

Revised to take up some comments L.H.C.

Chapter XI

AGRICULTURE

The Banks and Agriculture

Following a preliminary meeting with representatives of the Joint Stock Banks, arranged by the Governor, the Ministry of Agriculture in December 1939 drafted a letter for the Governor to communicate to the banks, concerning the financial difficulties expected to arise in connection with the food production campaign.

The letter, slightly revised at the Bank, stated that the Government wished British agriculture to plough up a further $1\frac{1}{2}$ or 2 million acres in 1940, and that this would mean additional heavy expenditure by farmers, who would not receive a return on the produce grown for some time later. To finance the ploughing and cropping of this increased acreage it was estimated that about £12 million would be required, towards which the Government would be making a grant of about £3 million. There would be £9 or £10 million still to be found, and as there appeared to be a substantial restriction of credit from other sources as a result of the various controls imposed by the Ministry of Food, it was hoped that the banks would be able to extend their advances to cover the deficiency.

In an interview with the Chairman of the London Clearing Banks Committee the Governor had apparently mentioned that the Farmers' Union were experiencing some hesitation on the part of the banks in making advances to farmers. This Mr. Campbell denied.

The Minister's letter, dated 1st January 1940, also summarised the Government's programme for purchases at higher prices, to cover not only 1940 but succeeding years.

The banks in reply assured the Minister, through the Governor, that they had done and were doing all in their power to meet his views.*

In June 1940, however, a new Minister of Agriculture thought it advisable to approach the banks again on the same subject, because the Government had increased the minimum agricultural wage
and there

*Longer term finance for agriculture was provided by the Agricultural Mortgage Corporation (founded in 1928) and its Scottish counterpart, the "Scottish Agricultural Securities Corporation" (see further, below)

and there would be a time-lag between its introduction and the receipt by the farmers of the proceeds of their crops, for which higher prices to cover the increased wage bill would be fixed. The bankers thought this application unnecessary, claiming that if the farmers had any apprehension it must be because the increase in wages was an established fact while the increase in the price of agricultural products was still only an expectation. The Governor, therefore, urged the Minister to make it clear that the two changes were linked together, and he promised to do so.

In another letter (18th January 1940) the Minister had suggested that he should be given confidential quarterly statements showing the amount of advances made to farmers by the banks, and the Governor used his good offices to obtain this information. The figures supplied by the banks and passed on by the Bank to the Ministry are given below. From £53 million in the middle of February 1940 total advances fell fairly steadily to a low point of £36 million in the middle of May 1943, after which they recovered to ~~£48~~ million by ^{November} ~~August~~ 1945.

Bankers Advances to Farmers: 1938-1945

	<u>£'s million</u>	<u>No. of Accounts</u>
31st December 1938	55.1	
<u>Mid-month</u>		
<u>1940</u>		
February	53.0	
May	51.3 (of which Channel Islands about £875,000)	
Excluding Channel Islands		
August	49.5	72,918
November	45.1	65,824
<u>1941</u>		
February	42.9	62,420
May	41.0	59,480
August	41.4	59,351
November	40.0	55,738
<u>1942</u>		
February	37.6	51,430
May	37.7	50,881
August	39.9	53,416
November	38.6	50,579
<u>1943</u>		
February	36.4	46,715
May	36.1	45,692
August	38.3	48,517
November	37.5	46,357
		<u>1944</u>

<u>1944</u>	<u>£'s million</u>	<u>No. of Accounts</u>
February	36.6	44,014
May	38.2	43,965
August	41.2	46,751
November	41.3	45,276
 <u>1945</u>		
February	42.3	43,853
May	44.2	45,219
August	47.5	47,591
November	48.1	47,464

These figures were not published in this detail: they constitute, of course, the major part of the item Agriculture and Fishing in the revived published analysis (from 1947) of the total of Clearing Banks' advances. In answer to repeated questions by a member of Parliament*, however, and under pressure from the Treasury certain end-of-year figures were eventually published (spring 1941) for pre-war years. The total advanced only was given, and not the full detail asked for, viz. total advanced and number of advances -

End of 1934	£52.2 million
1935	£50.6 "
1936	£51.2 "
1937	£52.8 "
1938	£55.1 "

The gradual reduction in advances during the war does not appear to have caused any comment by the Ministry of Agriculture until November 1941, when the bankers were asked for an explanation. The Governor suggested that perhaps the decrease in bank advances was balanced by increases in advances by other parties, but enquiries made by the banks suggested that it was not due to this cause but mainly to increased prosperity and liquidity.

In September 1940 the Minister of Agriculture wished the Clearing Banks to appoint a number of officers throughout the country, who would be available to visit the War Agricultural Executive Committees and hear and discuss any complaints. This arrangement was carried through with the help of the Bank of England, through whom a list of names of the bankers selected was forwarded. The bankers evidently agreed that it should be mentioned in Parliament, since at the end of November the Minister of Agriculture stated that 300 bank officers had been appointed for its purposes.

Meanwhile

*Mr. De La Bere, conservative, Evesham, who criticised the banks for what he considered were excessive rates (5%) charged on these advances.

Meanwhile, at the end of January 1940 an Agricultural Requisites Assistance Scheme was introduced to deal with exceptional cases and to assist farmers in their additional war ^{effort?} effect only. No money was to be put up, but County Executive Committees would pay for seeds, fertilisers and for the cultivating and harvesting of crops, recovering the cost, with 5% interest, out of the sale of the produce. The Governor on behalf of the bankers now wished to be sure that this would not mean that the Government would have a prior lien in case of default and thus prejudice the position of other creditors. Assurance on this point was added to the Scheme.

Longer Term Finance: Agricultural Mortgage Corporation

The foregoing deals with the day-to-day financing of agriculture. With the end of the war the question of long-term capital for agricultural investment once again became prominent. The operations of the Agricultural Mortgage Corporation, which lent only on the security of land or developments, had become severely restricted because before May 1932 it had raised its funds at $4\frac{1}{2}\%$ -5% for long periods (e.g. 20-year Bonds) and was therefore not in a position itself to lend without loss at rates consonant with the cheap money policy*. After many discussions with the Treasury, in which the Bank took an active part, the passing of an Act in 1944 (see below) put the Corporation in a position to reduce their long-term lending interest rate to $3\frac{1}{2}\%$.

Agriculture

*Apart from the Share Capital (£750,000 in 21 shares, fully paid) the funds of the Corporation had been raised by the issue of £5 million 5% Debenture Stock in 1929, a further £3½ million of the same Stock in 1930 and £2 million $4\frac{1}{2}\%$ Debenture Stock in April 1932. None of this was redeemable before 1959.

Agriculture (Miscellaneous Provisions) Act

Negotiations extending over three years from the Spring of 1941 had resulted in the passing of the Agriculture (Miscellaneous Provisions) Act in July 1944.

Among the main changes brought about by this Act was the raising of the maximum annual loan or grant from the Government to the Corporation from £60,000 to £150,000 for 15 years from 1st April 1944. This subsidy was intended to meet any loss during the year resulting from the reduction of the rate of interest on new loans. The Government Guarantee Fund was also raised from £750,000 to £2,500,000, which had the effect of enlarging the Corporation's borrowing powers to £30 million.

The amount of the Guarantee Fund outstanding when the Act was passed was £650,000, and it was provided that any increase above this sum could take place without a further increase in capital. The capital was held by the Bank of England and the Joint Stock Banks with the exception of the Midland Bank, but in the summer of 1944 the Midland Bank agreed to become a shareholder and took up £100,000, the capital being increased accordingly.

In consideration of these concessions, the Ministry of Agriculture was to name two Directors to the Board (in addition to the existing Treasury nominee) and the dividend was to be limited to $3\frac{1}{2}\%$ non-cumulative in place of a maximum ~~dividend~~ of 5% cumulative.

The Governor considered that the Board needed strengthening, and it was arranged, with Treasury agreement, that the Chairman should retire and be succeeded by his Deputy.

Under the new set-up new loans began to be made and the Corporation also permitted existing borrowers to convert their loans to a $3\frac{1}{2}\%$ basis on payment of a fee of 5%.

