes of low-income farmers toward credit will be of primary interest, but the attitudes of farmers in other income categories will be considered (cf. discussion by Bohlen and Beal in Chapter 20). Credit will be regarded as an important and powerful phase of economic policy; and, although emphasis will be upon attitudes, it will be assumed that attitudes toward credit policy cannot be considered in isolation from the policy itself.

The objectives of this chapter are as follows: (1) to present a concept of credit and to relate this concept to the attitudes of farmers; (2) to characterize in some detail farmers' attitudes toward credit under existing policy; and (3) to suggest how the attitudes of farmers toward credit can be altered by changes in credit policy.

CREDIT AND THE POLICY ISSUES

Credit is viewed to be essentially a power concept. In the process of borrowing money, a farmer obtains the economic power to carry out a particular course of action, however limited it may be. Although credit may be expressed in monetary terms, this power to effect action or change is of major concern here.

A credit system may exert a powerful influence upon the rate that agricultural firms and areas reorganize in the wake of technological and related economic forces. Credit is a joint affair; the borrower and the lender decide together, implicitly or explicitly, upon the nature and scope of the action which credit makes possible. Through security requirements and repayment terms, they also decide upon the nature and extent of the relationship between them. Because of this close relationship, credit institutions are of strategic importance in considering the attitudes of farmers toward change. A relevant question is whether in the design of general agricultural policy sufficient attention is being given to the policies of these institutions. The thesis presented in this chapter is that essential changes in the economic organization of agriculture can be

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greatly accelerated, particularly in critically low-income areas of the South, by strengthening the role of credit institutions.[2]

Essential changes in organization involve the transfer of human and physical resources between agriculture and the nonagricultural sector, and the regrouping of resources within agriculture. They also involve the learning processes of individuals, both those who remain in agriculture and those who transfer to other activities. Through appropriate modifications in credit policy, alternatives open to farmers may be altered so that they would prefer to make adjustments at the rate and to the extent necessary to bring income levels up to a par with those prevailing in nonfarm sectors of the economy. In short, modification of credit policy, in conjunction with other phases of policy, is necessary in dealing effectively with the attitudes of farmers toward credit and capital.

FARMERS' ATTITUDES

Attitudes of farmers toward credit are reflected in their decisions which may govern the influence that a credit institution may exert upon the internal operation of the farm business. Attitudes toward credit represent just one aspect of the decisions which a farmer makes that define the scope of his activity, and thus characterize who he is and what he does. These decisions are concerned with such matters as personal judgments with respect to his own abilities, the choice of resources over which control may be secured, and opinions pertaining to the individuals, firms, and institutions that make up the environment in which he exists. Within the limits established by these broad decisions, a farmer makes lesser decisions with respect to what to produce, when to sell, the use of his leisure time, choice of consumption items, and many others. Interest here is in the broader attitudes of the operator which govern, on the one hand, the extent to which the external environment shall influence the internal operation of the farm, and on the other hand, the nature and internal strength of the decision-making unit.

At any point in time, the attitudes held by a farmer may lead either to the growth or deterioration of his farm business. The environment external to the farm is constantly changing under conditions of technological advance, population growth, and rising per capita income. Unless the operator keeps pace with events beyond his control, his problems become analogous to those of the private within a platoon of marching men. If the private slows his pace to less than the given cadence, he

[2] The ideas expressed in this chapter are based largely upon the experience of the authors in working closely with farm families in North Carolina. This experience is reviewed in A. J. Coutu, E. L. Baum, and R. M. Ray, An Analysis of the Parker Branch Watershed Project 1953 Through 1959: A Progress Report, T60-3AE, N. C. State College and Tennessee Valley Authority Cooperating, Knoxville, Tenn., 1960; and Quentin W. Lindsey, Transforming Low Income Farms into Profitable Commercial Farms and Financing the Development of Commercial Farms, Department of Agricultural Economics A. E. Info. Series Nos., 76 and 77, N. C. State College, Raleigh, N. C., 1960.

must minimize the onslaught of trampling feet behind him; if he quickens his pace, he must trample over those in front. He can force the platoon to follow his choice of cadence only if he possesses great strength.

The role of the farm operator in the economic community in which he exists is at once more complex and less rigorously defined than that of the army private. It varies with the operator's tenure status, age, health, and education, and with the size and type of farm. It also varies with the economic conditions of his community. But regardless of the setting, the farmer's attitudes coordinate his pace with the cadence of events about him.

Aversion to Change

If a farmer has fallen behind the general pace of economic events, his business is likely to be in a state of relative, if not absolute, decline. Two choices are open to such a farmer, viz., (1) he may seek to regain a position within the bounds of successful business enterprise, in which case a burst of energy will be required; or (2) he may choose to prolong his existence as a going concern by shrinking within a shell of partial economic isolation because the required energy may be beyond his capacity. If he chooses the latter approach, his attitudes may be characterized by the term "aversion to change."

There is an internal and an external phase to these attitudes. If an attitude is identified by the influence it has upon the internal operation of the farm, this is identification by the internal phase. The same attitude may be identified by its external phase through the relation it establishes between the farm and an external firm or institution. For example, a farmer whose attitude prohibits him from accepting credit implies by this attitude that he does not want, under the terms specified, the additional resources which credit might empower him to obtain.

Low-income farms. On the low-income farms of the South, aversion to change is the predominant attitude. These farms may be identified roughly as those in Economic Classes V and VI in the census classification of farms. Experience in working with low-income farmers indicates that they consider it impossible to catch up with the present tempo of economic advance, and have chosen to conduct a holding operation to preserve a known mode of existence as long as possible. The internal phase of their aversion to change manifests itself in their effort to preserve the system of farming with which they are familiar, but the external phase is linked with each internal phase. The terms for available credit may be so stringent that, given the relatively large volume of credit which may be required to transform the farm into a thriving commercial unit, the fear of losing all that is now possessed prevents the accomplishment of change of any magnitude, except over very long periods of time. (Discussions related to this problem are presented in Chapters 13, 14, and 20.) Success may hinge upon the maintenance of good health, curtailment of leisure, or the mastery of new farming methods. Future benefits may not be visualized with sufficient clarity to cause the farmer to assume the risk and expend the necessary effort to learn, particularly if he regards the learning process to be costly and of considerable duration (cf. discussions in Chapters 22 and 23).

In communities where low-income farms are common, individuals also may fear the social ridicule resulting from failure and foreclosure. Even if successful, they realize that a change in income will affect their social status and that ostracization by existing acquaintances may occur. In order to change materially the organization and operation of his farm, a low-income farmer must deal with marketing firms or factor supply houses with which he is unfamiliar. These will likely be large concerns, and he may feel incapable of dealing with them in equitable terms, so he shuns any opportunity to do so. Or there may be a feeling of social inferiority associated with these contacts, as was the case in one instance of our experience in which the farmer felt that to attend a purebred heifer sale would be to step over a distinct social boundary. Whatever the reasons for these attitudes, the typical low-income farmer has decided that the gap to be spanned in bringing his farm up to modern commercial standards is more than he can negotiate.

Medium-income farms. In many respects, aversion to change by operators of medium-income farms is similar to that found for low-income farmers. These are farms with characteristics below par for thriving commercial farms of similar types, but which distinctly are not low-income farms. They fall, for the most part, in Economic Classes III and IV. The operators of such farms formulate attitudes on much the same basis as low-income farmers; but they tend to give greater consideration to market conditions, perhaps because their economic isolation is less pronounced as they are more familiar with price and income relationships. They are aware of the general nature of the technological and economic knowledge required in modern farming, but their awareness is so limited that they become confused and frustrated. Under the repayment conditions associated with available credit, medium-income farmers are unable to visualize with sufficient clarity the line of action that must be taken to reorganize their farms successfully. Consequently, they tend to postpone or evade decisions essential to change and cling to their present system; or if they do change, the process occurs in a piecemeal or partial form. Failure in the use of credit in accelerating farm adjustments because of unfavorable price behavior or improper management would, in their view, destroy their sources of livelihood more rapidly than a gradual decline through failure to reorganize.

High-income farms. There may be ways high-income farms can be reorganized which will not result in loss in net income, and which will enhance communitywide change. Credit may be required to accomplish such reorganization. But these farmers may reject the use of credit for these purposes because they fear that, in destroying the status quo, their prestige will be undermined.

Not all high-income farmers are averse to change, and of those who are, other reasons may exist for their being averse to change. Changes in external relations become necessary as farms are reorganized, regardless of the size or income level. Managerial responsibilities change and new methods must be learned. Alternative investments in nonfarm activity may appear more favorable to the operator, and further growth of the farm is curtailed as funds are channeled elsewhere. The question of how the farm business may be transferred intact from one generation to another may also inhibit change.

Propensity to Change

Farmers who decide to improve their income levels or attain some higher goal with respect to economic and social status tend to have attitudes which are characterized by the term "propensity to change." An individual with a high propensity to change looks with favor upon the rewards associated with successful development of his farm, and is not disturbed by the possibility of failure, increased managerial responsibilities, the dangers of ill health, social ridicule, and other fears which usually inhibit those who are averse to change.

Propensity to change implies more than the simple willingness or desire to change. It includes the ability to develop and operate a farm exhibiting the technical and organizational characteristics of modern agriculture, together with the power to accomplish such an undertaking.[3] In the preceding section it was taken for granted that an individual who chose to pursue a holding action would possess the ability and power to do so. This is a characteristic assumption when discussing aversion to change. But in considering propensity to change, one feels impelled to stress the fact that ability and power to change, in addition to desire, are required. Only if all three seem real to the individual will positive attitudes toward change come to the forefront in his mind.

In contrast with aversion to change, propensity to change requires a greater expenditure of energy by an individual. Mechanically, it is the difference between accelerating and decelerating relative to one's environment. But the concepts are the same since both involve those attitudes which provide the basic links between the internal operation of the decision-making unit and the environment external to it.

Propensity to leave the farm. Given the fact that technological advances in agriculture lead to a decline in the farm labor force, propensity to change must also encompass attitudes toward nonfarm activity. These include the desire to obtain nonfarm employment, the ability to master the skills involved, and the power to make the transition. For those who are of retirement age, the change may be to noncommercial farm activity of a suitable nature; i.e., people who contemplate retiring cannot be expected to look forward to a world of idleness, yet the rigors

[3] Ability may be latent in the sense that an individual has the capacity to learn the essential managerial skills, but they have not yet been mastered. In this case, power to change must include the econonic power to gain control of essential resources and to learn how to use them through formal or informal training.

of modern commercial farming may overtax their energies. Although many such individuals may have been commercial farmers with a high propensity to change, as they reach retirement age their attitudes will likely shift in the direction of aversion to change unless retirement activities of a nonfarm or part-time or residential farming nature which appeal to them are developed.[4]

Variation of propensities. The implication that attitudes may shift as individuals become older suggests that farmers' attitudes vary under different circumstances. Certainly age is an important factor. Closely associated with age is experience, both vocational and social experience. The level of formal education is also highly influential, not only because education improves an individual's knowledge of his environment, but his self-confidence is affected also (Chapters 22 and 23). Tenure status has a bearing on individual attitudes because of the social significance and the degree of control over resources associated with various tenure gradations. It is not the purpose here to elaborate upon how attitudes vary (this aspect is discussed adequately by Bohlen and Beal in Chapter 20) but rather to conceptualize the relationship between the attitudes of individual farmers and credit policies.

The role of credit. Through analyses of the circumstances which give rise to the attitudes of individuals, the power of credit institutions may be directed toward creating a situation wherein their attitudes shift from aversion to change to a state of propensity to change. It is important to note that much attention has been given to generating the desire to change through various kinds of advertising media in this country, and that our educational system is oriented toward creating individual ability to change. In the nonagricultural sectors of the economy, various financial devices, ranging from corporate structures to installment credit systems, have been created to provide the power to change.

It appears that less emphasis has been given to these matters in the farm sector. We have an elaborate research organization to develop the technological changes for farmers; the Extension Service and related educational activities are organized to convey knowledge of these innovations to the agricultural sector. The magnitude of the changes which many farm families must make as a result of research and development exceeds, in our opinion, the power of farmers to change under current policies of credit and related institutions. Without the power to change, technical and economic information transmitted through the Extension Service is far less meaningful to farmers, and aversion to change becomes the predominant attitude. To create a propensity to change in its full meaning requires not only greater persuasive ability on the part of educational agencies, but also provision of the power to change. This condition is considered to be the role of credit.

[4] Policies pertaining to noncommercial farming need to be developed carefully and integrated with those discussed in the last section of this chapter.

THE DESIGN OF CREDIT POLICY

In the past, credit policy has been closely associated with efforts to increase farm income largely through increases in output. The main purpose of agricultural credit policy, as proposed here, will be concerned with facilitating the process of resource adjustment within agriculture, and between agricultural and nonagricultural sectors. Since the nation is confronted with surpluses of various commodities, these adjustments must include the exodus of labor from the farm. This implies that nonfarm work must be available; however, a nonfarm employment policy will be excluded from the analysis that follows. Whether increases in aggregate farm output will or will not result, will depend upon the nature of policies concerned with supply control.

Variables at Our Disposal

One of the principal sets of variables subject to modification in the design of credit policy is composed of the eligibility requirements of the prospective borrower, i.e., decision-making unit. For example, real estate credit is seldom extended to an operator who does not possess title to property or who, with the credit extended, will not obtain title to property. Thus, eligibility for credit under present policy varies by tenure status and is closely associated with the value of property and the individual's equity therein. Moreover, present policies place emphasis upon past performance rather than upon future capacity to perform. A young, immature individual is less eligible for credit than a man in his prime with a well-established reputation. Future capacity is considered in a negative sense in that as one reaches retirement age, or becomes incapacitated, eligibility is likely to decline to the amount which can be amply secured by owned property. Use to be made of funds borrowed is another eligibility consideration, particularly as the size of loan approaches or exceeds security limits.

Closely related variables include size of loan, interest rate, and repayment conditions. In fact, these are variables in terms of which eligibility is quantified. If a credit institution is to change the rate of farm adjustment, it must alter its criteria for judging an individual's eligibility by modifying the volume and types of credit offered, the interest rate charged, the conditions of repayment, and the associated contingencies such as restrictions on the use to be made of borrowed funds — as suggested previously by Murray, Diesslin, and Engberg. Modification must be made to the point where, in the judgment of the prospective borrower, it is distinctly to his advantage to accept the credit terms offered. His attitude then shifts from one of aversion to one of inclination or propensity to change.

In overcoming aversion to change by altering the terms of eligibility, the credit institution cannot completely relinquish the balance of power in deciding upon the limits within which a borrower's action must take place. Its power to effect change would be quickly dissipated if this were the case, and it would become bankrupt. It can, however, alter the limits within which the borrower may act, perhaps closing off previous avenues and opening new ones, as will be suggested in the following sections.

Credit To Facilitate the Exodus of Labor

Although it will not be possible to examine the adjustments needed in agriculture in detail here, clearly there must be further exodus of labor from farms, particularly in the low-income areas of the South. This is necessary to improve incomes of those who leave, and to make it possible for those who remain to regroup resources into more profitable units. Hendrix and Lanham ably developed this point in their discussion.

It is proposed that the Soil Bank program be modified, making it possible for individuals who own real estate to place their farms in the Soil Bank and draw at an accelerated rate — even to the extent of one lump sum — the conservation reserve payments which are now made over an extended period.

In order to encourage release of land for future utilization by those who remain in agriculture, the U. S. Department of Agriculture would make accelerated payments on the condition that farms could be (1) purchased by the Department at prices determined at the time farms were placed in the Soil Bank, or (2) leased by the Department to other operators. Either the Department or the individuals could request that the purchase agreement be exercised at any time while the land is in the Soil Bank. An individual could prevent the Department from exercising the purchase agreement only by repaying all funds received in the form of Soil Bank payment plus, perhaps, a specified interest charge. If neither chose to exercise the purchase agreement, the farm would revert to the individual upon expiration of the entire period for which the land was committed to the Soil Bank. If the Department of Agriculture chose to lease a farm to another operator, the rent would be retained by the Department. The owner could continue to lease the farm if he so desired upon expiration of the Soil Bank agreement. In order to induce individuals to place farms in the Soil Bank under these conditions, an incentive bonus could be offered above the regular rate.

Individuals of retirement age who find this program attractive could use the accelerated payments to purchase dwellings within their home communities or in distant communities. Their social security payments would then come nearer to providing them with an adequate standard of living. They could also anticipate additional revenue from sale of their property in later years.

Farmers who are young enough to consider nonfarm employment could utilize the accelerated payments to finance moving, vocational training, and other expenses associated with changing occupations. Once the transition is made, revenue from the sale of their farms could be used to finance the purchase of dwellings near their new employment location.

Turning next to individuals and families without title to real estate who may be induced to leave the farm labor force — tenants, croppers, and hired laborers — it is proposed here that those who are capable of becoming qualified for nonfarm employment be extended credit to finance moving, vocational training, or other forms of education, and minimum living expenses during the transition period. Credit extended would be to upgrade the earning capacity of the individuals and would be contingent upon their executing a carefully developed plan for training and employment (cf. Mackie's discussion in Chapter 22). Their age and ability would need to be considered carefully, and guidance provided by appropriate agencies to insure execution of plans or modification when necessary. A low rate of interest would be charged and an extended repayment period prescribed, possibly on a payroll deduction basis after the individuals obtained employment. In urban centers where it is considered feasible to do so, low rental housing could be provided during the transition period. Based on the experience of the authors, it would seem that attitudes of farm families toward the use of credit for these purposes will hinge largely upon the care with which plans for self-improvement are developed and executed.

For those individuals and families without title to real estate who are of retirement age, it is proposed that low rental housing be provided in communities within reasonable distance of their present location. Effort in this connection would contribute to the reorganization of agriculture in several ways. For example, the young couple that is providing a home for one or more parents may be averse to leaving a low-income farm for nonfarm employment because of anticipated city costs of supporting extra members of the family.

Credit To Facilitate the Reorganization of Farms

For those who remain in farming, credit should be made available to farm operators to enable them to gain control of resources and to develop their managerial ability, which will enable them to obtain incomes comparable to the compensation in other occupations requiring similar skill and energy. The objective of the policy is to establish an adequate operating unit on a continuing basis, and to relate the operator and his family to this unit in such a way that their initiative and proprietary interests are maintained at the highest possible level. Resources will be leased or purchased, depending upon the circumstances. Credit will be extended in amounts necessary to establish an "adequate" unit, provided that in planning the development and operation of each farm, the imputation of returns to the resources is consistent with the price or rent per unit. No units will be established which are too small to provide income levels comparable to that which families could obtain in other pursuits.

Where feasible, farms may be incorporated and credit provided to support the marketing of corporate stock or the purchase of a controlling interest when shares are not salable at par value. When incorporation is not considered feasible, credit will be extended on a long-term basis, subject to renewal when arrangements are adequately provided for continuity of the farm between generations. Credit totaling $80,000 to $100,000 or more per farm will be necessary to establish or reorganize farm units on a scale that will be adaptable to change and consistent with returns to labor equal to those earned in alternative employment.

Credit will also be extended to cover costs associated with training individual operators as well as for the acquisition of necessary physical resources. Training may range from a short course of a few weeks' duration for those with appropriate experience to as much as four years of college for young men with little experience. For those in this latter category, the credit advanced will be similar to that extended to young men who leave the farm. Those who have decided to remain will have oriented their education toward agricultural pursuits, and upon completion of their training, the credit advanced for this purpose will be combined with that required to establish them in farming.

Rate of Reorganization

With respect to the reorganization of farms by those who remain, the rate at which organization must occur will depend upon the production requirements, which would be specified by policies concerned with the product markets. Unless increased use of so-called surplus commodities is foreseen at home or abroad, the rate must proceed rather slowly since reorganization involving the use of new technology leads to increased output. The emphasis in the beginning should be concerned with the development of a sound basis for reorganization, rather than in reorganizing farms at the maximum rate. This may be accomplished by inducing individuals to place their farms in the conservation reserve for extended periods. For example, if a farm is placed in the Soil Bank for ten years, and if within that time production requirements increase to the point where it becomes necessary to bring it back into production, the U. S. Department of Agriculture could exercise its right to purchase or lease the farm and establish a new operator or combine it with a unit operated by someone who has remained in farming.

The rate and quality of farm reorganization may also be influenced by the nature of the educational program established. Clearly the use of large quantities of credit to establish large and efficient farm units must be based upon careful planning and either considerable training of the operator or a great deal of supervision. The cherished processes of "growing into farming" and associated "learning by doing" have become outmoded. An inexperienced farmer cannot be placed in charge of a $100,000 operation. An individual is not likely to "grow into" this position within a lifetime, considering present rates of profit in farming.

Moreover, a supervisory service large enough to provide the management on the $100,000 operation while the operator learns to master the business is too expensive.

The Shift in Attitudes

In proposing these changes in policy, it is contended that the attitudes of farmers toward credit and capital which are classified under the heading "aversion to change" may be transformed into those which are grouped under the heading "propensity to change." Underlying this contention is the belief that, given their state of knowledge, the resources at their disposal, and the risks associated with present alternatives open to them, farmers are behaving rationally in formulating their present attitudes. Based upon our experience, it is our view that an educational program alone, aimed at simply acquainting low- and medium-income families with how additional capital may be used to improve income or with the fact that nonfarm wage rates exceed their own earning rates, will not alter these attitudes at the desired rate.

Administrative Structure

The magnitude of the problem of farm reorganization varies among individuals and among geographic regions in the United States. Hence the administration of programs designed to cope with this problem must vary from one region to another, and must be capable of differentiating among individuals within a region.[5] Enabling legislation should be passed on a national basis, but geographic areas or regions should formulate plans for development and establish administrative units which will unify activities of various agencies involved. Two advantages of the suggested approach are: (1) it facilitates the adoption of policies to fit specific regions, and (2) appropriations necessary for a program of this nature on a national basis would be huge, hence regional appropriations might be easier to obtain.

Space does not permit an elaboration of the public and private administrative structure that must accompany the suggested reorientation of our agricultural credit policy. Clearly, what may be construed as credit policy must shade off into other policies in many instances. Existing credit institutions could be reorganized to accomplish much of the financing associated with the reorganization of farms. The Department of Health, Education, and Welfare has limited programs designed to assist individuals in shifting occupations or improving their productive capacity. These and similar programs could be accelerated for individuals who leave agriculture. Private credit institutions should be encouraged to

[5] Area development research under way in the Southeast, designed to estimate supply functions, to suggest optimum enterprise organizations, or to suggest profitable shifts in resource ownership, should provide useful data for guiding administrative decisions.

modify their policies to the extent that their financial strength will permit. Continued use of insured loans could be made in channeling private funds into financing the reorganization of a reduced number of farms or the transfer of individuals to nonfarm work, although some subsidization of interest rates may be necessary if our nation continues to rely heavily upon monetary and fiscal policy to control inflation. Since it is assumed that price support and production control policies will be flexible enough to reflect increased production efficiency, a portion of expenditures going into these programs might be better channeled into providing farm reorganizational assistance. Educational institutions, including the agricultural extension service and nonfarm vocational training schools, would become closely involved in training individuals for farm and nonfarm work.

Private credit institutions would likely gain materially from such activities because both urban and rural economic activity would be enhanced. In the process of channeling funds into these activities, additional taxes or the transfer of funds from other uses should be utilized, except during periods of recession, because the program could have an inflationary effect. It is also important that policies concerned with nonfarm employment levels be oriented so that the nonfarm sectors of the economy could absorb additional labor released from agriculture.

Shift in the Structural Location of Decision-Making

The proposed policies shift the structural location of decision-making in this sense: Credit institutions, in offering the terms of credit to induce individual farm operators to change, would be exerting active power in guiding the course of economic activity. Their power is passive in the sense that individuals are free to accept or reject the terms offered. But if individuals alter their attitudes and accept power to change inherent in the credit extended, decisions of credit institutions, with respect to the nature and direction of economic change, take on added significance. In effect, the seemingly impersonal power of the market mechanism in guiding individual activity is being supplemented by the decisions of credit institutions in conjunction with other policies governing orderly growth. This effect must be made explicit and thoroughly understood because the responsibilities of credit institutions become greatly increased.

Discussion

M. R. JANSSEN*

The description by Coutu and Lindsey of the causes and extent of internal and external capital rationing is similar to the results of a recent credit use study in a commercial farming area of central Indiana.[1] Low-income farms were not included in the study, although there are few low-income farms in central Indiana that are not part-time farms or farms of semi-retired operators. Thus, a part of the adjustment suggested for the Southeast is occurring in other areas where off-farm opportunities exist. In one agricultural township in central Indiana, a surprisingly large number of rural residents had off-farm employment; a substantial number of members of farm families also had employment outside agriculture.

Of the farmers in the Indiana study with over 100 acres and without substantial off-farm employment, only 29 percent had less than $20,000 invested in their business, and almost 50 percent had an investment of over $40,000. Ninety percent of the farmers studied had over 60 percent equity in their businesses. Twenty-two percent used no credit, so it would seem that there is no major credit problem in this commercial farming area. However, investigation of the type of farm unit that would provide full-time profitable employment, if capital were available, revealed that about 11 percent of the farmers did not wish to increase size of business because of limitations such as age or health. Some 14 percent of the farmers having an excess of $100,000 investment in the business could not profitably invest additional capital in the business. The remaining three-fourths of the farmers had some form of capital rationing. Sixty-five percent of the farmers operated under the restrictions of internal capital rationing, while only 10 percent were faced with external capital rationing.

Data obtained from the study of 110 farmers in central Indiana who were faced with capital rationing were used to test the hypothesis that internal capital rationing was a function of net worth, reaction to uncertainty, knowledge, attitude, and age of the operator. In a linear regression analysis, net worth, knowledge, and reaction to uncertainty were significant at the 5 percent level. Attitude was significant only at the 13 percent level, and age was not significant. The correlation between age and net worth was relatively low. The coefficient of multiple determination differed significantly from zero at the 1 percent level. The regression explained only 27 percent of the variability. More research

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[1] L. F. Hesser and M. R. Janssen, Capital Rationing Among Farmers, Purdue Agr. Exp. Sta. Res. Bul. 703, Sept., 1960.

must be conducted if we are to improve measurements of values and attitudes. In this study, the Guttman Scalogram analysis was used with a series of statements in which individuals indicated their degree of agreement or disagreement with the statements. When these statements were properly selected and ordered, a continuing scale resulted which indicated the relative degree of attitudes or values of individuals.

Coutu and Lindsey recommend the adoption of a policy of extension of credit to low-income farmers to train them for off-farm employment and to move them from farms to places of nonfarm employment. This policy can be employed well and with limited cost in areas with as good opportunities as are afforded in many parts of the East North Central states. However, the costs of moving from those areas where only limited opportunities exist are substantial. The risk of unemployment after moving from such areas is also great, as few alternative opportunities exist until seniority is achieved in the new employment. These difficulties must be recognized if any such approach is to be successful.

Coutu and Lindsey also recommend a policy of credit extension for farm reorganization. Obviously, farmers on the reorganized farms will need to make adjustments, but these needed adjustments seem to be less harsh than those of moving out of agriculture. For this reason, the problem of determining who will move out and who will remain in agriculture must be dealt with adequately. Assuming that administrative machinery can be devised to carry out the program, how can the decisions as to who should continue in farming and who should be encouraged to seek nonfarm employment be implemented? Thomas has provided professional farm managers an objective method of selecting tenants for farms they manage.[2] While the method is not applicable, the system is likely to provide a means of selecting those farmers with the highest probability of success in agriculture relative to nonagricultural pursuits.

WAYNE A. CORPENING*

Coutu and Lindsey indicate two broad approaches that should be taken to overcome the problems of periodic reorganization in agriculture. One is concerned with policies related to product markets; the other relates to factor markets. In short, they say that aggregate farm supply must be controlled and price stabilized for proper distribution of income within agriculture, and between agriculture and the nonagricultural sector, if the task of reorganization is to be accomplished in an orderly fashion. They state that age and tenure status of farmers have much to do with actions.

In discussing the design of credit policy, they point out that lending institutions have much to do with the changes in reorganization that occur, and that some of the present policies might not be best for all

[2] D. W. Thomas, E. J. McCormick, and R. E. Blanchard, An Objective Method of Selecting Farm Tenants, Purdue Agr. Exp. Sta. Bul. 678, April, 1959.

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concerned. An example is the emphasis placed on past performance instead of on future capacity.

In order to facilitate reorganization in agriculture, the authors propose to: (1) let the federal government, through USDA, Soil Bank, and conservation payments, take the lead in helping make some of these reorganizations by making accelerated rates of payments; (2) give assistance to those leaving the farm and seeking nonfarm jobs, and also to older people in securing low rental housing in urban areas; and (3) make credit available to those remaining in agriculture on an "all or nothing" basis to enable them to gain control of resources and to develop their managerial ability. This will require about $100,000 per farm in many circumstances.

There are many factors that determine what a farmer will do in making changes on his farm. One of the most important of these is attitude. The farmer who wants someone else to look after him is usually a person who will not be successful. The farmer should be assisted in such a way that he does not lose his self-respect, i.e., he must be a "proud person."

Also, I do not believe that those of us with an interest in agriculture are responsible for a person simply because he lives on a small farm and does not want to do better. Should a good livelihood be guaranteed to anyone who says he wants to be a farmer, and yet will not carry out recommended practices? Perhaps his family, as well as agriculture, would be better off if he left farming and took employment in industry.

I disagree somewhat with Coutu and Lindsey with respect to the rate of change of management necessary in increasing the profitability of farming. Experience cannot be replaced in farming, and it is possible to overload the borrower.

I do not claim that private lending institutions are doing the job they should be doing. Many of us are not, and much work needs to be done. But we who are interested in agriculture want this industry to be on an equal level with other sectors of our economy. In trying to accomplish this, we must not ask for too many special considerations for agriculture — a step that might ruin us.

Agricultural programs have been very important in North Carolina and the Southeast in helping to stabilize agriculture. It would have been very hard to have gotten along without them. But when we are planning for the future reorganization of farms, I do not know whether we should leave it to the "whims" of our political parties.