

“ In those countries where credit facilities are lacking farming is generally less efficient and settlement is retarded.

“ The New Zealand producer in marketing his produce is handicapped by distance and the costly delay which must of necessity elapse before his saleable product can be disposed of. Higher transportation charges have also to be taken into account. If the New Zealand producer is to retain and improve his position on overseas markets he should enjoy at least the same financial advantages that are open to his principal competitors.”

The Commission emphasized that the object of any reform should be “ to create confidence by establishing conditions which will make investment in rural securities attractive ” and remarked that the tendency of the different land-mortgage credit systems was to create confidence, with the result that capital flowed in freely. Stress was laid upon the desirability, in the interests of borrowers, of granting loans on a reducing basis so that, in addition to the benefits afforded by more favourable interest rates and borrowing conditions generally, borrowers should have the opportunity of improving their financial position by gradual repayments of the loans under suitable conditions.

The Commission's report dealt separately with short-term, intermediate, and long-term rural credit systems. In regard to short-term credit, it reported that it had failed to discover anything better than the existing facilities afforded in New Zealand under ordinary banking conditions, and by stock and station companies and similar institutions. Its recommendations in regard to long-term credit were given effect to by the Rural Advances Act of 1926, which provided for the creation of a special Rural Advances Branch of the State Advances Office, with the function of making long-term advances on land on an amortization basis, the funds to be provided by issues of debentures secured upon the assets of the Rural Advances Branch. The maximum amount of a loan was fixed at £5,500, taking into account any other advances which the borrower may have obtained from the State Advances Office upon the security of freehold or leasehold land, and advances are limited to two-thirds of the value of the borrower's land.

In regard to intermediate credit, or credit for periods ranging from six months to five years, the Commission favoured the adoption of a system similar to that which is in force in the United States of America, which in turn is based upon European systems. The main principles involved in the system proposed by the Royal Commission were—

- (a) That farmers desirous of securing financial accommodation should band themselves into co-operative rural intermediate credit associations to which they should contribute share capital in proportion to the extent of accommodation required, the operations of these associations to be subject to the close supervision and control of the central organization referred to later :
- (b) That a central authority should be appointed to secure capital for investment upon rural securities by means of debenture issues to the investing public and to make financial accommodation available for the benefit of farmers, through the medium of such co-operative rural intermediate credit associations and other farmers' co-operative organizations engaged in the production or marketing of staple agricultural products or live-stock ; also that such authority should have discounting powers :
- (c) That financial assistance should be given by the Government to this central organization for the purpose of establishing the system, by way of both grants to cover the initial expenditure and advances on loan, free of interest for the first ten years, to permit of the borrowing and lending operations of the central organization to be put rapidly into operation, and that debenture-holders should have priority for purposes of repayment over the right of the Government to receive repayment of such advances.

The Royal Commission further laid down certain rules to be observed in the administration of both the intermediate and the long-term credit systems : firstly, that thrift should be encouraged ; secondly, that any increase in the mortgage debts of borrowers should have the effect of increasing production and should be so regulated that it does not grow out of proportion to the increase in production ;