AGRICULTURAL CREDIT IN WESTERN CANADA

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C O N T E N T S

CHAPTER I

CREDIT IN INDUSTRY

The use of credit has increased rapidly in recent years. Whereas, formerly, credit was mainly extended for consumptive purposes to spendthrift heirs by professional money-lenders, its chief use, at present, is to finance productive enterprises.[1] Banks and loan companies extending credit are thoroughly conversant with the needs and requirements of business and their policy of giving loans only for legitimate purposes greatly reduces the hazard of non-payment. Unlike their predecessors, the present extenders of credit wish to make the burden of repayment as light as possible. Large financial institutions render valuable assistance and advice to their creditors in making their business ventures successful.

There are numerous definitions of credit. Nearly all embody the essential elements of confidence and futurity. Some writers break up these two elements into their component parts laying stress on such of these as best explain their particular problem. Gide in his "Principles of Political Economy" subordinates the idea of confidence, the personal element, and stresses the purely physical element, exchange, - defining credit as "the exchange of present for future wealth."[2] Walker, on the other hand, in his "Political Economy" seems to emphasize the element of confidence for he says:

> "These transactions (those in which future payment is promised) are known as sales on credit, because of the

1. Alfred Marshall: "Money Credit and Commerce" Page 67.
2. Charles Gide, "Principles of Political Economy" Page 278.

> unwillingness of the producer to part with his goods without at the same time receiving an equivalent, depending on the credit of the purchaser, or the degree of confidence attaching to his word or bond. In such a case the purchaser's character for honesty, his responsibility, as measured by the amount of his possessions, and the efficiency of the law in inforcing payment, all must be taken into account."[1]

The following definition appears to cover the field most clearly and simply, although other definitions are not without their special merit.

> "In a financial sense, credit is that confidence reposed in a person, which enables him to obtain from another the temporary use of a thing of value."[2]

Hegerty, also, strikingly points out this fundamental concept when he says

> "Futurity is the distinctive factor in credit, while confidence lies at the basis of the granting of credit."[3]

The extension of credit often depends more on the ability of the borrower to repay than upon his personal integrity. In such cases the security on which the credit is based is the predominant factor in

1. F. A. Walker, "Political Economy" Page 139.
2. M. T. Herrick and R. Ingalls, "Rural Credits" Page 3.
3. Hegerty, "Mercantile Credit" Page 8.

securing the loan. In commercial transactions involving the actual exchange of commodities and services, credit, to a large extent, is extended on the personal ability and integrity of the borrower. When credit is given for productive purposes, however, such as through the purchase of corporate securities and mortgages on land or other permanent assets, the personal element is insignificant in comparison with the physical security behind the loan.

Credit is justifiable in that it facilitates production.[1] Credit in itself does not produce anything but it makes the transfer of capital from non-productive sources to productive uses possible.[2] In their treatise on "Banking and Credit" Dewey and Shagrue make the following statement in the justification of credit.

> "Thus by means of credit, capital as one of the agents of production is placed where it can be made more effective, and undoubtedly the development of these facilities is one of the most powerful influences in the creation of wealth on the scale which the world now enjoys."[3]

Here let us distinguish sharply between credit for productive purposes and credit for consumption. The former is the true use of credit and the one which is sanctioned by financeers. The latter is just the reverse of thrift and consequently is to be condemned.[4]

1. J. T. Holdsworth, "Money and Banking" Page 123.
2. J. F. Johnson, "Money and Currency" Page 36.
3. D. R. Dewey and M. J. Shagrue "Banking and Credit" Page 5.
4. M. T. Herrick, Page 3. op. cit.

There are two phases of credit which are often confused. The actual transfer of capital goods or their equivalent from one person to another, or in simple words a direct loan, is different from the issue of bank notes on a reserve of gold and bank deposits. In the first case there is no increase in the amount of purchasing power in the country nor in the amount of capital goods. In the second case there is an increase in the amount of purchasing power; but, as Alfred Marshall points out, such paper bank-notes in "times of disturbed credit" can be regarded as money only if they are "legal tender".[1]

The issue of Government or bank notes on the basis of gold reserves is a type of credit, for the reserves are usually smaller than the amount of paper notes issued against them. Some writers call this a "pyramiding of credit."[2] This type of credit economizes the use of gold. The amount of reserves on which such paper currency is based varies with changing conditions within a country but "must always be sufficient to maintain confidence which is the cornerstone of credit."[3] The confidence which people have in the fact that they can redeem these legal tender government and bank notes at any time into the basic commodity, gold, permits free use of such instruments in all business transactions.

1. Alfred Marshall "Money, Credit and Commerce " Page 12.
2. Conaut, in his book "The Principles of Money and Banking" Pages 4-5, holds that the term money "is applicable to gold or silver coin and should not be extended to various forms of paper which economize the use of money." He goes on to say, however, that "the use of the word money is extended by many authorities to different forms of credit obligations - and by some to redeemable government paper or redeemable bank-notes; by others to irredeemable paper of either type; and by still others to the checks, deposits, entries, and various written instruments which are employed in carrying on exchange."
3. J. T. Holdsworth, Page 152. op. cit.

Caution must be exercised in the use of credit; too much is more harmful than not enough. Louis XIV realized this early in the seventeenth century and his memorable saying that "credit supports the borrower as the rope supports the hanged" is many times true. James B. Morman, economist to the Federal Farm Loan Board of the United States declares:

> "While no greater crime has ever been committed against agriculture than the rapid expansion of too easy credit facilities, the industry as a whole is far from being in a deplorable condition."[1]

To determine whether credit has been too leniently or too sparingly advanced to the agricultural industry in Western Canada is one of the primary objects of this thesis.

The farmers contend that credit has not been extended to a sufficient degree to permit the most advantageous use of the natural resources at their disposal. Their reply to the "rope" analogy of Louis XIV would be:" Credit aids the agricultural producer as the rope aids a drwoning man; it is the last two feet which will permit his salvation." On the other hand, large financial institutions claim that too much credit has already been extended and that any further expansion would result in even greater overproduction, for it would allow the

1. J. B. Morman, "Farm Credits in the United States and Canada." Page 387.

extra-marginal producer to continue growing wheat at a cost in excess of the selling price. We can say as a matter of general principle, however, that credit is justifiable only when the borrower can invest the loaned capital to advantage; that is, when he is able to realize enough from his investment to pay the interest on the loan and have something left over for his own labours.

Many of the most outstanding authorities in the field of commerce and finance hold that the major cause of the trade cycle of periodic booms and depressions is to be found in the unregulated and unwise expansion of credit.

When industry starts to emerge from a depressed state there is a scarcity of consumers goods and consequently prices tend to rise. With the return of confidence, credit becomes easier and loaning institutions commence to extend money to finance business enterprises. The prices of consumers goods for a time rise faster than the price of producers goods resulting in a substantial margin of business profits. Industry is accelerated generally and a period of growing prosperity ensues. Soon the demand for producers goods becomes so great that their prices overtake those of consumers goods with a consequent falling off of profits, some industries operating actually at a loss. Financial institutions, sensing the coming danger suddenly begin to curtail credit. This results in a slowing down of production and may even drive some firms into bankruptcy. Confidence once being shaken leads to a further contraction of credit and the vicious cycle is once more on the decline towards an inevitable financial crisis and later general economic depression.

The following statement pictures the situation in clear and lucid form.

> "In all leading countries of the world, movements of general prices, which virtually affect every industry, and, indeed, every business concern, are largely determined by the credit policy of the Government s and central banks. Such movements occur when there is a general expansion or general contraction of credit, and if they are serious they increase or check industrial enterprise and speedily react on employment, wages and profits."[1]

This goes to show that while credit may be very useful it is at times also very dangerous.

Credit may be divided into different categories to suit the special requirements of any particular investigation. It may be classified according to the persons or institutions extending it, the recipients, the purpose for which it is extended, or, the most usual way, according to the security upon which it is based. In this treatise, agricultural or rural credit will be taken to mean credit of all kinds which is extended for agricultural purposes. There are three types of credit in this field which are typified by the security on

1. W. Henderson Pringle, "An Introduction to Economics" Page 45.

which each is based and the length of time for which they run.

Long-term or mortgage credit is extended on the security of a farmer's fixed assets, his land and buildings. It is more or less a permanent incumbrance and runs for a period of from five to thirty years. Many loaning firms desire mortgages for long periods while others prefer short-term mortgages. While loans for a long period of years eliminate the necessity of frequent renewals, they have the disadvantage of depriving the lender of command over his money and thus limit his freedom.

As a rule all private mortgage companies in the West loan for a period of five years; the reasons for so doing will be explained in a later chapter. Through the use of long-term credit the farmer is able to purchase land and make necessary permanent improvements which give little prospects of immediate returns thereon, without being required to wait until he has accumulated sufficient capital through savings to finance these large undertakings himself.

Short-term or personal agricultural credit is extended to finance only the temporary working capital needs of the farmer. This type of credit is usually only for small amounts and can quite properly be supplied by commercial banks.[1] It is seldom based on land security. If land ever enters into the transaction it is usually after a loan has been defaulted and land is taken as security for the renewed obligation. Most short-term loans are secured merely by the borrower's personal note; the practice of having a co-signer, making the note two-name paper, is

1. M. T. Herrick, Page 3. op. cit.

also extensively used in Western Canada.

Farmers need such credit to finance them from one crop to another. The investment which a farmer makes in a large crop is considerable. Usually he has sufficient money to finance the initial operations, such as the purchase of seed wheat and the outlay for early spring work. Many times his working capital is exhausted near the fall and he has to borrow money to take off his crop. After the crop is harvested he can promptly repay the loan. These loans run for a period of one to six months and have the advantage of being self-liquidating as they are usually made on readily marketable agricultural produce, Interest rates on such loans vary considerably depending on the security and the financial reputation of the borrower.

Intermediate credit, as its name implies, is generally conceded to be rural credit which runs for over six months, the upper limit of short-term credit, but not exceeding three years, the lower limit of land mortgage credit. Specially designed institutions supplying this type of credit have made their appearance only recently and are nearly all governmental. Formerly commercial banks were called upon to supply this needed credit but since it can not readily be liquidated it forced them to accept a responsibility and risk not in keeping with the best banking principles. Since the period of investment of working capital in grain-growing is from five to ten months and in stock and cattle-raising from one to three years, a great need for this type of credit has made itself manifest. Machinery, fertilizer and numerous other farm investments also yield returns between nine months and three years. This type of credit is usually secured by a chattle mortgage or lien against the live-stock or machinery purchased with the loan.

The problem of supplying the agricultural industry with adequate and sufficient credit on a sound basis has recently become one of the most vital questions in Canada. Attention is particularly focused on the situation in the West as it is in this area that the need is most acute. The mechanization of the farm and the greatly depressed condition of the industry has made it imperative to have a thorough investigation.[1]

The object of this thesis is to outline the methods now used to finance agriculture with a view to pointing out possible defects and suggesting remedial measures. The study is limited to the Three Prairie Provinces. Because of the great similarity of their economic conditions they can be studied advantageously as a unit. The agricultural situation in Western Canada is in decided contrast to that in the East. In Eastern Canada agriculture is of relatively minor importance to other industrial and commercial activities; in the West it is paramount. Eastern agriculture is old and well established, its diversification lending stability. In the prairies the industry is in its infancy and large scale one-crop methods make the farming business highly speculative.

1. The necessity of having a complete investigation of the facts relating to the distress prevalent in certain parts of Canada was emphasized by H. E. Spencer, M. P. (Battle River) in his speech delivered in the Dominion House of Commons on March 19th, 1930. Numerous other members of Parliament have also made the same assertion.

No real attempt has been made to analyse the situation in a scientific manner. Reliable information as to the real conditions in the West is lacking. Newspapers and public speeches are full of conjectures and opinions on the matter, but these are usually either so radical or so biased that their conclusions are not readily accepted. This thesis is an attempt to look at the problem of agricultural credit in a broad and impassionate manner. The lack of statistical information and the hesitancy on the part of large financial institutions to supply pertinent figures has made the study somewhat difficult. It is hoped that after the returns of the Dominion Census being taken this year, 1931, have been published, a continued investigation of the subject will be even more revealing.[1]

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1. In a letter from the Chief of the General Statistics Branch, Dominion Bureau of Statistics, dated October 31, 1930, is the following information: "I may state that in the next census of Canada to be taken in 1931, as at June 1, we are considering the question of investigating the amount of mortgages on all farms in Canada. This investigation would, of course, not include book debts."

CHAPTER II

THE RISE OF AGRICULTURAL CREDIT INSTITUTIONS IN CANADA

Agriculture is recognized as the basic and most important industry in Canada. If it is not prosperous, all other national activities suffer. If it is prosperous, all other industries are stimulated. This is not only true of Canada, but holds good for other countries as well. People all over the world realize that agriculture is in a class by itself. It is a fundamental national industry on which the whole population depends for its subsistence.

Agriculture, like all other industries, has gone through a period of great change during the past twenty years. The extensive mechanization of farms has increased the capital requirements tremendously. In the "Grain Growers' Guide" of March 1, 1927, there is an article in which the relative merits and demerits of tractor-farming versus horse-farming are discussed. In this article, the case of a farmer who operated two and one-half sections almost entirely by tractor power is given as an example of the great increase in the use of machinery on Western Canadian farms. Ninety to ninety-five per cent of the field work on this farm, owned by E. F. Lewis at Morris, Manitoba, is done by tractors. Mr. Lewis claimed that "the most profitable half-section we have is one on which no hoof has made a mark for five years, - except those that came in with the stook teams." Now that the combine harvester is so largely taking the place of the separator and engine, there will be no need to use horses even on the stook teams.

The above case is typical of what is happening all over the West. The following table will show the increase in the value of farm machinery per farm in each of the three Prairie Provinces as given by the various census returns.

Value of Implements per Average Farm in the Prairie Provinces.[1]

Year of Census	Manitoba	Saskatchewan	Alberta
1901	$ 374.51	$ 285.19	$ 229.77
1911	612.99	597.54	390.43
1916	770.93	855.10	602.84
1921	1,274.00	1,479.00	1,191.00
1926	1,088.00	1,439.00	1,139.00

The need for extensive farm capital is not confined to implements alone. The great rise in the price of farm lands during the last twenty-five years calls for a large initial capital outlay.[2] The development of mixed farming demands large expenditures for live-stock, proper equipment and other necessary farm improvements, such as fences, barns, sheds, wells, etc. The intense cold in the West during the winter months, besides making their fuel bill excessive, compels the farmers to build warm houses at considerable expense. The table in Appendix C, made from an actual survey of Saskatchewan farms, will give a fair indication

1. Census of the Dominion of Canada, 1901, 1911, 1921.
   Census of the Prairie Provinces, 1916, 1926.
2. Refer to Appendix B. for statistics on the rise in land values in Western Canada (for the past 25 years).

of the average farm capital investments; this, of course, does not include the additional requirements for working capital.

Credit has been extended to people engaged in agriculture for many years. As early as 1867, "five-sixths of the loans of the Canadian Permanent Building and Savings Society were made on improved farms".[1] It is quite reasonable to suppose that other loaning institutions were also extending credit to farmers, though no definite statistics on the question are available.

It is only recently, however, that loaning institutions designed especially to meet the needs and requirements of agriculture have made their appearance. There are many reasons why these institutions are necessary. The Banks of both Canada and the United States are built up to supply the needs of commercial business, especially manufacturing, transportation and distribution. The type of credit required in agriculture differs materially from that required in other industries; and this to so great an extent that special institutions for financing agriculture are highly desirable.

A special commission appointed in 1922 to enquire into the agricultural conditions in Canada made the following well-founded statement concerning the necessity of forming special agricultural loaning institutions.

> "As to the necessity of credit on more advantageous terms "
> "to the farmers of this country, there can be little room "
> "for difference of opinion. Well selected and secured "

1. J. B. Morman, "Rural Credits in the United States and Canada", 1924. - page 277.

> "farm loans should be among the safest and most"
> "attractive of investments, while the security offered"
> "through the pledging of non-perishable and readily"
> "marketable farm products is certainly comparable with"
> "that offered by merchants and manufacturers. Notwith-"
> "standing these facts, the agriculturalist of Canada,"
> "in certain parts at least, pays considerably more for"
> "long term credit secured by his property than many of"
> "his competitors in other lands, as well as more than is"
> "paid by many of his fellow citizens in other walks of"
> "life for similar accommodation." [1]

One of the main objects in forming special agricultural loaning institutions is to bring interest rates on agricultural loans down somewhere in line with interest rates prevailing in other industries. One eminent writer on credit and finance makes the following definite statement on this matter. "Our farmers have suffered much in the past from poor organization of agricultural credit, and the agitation will doubtless result in a substantial improvement in farm credit facilities. But perhaps an even greater gain will lie in the improvement of the credit risks of the farming class in consequence of the information that has been so generally disseminated with reference to the principles underlying sound credit." [2] If credit risks are improved, the rate of interest will consequently be reduced.

Bonds or debentures are the credit instruments by which large industrial corporations, public utilities and railroads obtain funds for long term investments. Although the denominations range anywhere from $100 to $5,000, each individual bond is not backed by a definite portion of the company's assets. The whole issue, which sometimes runs into the millions of dollars, is secured by a single mortgage on the fixed assets

1. Report of the Special Commission appointed to inquire into Agricultural Conditions. Ottawa, January 19, 1923.
2. H. G. Moulton, "Money and Banking" Page 64.

of the corporation. Greater security for the entire issue is thus achieved, permitting a much lower rate of interest than by giving a separate mortgage to each individual investor. Bonds of companies which have extensive fixed assets may run for a long period of years and still be readily saleable.

Compare the advantages which industrial corporations enjoy in securing long term loans with the conditions under which the agriculturalist is able to obtain credit to finance his fixed capital investments. Mortgage companies lend money to farmers up to sixty per cent of the appraised value of their farms. In Canada these loans hardly ever run for a period of over five years. If the loan remains unpaid at the expiration of the five year period, the farmer has to give a new mortgage or renew the old; in either case at considerable expense. The fixed assets of an individual farmer are usually small and the danger of their depreciation is consequently great. Credit risk usually varies inversely with the extent and diversification of the fixed assets upon which the loan is secured. While this fact enables the large corporation to obtain loans at very favourable rates of interest, it works to the decided disadvantage of the farmer.

Special agricultural credit institutions have developed to alleviate the unquestionable handicaps under which the farmer has been forced to operate. The methods employed are copied directly after those by which the European countries solved the problem. It was readily seen that corporations gain their advantage in the credit field through having large and diversified assets. In order to obtain the same kind of security for agriculture, a system was launched whereby the assets of numerous farmers were pooled. This collectivized security now formed the basis for an issue of debentures, the proceeds of which were advanced to the individual farmers. Thus the credit institution acted as an intermediary between the investor and the agricultural producer. It was found after a trial of this system that loans could be secured at as low, if not lower, rates than prevailed on corporate bonds.

Again, commercial corporations require large amounts of money for working capital. They secure such funds from commercial banks on notes running from one to three months. As the average rate of turnover of working capital varies from five to twenty times per year, corporations find no difficulty in meeting their short term obligations when due. Corporations usually are able to give good collateral security in the form of notes receivable, drafts, warehouse receipts and the like, which can readily be turned into cash. Thus they are able to secure short term bank loans at low rates of interest.

The farmer, on the other hand, although he needs a large amount of working capital, usually requires it for a period longer than that at which the commercial banks desire to loan. His rate of turnover on grain crops is once a year, and on cattle, hogs, hay crops, etc. from one to three years. If he requires money to purchase fertilizer, his rate of turnover is even longer. He usually has no quick assets to pledge as collateral security which makes a short term loan even more objectionable to the commercial banks. The fault was that these institutions were altogether unsuited to supply the needs of agriculture. That banks have been charging exorbitant rates of interest to farmers is unquestionable.

A proof of this statement will be undertaken later. It is no wonder, therefore, that the great agitation among farmers to remedy existing credit handicaps has resulted in the establishment of short term and intermediate credit facilities to meet their special requirements.

The countries of Europe were the first to take definite steps to establish agricultural financing institutions. Their progress was viewed with keen interest in the United States and Canada. The agitation among the farming class of both countries for the establishment of like credit facilities took on such proportions that many commissions were appointed to investigate the European situation. Among the most notable were the American Commission, established by the Southern Commercial Congress in 1912, and the United States Commission, appointed in 1913.

The American Commission was composed of nearly seventy delegates representing twenty-nine states of the United States and of seven delegates from four provinces of Canada. The United States Commission of seven members represented the Senate, the House of Representatives, and the general public. It was authorized to co-operate with the American Commission in its investigation of rural credits in Europe and in its report to recommend a plan for financing farmers in the United States. The report made by these two Commissions contained a vast fund of information on rural credits and agricultural co-operation in Europe.[1] "It served as the basis of those state and federal systems of farm loans which have developed in the United States and Canada during the past ten years."[2] The systems of rural credit in Canada to-day are as much models of those

1. Senate Document 214, 63rd Congress, 1st Session, November 1913.
2. James B. Morman, "Farm Credits in the United States and Canada" 1924. - Page 2.

in Europe as they were in 1924, but, of course, are continually being modified to cope with the special conditions prevailing in this country.

The two main long-term credit systems in Europe are the Landschaft in Germany and the Credit Foncier in France. The German system was put into active operation in 1770.

> "As it stands today the Landschaft is an association of" "borrowers for the purpose of securing loans by the issue" "of bonds secured by mortgages registered collectively" "against their properties. The bonds are not chargeable" "against any individual mortgage but against the mortgages" "taken together. For this borrowing, the landowner is" "debtor to the association and the association is debtor" "to the investor. The borrower pays interest to the" "association and the association to the investor." 1.

The Credit Foncier of France is a joint stock land bank supplying long-term farm credit. It was established in 1852 and is at present in a very strong position. The main difference between the Credit Foncier and the Landschaft is that the former is a corporation doing business for profit whereas the latter is based on the co-operative principle and is a non-profit-sharing organization . Repayments in both cases are made by amortization but on quite different plans.[2] In the case of the Landschafts, interest on the full amount and in addition a certain fixed percentage of the loan is paid at each instalment. After deducting all expenses, the remainder is placed in a sinking fund to which is also added profits from its investments. When the sinking fund accumulates to the amount of the loan, the mortgage debt is cancelled. The plan used in France is usually called true amortization. It provides for the repay-

1. Report on Agricultural Credit. H. M. Tory. Page 15.
2. Rural Credits. Myron T. Herrick and R. Ingalls. Page 18.

ment of principal and interest in equal annual or semi-annual instalments. The amount of each instalment is determined by the length of time the loan is to run and the agreed rate of interest. Both plans call for equal annual payments but in the case of the German plan the length of time the loan is to run is indefinite.

The rural credit systems in both the United States and Canada have divisions corresponding to both the German and the French forms. For instance, the Canadian Farm Loan System as now in operation uses a modified form of the German amortization plan. The annual or semi-annual instalment of blended principal and interest is fixed by assuming that the borrower pays interest on the full amount of his loan plus one or two per cent for amortizing the principal. This makes the variable factor the term of years the loan is to run. To make the last payment come upon the regular payment date, the last payment is of such an amount as to equitably settle the debt at that time. Under the Canadian plan the burden of investing the periodic payments is placed wholly upon the Canadian Farm Loan Board. The exact number of years the loan is to run and the amount of each payment is definitely stipulated at the time the loan is made. The disposition of payments under the Canadian scheme is shown in Appendix A, and may be taken as a typical example of this form of amortization.

Short-term credit facilities for farmers in Europe are also of two general types. The Raiffeisen System of Banks or Credit Societies of Germany and the Credit Agricole of France embody most of the principles on which all other short-term European rural credit institutions are built. In Europe short-term credit includes all types of agricultural credit which is not secured by a mortgage on land. Its basis of extension is to be found, therefore, in the personal qualities of integrity and ability of the individual borrower, coupled, in many cases, with additional security on such personal chattles as he may possess.

The Raiffeisen system consists of a large Central Bank, incorporated as a joint stock company, and numerous local credit societies. The shares of the Central Bank are all held by the local societies and certain officials of the institution. The Central Bank acts as a clearing house for the local associations. Besides regulating the flow of capital between local associations it supervises the collective purchase of agricultural necessities as well as the collective sale of agricultural produce.

The local societies operate in small well defined areas. They are incorporated and issue shares only where the laws so require. In all cases the members can be called upon to the full extent of their resources for the liabilities of their particular society.

> "No loan is granted without consideration of the object for"
> "which it is asked and the capacity and title of the borrower"
> "to repay within a given time." 1.

The aim of these societies is to assist their members in every way possible by rendering financial assistance, promoting education and strengthening their morale. No person receives remuneration except the full-time secretary-treasurer. All profits are carried to a common fund belonging to the society as a whole.

> "These credit societies have practically banished usury from"
> "the communities where they are organized." 1.

The Credit Agricole of France is a state-aided co-operative system. It was organized in 1894, taking over many local agricultural credit organ-

1. H. M. Tory, "Report on Agricultural Credit" 1924. Page 23.

izations already in operation. In 1899, a system of "Regional Banks" was instituted. These banks facilitated the equitable distribution of Government funds which are granted to further agricultural credit within the country. They also permit local associations to discount securities for, by endorsing them, they became three name paper and then could be rediscounted at the Bank of France. There are over one hundred such banks now in operation with at least one in each of the states into which the country is divided.

> "Attached to each Regional Bank are, on an average, 42 local banks" "or credit societies with about 50 members in each, whose" 1. "territory, as a rule is confined to a parish or commune."

Thus this system is founded on the very small group but is so constructed as to retain all the advantages of decentralization and still gain stability through centralized control. This is achieved by direct government supervision over all the Regional Banks.

As a result of the findings of the American and United States Commissions in 1913, several acts were passed to establish in the United States a comprehensive rural credit system. The "Federal Farm Loan Act", after a legislative period of about two and a half years, was finally approved by the President on July 17, 1916. Under this Act, two distinctly different types of mortgage credit institutions were brought into being. The first type is represented by the Federal Farm Land Banks and the National Farm Loan Associations which are co-operative in character. The second type, Joint Stock Land Banks, are private corporations organized on purely business lines for the purpose of making money. The Federal Farm Loan Board

1. M. T.Herrick, "Rural Credits" Page 324.

has supervision over the entire credit system. This Board consists of the Secretary of the Treasury who is chairman ex-officio, and six other members. These are appointed by the President on the advice of the Senate for a period of eight years and receive a fixed yearly salary of $10,000.

This Board divided the United States into twelve districts and established a Federal Land Bank in each. These banks can extend mortgage loans to farmers only through the medium of local co-operative associations. These are known as National Farm Loan Associations. They are responsible for initiating all loans in their district. Rigid but simple provisions are made for the formation of such societies. Only borrowers can become members and no person can borrow who does not subscribe to stock equivalent to five per cent of the desired loan. Each borrower is liable for an additional amount equal to the face value of his shares. Thus every member of an association is responsible for the total liabilities of his association up to ten per cent of his borrowings. By this means the Federal Land Bank is able to keep itself free from direct relationship with the individual borrowers.

To set this system in operation, the Federal Government granted each Federal Land Bank $750,000 as original capital stock. Before a bank will accept mortgages from any association in its district this association must subscribe, and pay for, an amount of stock equal to five per cent of the loans desired. Thus the capital of each bank is continually fluctuating according to the amount of loans which are outstanding.

There is a provision in the Farm Loan Act of the United States whereby the Government stock in the Federal Land Banks will be systematically retired at par.

> "After the subscriptions to capital stock by National"
> "Farm Loan Associations shall amount to $750,000 in any"
> "Federal Land Bank, said Bank shall apply semi-annually"
> "to the payment and retirement of the shares of stock,"
> "which were issued to represent the subscriptions to the"or
> "original capital, twenty-five per centum of all sums"
> "thereafter subscribed to capital stock until all such"
> "original capital is retired at par." 1.

On December 31, 1930, over ninety per cent of the stock of all Federal Land Banks was held by local associations. At this time the Government owned a small amount of stock in only two banks, one at Springfield, Mass., and the other at Berkeley, California.[1.]

The banks are permitted to issue bonds up to twenty times their paid up capital and surplus. A central selling agency has been organized to dispose of all the bonds of the twelve banks. Joint and several liability is imposed on each bank for the entire bond issue, thus insuring the lowest possible rate of interest on these securities. Although each bank is a seperate organization, this provision serves as a strong unifying bond and helps to cement the system into a stable national unit.

Federal Land Banks are permitted to extend loans only to people actually engaged in farming. The amount of such a loan is not to exceed fifty per cent of the appraised value of the land and twenty per cent of the value of the permanent insured improvements thereon. The maximum rate of interest which can be charged is six per cent, but in no case is it to exceed the bond interest rate by more than one per cent. Repayments are

1.Report of the Federal Farm Loan Board, 1930.

to be made on the amortization plan and extend over a period of anywhere from five to forty years, at the option of the borrower. From organization to December 31, 1930, the Federal Land Banks have closed 512,196 loans, in an aggregate amount of $1,653,917,014. The immatured principal of all loans outstanding on the latter date, numbering 410,493, was $1,187,436,688. At the present time, nine of the banks are making loans at $5\frac{1}{2}$ per cent and the other three are charging 6 per cent.[1]

Federal Land Banks are permitted in certain special cases to make loans to individuals, - farmers in areas where no association exists. This is not done directly, but through agents approved by the Board. Only banks, trust companies, mortgage companies, or savings institutions operating in the state in which it is chartered can become such agents. Agents are empowered to negotiate mortgage loans up to ten times their capital and surplus. Loans are made subject to the same provisions as if made through a local association. The borrower must subscribe to stock in the Federal Land Bank to the extent of five per cent of his loan. This stock also carries the double liability clause. Agents must endorse all loans made through them and thus become liable for any default in payment of principal or interest.

Mr. Morman, Economist to the Federal Farm Loan Board, quite rightly points out that the form of co-operative credit in the United States does not arise at the instigation of the farmers themselves in any attempt to improve their own credit conditions by collective effort, but is forced upon them from above. Because of this he claims that the associations

1. Report of the Federal Farm Loan Board, 1930.

have failed to develop that spirit of co-operation which is so essential if the system is to be ultimately controlled by the borrowers themselves. The original plan has been modified to such an extent that Mr. Morman thinks it "doubtful whether borrowers will ever gain control of Federal Land Banks".[1]

Dr. H. M. Tory, President of the National Research Council of Canada on the other hand, believes that the spirit of co-operation has developed to a large extent in some districts. He states that managers of some of the Federal Land Banks were confident "that, as the days went by, these associations would become a strong conservative influence in maintaining the integrity of the bank."[2]

The Federal Farm Loan Act also provides for the establishment of Joint Stock Land Banks by private capitalists for the purpose of making mortgage loans to farmers who do not wish to join a National Farm Loan Association. It was felt that the whole purpose of the Act would be defeated unless farmers in sparcely settled areas and others in areas where the communities had failed to organize local associations were not given a similar opportunity to procure long-term loans at low rates of interest.

While the Federal Land Banks are in many respects similar to the Landschaften of Germany, the Joint Stock Land Banks bear closer resemblance to the Credit Foncier of France. As stated above, the Joint Stock Land Banks are private corporations, but their operations are controlled to a large extent by the Federal Farm Loan Board. Any ten people can organize

1.J. B. Morman, "Farm Credits in the United States and Canada," 1924. Page 83

2.H. M. Tory, "Report on Agricultural Credit" Ottawa, April 4, 1924. Page 53.

a bank of this character, provided there is a subscribed capital of not less than $250,000, one half of which is paid in cash. They are organized for the purpose of carrying on farm mortgage business but may also extend loans on other security.

Of the eighty-three Joint Stock Land Banks that have been chartered, only forty-eight are still in operation, one is in voluntary liquidation and three are in receivership. To December 31, 1930, these banks had closed 128,924 loans aggregating $892,752,858. On this latter date there were 100,558 of these loans outstanding to an amount of $590,464,282. This latter figure includes 6,730 loans amounting to $37,169,786 in the three banks in receivership.[1]

The restrictions which are placed on the Joint Stock Land Banks are not exactly the same as those imposed on Federal Land Banks. There are good reasons for this. The two institutions are organized to render service to somewhat different classes of borrowers and lend on the basis of rather different security. Borrowers from a Joint Stock Land Bank are not required to purchase shares in the loaning institution, nor is it necessary for them to reside upon the land which serves as security for the loan. Loans are not restricted to definite purposes as are those obtained from a Federal Land Bank. Joint Stock Land Banks do not loan through local associations and their operations are not confined to fixed districts. They are given as much freedom in operation as possible, but, in consequence of the greater risk which they are taking, are allowed to issue bonds only up

1. Report of the Federal Farm Loan Board, 1930.

to fifteen times their paid up capital and surplus. The Federal Land Banks, on the other hand, are given the privilege of issuing bonds up to twenty times their paid-up capital. Joint Stock Land Banks receive no direct Government grants. This, together with the fact that their business is probably a little more risky than that carried on by the Federal Land Banks, makes their interest rates slightly above those prevailing in the latter institutions.

One of the main objects which led to the formation of so many small State Banks in the United States during the period just succeeding the depression of 1891 to 1895, was to supply the local farm community with better short-term credit facilities.[1] These banks were able to render valuable service to the local community because of their intimate relations with it. There were faults in the system, however, and these were sadly revealed in a most disasterous way during the crisis of 1907, when many of these small banks became insolvent. The main difficulty was their decentralization, which made the flow of capital from one part of the country to another very difficult. The Federal Reserve Act of 1913 aimed at establishing a system whereby the defects of the State Banks could be overcome. The Act as amended in 1919 and 1923 makes special provision for short term credit for agricultural purposes, by permitting the reserve banks to discount agricultural paper which runs for a period not exceeding nine months. All other commercial paper can not be discounted for more than ninety days. There is also a provision whereby national banks can loan to farmers for a period

1. H. M. Tory. Opus Cit. Page 54.

of five years by taking a first mortgage on their land as security.

This system also was found to be inadequate. On March 4th, 1923, the United States passed a law establishing twelve Intermediate Credit Banks which are designed to meet the needs and requirements of agriculture. They are not meant to compete with other banks.

> "They supplement, but do not supplant, the service of other" "money lending concerns. Most co-operative marketing" "associations make use of both Intermediate Credit Banks" "and commercial banks. The latter furnish the capital" "necessary for carrying their commodities for periods up" "to six months and the Intermediate Credit Banks beyond" "that period." 1.

These Banks are under the direct supervision of the Federal Farm Loan Board. They are situated in the same cities as the corresponding twelve Federal Land Banks, but are operated as separate institutions even though the same men are officials of both.

The Government has undertaken to supply the needed capital to put the system into operation. The Act permitted the Federal Treasury to subscribe to stock in each Bank up to $5,000,000 , or a total of $60,000,000 for the twelve banks. At the present time, one half of this amount, or $30,000,000, has been paid in; the remainder is subject to call by the Banks on thirty days notice.[2]

Each Bank is allowed to issue five-year debentures up to ten times their paid up capital and surplus. These debentures are to be fully secured by cash and discounted paper held by the Bank and are not to bear a rate of interest greater than six per cent. They are tax exempt and are guaranteed jointly by all the Banks just as are the bonds issued by

1. Report of the Federal Farm Loan Board, 1926.
2. Report of the Federal Farm Loan Board, 1930.

the Federal Land Banks. Up until December 31, 1930, the twelve Intermediate Credit Banks had issued debentures aggregating $813,300,000, of which $102,475,000 were then outstanding.[1]

Intermediate Credit Banks are not allowed to charge a rate of discount over seven per cent, and at no time can this rate exceed by more than one per cent, the rate of interest on the last debenture issue. The current loan and discount rate for each of the twelve Banks at December 31, 1930, was four per cent per annum.[2]

These Banks make loans to co-operative marketing associations, secured by warehouse receipts or shipping documents covering staple agricultural produce. They also discount for other organizations, upon their endorsement, any notes, drafts, or other bills of exchange which have been received primarily as security for money loaned for any agricultural purpose. These Banks are not permitted to discount any such paper for organizations which charge borrowers a rate of interest of more than one and a half per cent above the discount rate charged by the Intermediate Credit Banks. Only such agricultural paper which has a maturity between six months and three years can be discounted. Loans and discounts by all these Banks to December 31, 1930, totalled $1,125,836,114, and the amount outstanding at that date was $130,010,268.[2.]

As stated above, loans on the discounting privilege can be made only through already organized financial machinery. An individual farmer can not deal directly with an Intermediate Credit Bank but must secure his loan from some local agricultural financing corporation. This latter

1. Report of the Federal Farm Loan Board, 1930.
2. Ibid.

institution may discount the evidence of such indebtedness at a Federal Intermediate Credit Bank; thus acting only as an intermediary between the farmer and the ultimate source of credit. The local credit corporation must, however, by endorsement assume responsibility for the prompt repayment of the loan. Intermediate Credit Banks are in reality bankers' banks for agricultural credit, thus bearing a close analogy to the Federal Reserve Banks in the field of commercial credit.

To make the scheme complete, therefore, provisions are made for the establishment of local associations to make loans directly to farmers. They are much more highly organized than similar institutions in the Federal mortgage credit plan, and are known as National Agricultural Credit Corporations. Their purpose is to satisfy the intermediate credit needs of the agricultural producer and the live-stock breeder. Any five people can form such a corporation, but loaning operations can not commence until it has a paid-up capital of $250,000. The capital of these institutions is entirely supplied by private individuals, the Government having no financial interest. They are given broad powers among which is the privilege of issuing debentures, which differ from those issued by the Intermediate Credit Banks only in that they are not tax exempt.[1]

The loaning powers of National Agricultural Credit Corporations correspond identically with those of the higher institutions under which they operate. No limitation is placed upon the interest rate; it being subject only to the laws of the state in which it is doing business. As

1. J. B. Morman "Farm Credits in the United States and Canada"1924, Page 354.

stated before, they can not discount their paper if this rate is more than one and one-half per cent greater than the discount rate charged by the Intermediate Credit Banks.

Several of the States of the Union have also established both long term and short term agricultural credit facilities. These correspond very closely to the Federal systems now in operation.

A rough outline of the development of government agricultural credit institutions in Europe and the United States has been attempted. It now remains to investigate the rise of similar institutions in Canada and to see how far we have benefitted by the experience of other countries. The attempts which have been made by both the Dominion and the Provincial Governments to solve the farmers' credit problems have all followed along the general lines of European and American systems.

The Dominion Government has, at various times, been approached with schemes for establishing uniform legislation on rural credit institutions. Although the first of these schemes was presented in 1907, it was not until twenty years later, 1927, that a law was finally passed, respecting agricultural credit. In 1907, a bill dealing with both industrial and agricultural co-operative societies was introduced.[1] After being considered in great detail by a special committee, it was passed by the House of Commons but was rejected by the Senate.

In 1909, Mr. F. O. Monk, M. P., in introducing a bill dealing with rural credit and loan associations, makes the following statement.

> "I think that it is an opportune time for the introduction"
> "of these two bills.[2] The movement started several years"

1. Debates of the House of Commons, Session 1907-08. Bill No. 5.
2. The other deals with co-operative societies in general.

"ago, has made great strides throughout all provinces"
"especially as regards people's loan and credit banks."
"I may say that in the Province of Quebec, there are"
"already in existence over 32 societies of that kind",
"and that in the same Province the number of members"
"of such associations exceeds 15,000. The movement"
"is growing rapidly from day to day." 1.

This bill failed to pass the House but was again introduced by Mr. Monk in 1910.[2] He made it clear that it was "not a bill to reorganize loan societies but a bill to permit poor people to help themselves locally by co-operation."[3] So much opposition was received, however, that the bill was never put to a vote. A similar bill was twice again introduced by Sir Arthur Meighen but did not gain in either case, a second reading.[4]

On August 23, 1923, Dr. H. M. Tory, Administrative Chairman of the Honorary Advisory Council for Scientific and Industrial Research, was appointed as Commissioner to investigate the question of Agricultural Credit. His report was submitted on April 4, 1924.[5] After giving consideration to this report, the Select Standing Committee on Banking and Commerce recommended that the investigation of the subject be continued by Dr. Tory

"in order to determine whether it be possible to"
"co-ordinate the various systems of rural credit now"
"in existence into a Federal System applicable to "
"the whole of Canada."

The Committee further recommended

"that legislation be prepared based on the said further"
"investigations and calculated to meet the credit"
"needs of the agricultural classes of the Dominion"
"and submitted to the Parliament at its next session."

1. F. P. Monk: "Debates of the House of Commons, 1909-10.
2. Debates of the House of Commons, 1910-11: Bill No. 11.

Both of these recommendations were carried out. Dr. Tory submitted his supplementary report on Agricultural Credit on March 30, 1925.[1] Following the suggestions laid down in this report, a bill to provide for "the establishment in Canada of long-term mortgage credit for farmers" was introduced in the House of Commons on May 28, 1926, by the late Hon. J. A. Robb, Minister of Finance.[2] A like bill was introduced in the next session of Parliament and was passed by the House on April 1, 1927.[3]

In discussing this bill, Mr. Campbell, M. P. concisely sums up the arguments in favour of such legislation.

> "The fundamental principal of a scheme of this kind is" "the elimination of competition. ..... It is based on" "the German Landschaft system which was established by" "the German Government some time after the Seven Years'" "War. It met the situation and to-day the farmers of" "Germany are receiving money cheaper than the manufact-" "urers. Just compare the situation with ours in Canada." "I presume that no Canadian Manufacturer will pay more than" "six per cent interest. Most of them will receive money" "at less than that. But the farmers, at any rate in" "Saskatchewan, are not securing money on loans at less than" "eight per cent and the ordinary banks charge perhaps nine" "and ten per cent."

A survey of the Canadian Farm Loan Act will be given in the next chapter. It is at present the only Dominion Legislation on agricultural credit.

All of the provinces, except Saskatchewan, Ontario and Prince Edward Island, have passed enabling legislation to facilitate the operation of the Dominion Act within such provinces. Since these enabling acts have been passed, loaning operations of provincial farm mortgage credit institutions in those provinces have ceased and thus these systems

1.Sessional Paper No. 152, 1925.
2.Debates of the House of Commons, 1926. Pages 3821ff. 3. Ibid Page 1810.

have only an historic interest.

British Columbia was the first province to pass legislation dealing with agricultural credits. In 1898 an Agricultural Credits Act was passed whereby the Government undertook to loan money to associations of farmers for specific purposes. The Act was based directly on the German Raiffiesen system. There were no loans made under the Act, however, because the farmers were unwilling to accept the co-operative principle involved.

In 1915, another Act was passed under which both long and short-term loans could be made on first mortgage security. Loans were restricted to 60 per cent of the value of the land and could be made only for productive purposes. The loaning board obtained its funds by the sale of securities unconditionally guaranteed by the Government. In 1917, the Government of British Columbia passed an Act to encourage land settlement.[1] It also provided for Government loans on first mortgage security.

> "Loans have not been made to any great extent under either"
> "of these acts; those that were made being used largely in"
> "paying off existing liabilities." 2.

On December 6, 1909, at Levis, Quebec, Alphonse Desjardins organized the first of a group of "People's Banks" known as "Les Caisses Populaires". These have been highly successful in the past in providing short-term credit for small farmers and industrial workers in Quebec. Loans are made for any approved productive or provident purpose and usually run for a somewhat longer period than the ordinary bank loan. They may be for

1. Statutes of British Columbia, 1917. Chapter 34.
2. H. M. Tory. Pages 70 ff. Report on Agricultural Credit, 1924.

twelve, fifteen, or even twenty-four months depending upon the time it takes for the borrower to realize upon his investment.

Operations of such banks are limited to small well-defined areas. Only persons living in such an area can become borrowers or shareholders in the bank. Each bank has a board of directors, a committee om credit and a board of supervision elected at an annual meeting of the members from among themselves. The members of these boards give their services gratuitously. The board of directors consists of nine members and has general charge of the affairs of the bank. The credit committee passes upon all applications for loans and sees that repayments are promptly made. Three members compose the board of supervision whose duty it is to see that all officers of the bank do their work properly.

"Les Caisses Populaires" are true co-operative banks, the full return going to the borrower-owners. Shares are five dollars each, and may be paid up in monthly or weekly instalments. Only members can deposit or borrow from the bank. Loans are for small amounts usually not exceeding $2,000 to any member. Repayments for loans which run for over a year are made on the instalment plan. Loans are made on personal security and, in some cases, with added indorsements of other members. The following table gives in a concrete way the progress made by these banks during the last fifteen years.

PROGRESS OF CO-OPERATIVE PEOPLE'S BANKS IN QUEBEC [1]

	1915	1920	1925	1929
Banks Reporting	91	113	122	178
Total Membership	23,614	31,752	33,279	44,835
Depositors	13,696	26,238	33,527	44,685
Borrowers	6,728	9,213	9,384	13,553
No. of loans granted ...	8,983	15,390	13,682	17,994
Amount of loans granted ...	$1,483,160	$4,341,544	$3,909,790	$4,249,650
Profits Realized	89,893	$ 311,323	$ 449,531	$ 646,616

Nova Scotia has two Acts upon its Statute Books relating to agricultural credit. One of them has never been put into operation and very few loans have been made on the other. In New Brunswick, the situation is quite similar, for, although two Acts have been passed, few loans have been made.

Ontario has provided for an extensive system of agricultural credit. In 1916 the Province passed a law to encourage land settlement by authorizing loans to settlers in certain undeveloped districts.[2] In 1917 an Act was passed enabling the Government to make loans to farmers through

1.Statistical Year Books of the Province of Quebec, 1916, 1921, 1926, 1930.
2.Statutes of Ontario, 1916, Chapter 11.

townships, but it proved unsatisfactory.[1] A thorough investigation of rural credit was made by a special commission in 1920. In the following year the Ontario Legislature passed three Acts bearing on the subject.[2] These are practically reprints of the Manitoba and Alberta Acts.

The Ontario Acts provide for systems of both long and short-term credit to be financed by the Province through its savings bank system. Long-term loans are limited to $12,000 and must be secured by first mortgage on agricultural land. Loans are repayable on the amortization principle and run for a period not exceeding twenty years. Individual borrowers deal directly with the loaning board and not through local associations as in the American system.

Short-term loans are made through local associations. One-half of the stock of any local society is owned by the borrowers, one quarter by the municipalities in which the association operates, and the remaining quarter is held by the Province. Loans are limited to $2,000 and can be made only for stipulated purposes such as the purchase of seed grain, implements or live stock, defraying operating expenses and, in special cases, for fire and life insurance. This system is copied directly after the Manitoba Co-operative Credit System with a few modifications along the Alberta Plan.

The Alberta Government, in 1917, passed two acts respecting agricultural credit. The first is entitled "An Act to Foster and Encourage Agricultural Development by Means of Standard Forms of Investment upon Farm Mortgages and the Equalization of the Interest Rate."[3] Due to

1. Statutes of Ontario 1917, Chapter 25.
2. " " 1921, Chapters 31, 32 and 33.

the inability of the Alberta Government to float loans either in Canada or the United States, this Act was never put into force.[1] On April 12, 1924, the Alberta Legislature passed "An Act to Establish a Farm Loan Board." which repealed the earlier Act of 1917.[2] This later Act was to come into affect upon an order in council. No such order has ever been given. Thus the Act still remains upon the Statute Books of the Province. As Alberta has now adopted the Canadian Farm Loan Act it is altogether unlikely that the provincial scheme will ever be put into operation.

The second of the two acts passed in 1917 provides for a system of short-term loans to farmers through the organizations of local co-operative credit societies. The provisions of this Act and the present financial position of the scheme will be reviewed in Chapter IV.

Manitoba established in 1917 both a system of long-term and a system of short-term agricultural credit. The long-term scheme has been operating quite extensively until the adoption of the Dominion Plan. The short-term scheme is still active. The present position of both these schemes will be studied in later chapters.

The Province of Saskatchewan early in 1913 appointed a commission of three "to enquire into the ways and means for establishing agricultural credit." This commission directly associated itself with the American Commission. Besides investigating rural credit institutions in Europe it also undertook to make a survey of agricultural credit conditions in Saskatchewan. Its report was submitted on October 13, 1913.

1.Statutes of Alberta, 1917, Chapter 10.
2. Statutes of Alberta, 1924, Chapter 4.

In this report the Commission recommended the establishment of a Co-operative Mortgage Association. This Association was to loan money on first mortgage security to farmers for the purpose of promoting agricultural productiveness. Loans were to be made through local associations of borrowers. These were to be made on the amortization basis for a period of not less than fifteen and not more than thirty-five years. Many other recommendations, including the establishment of a bank of personal credit under governmental supervision, were also advanced. The Government of Saskatchewan did not take action, however, until 1917, and then it established a farm credit scheme quite different from that outlined by the Commission. A survey of the system now under operation will be made in the next chapters. Saskatchewan is the only one of the three Prairie Provinces which has not accepted the Canadian Farm Loan Act, and is also the only one which has not a short-term agricultural credit scheme.

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CHAPTER III

SOURCES OF LONG-TERM OR MORTGAGE CREDIT IN THE THREE PRAIRIE PROVINCES

Long-term or mortgage credit readily falls into two major divisions; first, that which is supplied by institutions organized and run directly under Governmental supervision; and secondly, that which is supplied by privately-owned capital through institutions or individuals who loan for the primary object of making profits.

A. - Governmental

Governmental loaning institutions are intended to be operated on a non-profit basis, or if any profits are made, the full benefits of such earnings go to the farmer borrowers. Their avowed object is to supply adequate and sufficient credit to farmers on more advantageous terms. The needs and requirements of the borrowers are considerations which receive the most attention, while the desires of the creditors are relegated to second place.

In 1917, all three of the Prairie Provinces passed Acts to provide for the establishment of long-term Government agricultural credit institutions. Only two of these Acts have been put into force, The Alberta Acts of 1917, and 1924, referred to in the last chapter, are important only in so far as they have tended to shape public opinion and create a desire among the farmers of that province to participate in the Federal scheme. Both Manitoba and Saskatchewan have put their Acts into force and loaning operations have been going on in these provinces ever since.

The Manitoba scheme for supplying farmers with long-term loans, according to one authority, "has been as successful as any in North America."[1] At the time of writing, in 1924, this statement was probably correct, but, at present, its validity might be questioned. The scheme first came into force on March 9, 1917. The Act which established the system is entitled" An Act to Foster and Encourage Agricultural Development by Providing for Loans upon Farm Mortgages at Reduced Rates of Interest."[2] The essential provisions of this Act, together with subsequent amendments, are as follows.

The affairs of the Manitoba Farm Loans Association, incorporated by this Act, are managed by a board of five members, appointed by the Lieutenant Governor in Council, one of whom is designated chairman.[3] By an amendment, in 1930, provision was made for the appointment of a Commission, to take over the management of the association after loaning operations ceased.[4] The salaries of the Commissioner and all members of the board are determined by the Lieutenant Governor in Council.[5] They are also allowed money for necessary expenses while engaged in the business of the board.

1. James B. Morman, "Farm Credits in the United States and Canada" 1924 /Page 254.
2. Statutes of Manitoba, 1917, Chapter 37.
3. Ibid, 1917, Chapter 37, Section 6. - 1930, Chapter 12, Section 1.
4. Ibid, 1930, Chapter 12, Section 6.
5. Ibid, Section 15.

The Association is capitalized at $550,000 which is divided into 110,000 shares of $5.00 each. Only borrowers under the Act and the Province can hold shares in the Association.[1] The amount to which the Province can subscribe is limited to fifty per cent of the total share capital but provision is made for the Province to advance a sum to the Association equal to the remainder of the whole paid up capital.[2] The borrower receives the full amount of his loan and is not compelled to purchase shares in the Association.[3] Shares which have been sold to borrowers are non-transferable, except to the purchaser of the land on which the loan was secured.

Loans are made exclusively on first mortgage security at seven per cent interest.[4] They run for a period of thirty years and are repayable on the amortization plan.[5] The amount of the loan is limited to fifty per cent of the appraised value of land and improvements reckoned upon a productive basis for agricultural purposes and in no case can the loan exceed $10,000 to any individual farmer.[6]

Only persons who are engaged or intending to be engaged in farming on the land mortgaged[7] can secure a loan and then only for the following purposes: -

(a) The acquiring of land for agricultural purposes and the satisfaction of encumbrances on land used for such purposes;

1. Statutes of Manitoba, 1921, Chapter 31. The Association was originally capitalized at one million dollars divided into 200,000 shares of $5. each.
2. Consolidated Amendments of Manitoba, 1924, Chapter 71, Section 28.
3. In the original Act the borrower had to purchase shares in the Association to the extent of 5% of his loan. This provision was repealed on April 26, 1921, by Statutes of Manitoba, 1921, Chapter 23, Section 5.

(See Foot of Next Page for Notes 4,5,6, and 7.)

(b) The clearing and draining of land;

(c) The erection of farm buildings;

(d) The purchase of live-stock and implements;

(e) Discharging liabilities incurred for improvements and development of land used for agricultural purposes and any purpose calculated to increase land productiveness.

In 1923 a section was inserted in the Act providing for a further loan to farmers who had already mortgaged their land to the Association. Under this section[1] the Association is empowered to make advances up to $300 per quarter section to such farmers for the purchase of seed grain. This loan is to become part of the mortgage and subject to all its regulations. The Board may take a chattle mortgage upon the crop to be grown from this seed grain as additional security. The loan is due on the first day of November following the date of the advance.

If a farmer does not apply the proceeds of his loan to the purposes set forth in his contract, the Board may declare the mortgage due and payable.[2] To insure a more economical use of the money advanced on a mortgage the Board may give it to the farmer in instalments as it deems advisable.[3]

1. Statues of Manitoba, 1923, Chapter 11, Section 7.
2. The Consolidated Amendments, 1924, Chapter 71, Section 45.
3. Ibid, Section 44.

<u>From Previous Page</u>

4. Before April 26, 1921, this rate was six per cent.
5. The Consolidated Amendments, 1924, Chapter 71, Section 33.
6. Ibid, Sections 36 and 38.
7. Ibid, Sections 35 and 37.

The Association receives loaning funds through the sale of bonds guaranteed both as to principal and interest by the Provincial Government.[1] The total amount of such bonds is limited to $12,000,000 but must not at any one time exceed 95% of the first mortgage securities held, in cases where capital shares of the Association have been issued to the borrowers, and 100% of such securities where no shares have been issued. The bonds bear 6% interest and are, together with all funds of the Association including its capital stock, free from all forms of Provincial, school or other kinds of taxation.[2] The Association is also authorized to receive deposits from persons or corporations and to be a depository for any Provincial, municipal, or school district funds.[3]

The disposition which the Board makes of the amortization payments received from borrowers is definitely stipulated in the Act. The portion which is in payment of interest is first used to pay interest on outstanding securities and the remainder is applied towards the expenses of operating the system. The portion which is in payment of principal may be reloaned under the provisions of the Act, invested in Dominion and Provincial securities, or used in any other manner as may be considered expedient to meet obligations of the Association.[4]

1. Ibid, Section 51 and 52.
2. Ibid, Section 65.
3. Ibid, Section 50.
4. Ibid, Section 49.

By an amendment to the Act, in 1930, provision is made for the cancellation in whole or in part or the extension of the time for repayment of any moneys due the Association.[1] The Lieutenant Governor in Council on the recommendation of the Board is empowered to make such adjustments as are deemed expedient of the indebtedness of any person to the Association. Other provisions are made whereby the Province can ssume the liabilities of the Association and make good any losses which the Association has sustained.[2] Necessary money for the payment of such liabilities is to be secured through Government loans which will be met by a special sinking fund built up by contributions from the profits earned from investments made under the "Provincial Savings Act, 1924."[3]

Such drastic measures were undoubtedly taken with a view to winding up the affairs of the Association in the most expeditious way possible. The Province of Manitoba has, like the Province of Alberta, passed enabling legislation to facilitate the operation of the "Canadian Farm Loan Act, 1927," within the Province.[4] As it would be needless duplication to have two government mortgage lending institutions operating within the same province, no loans have been made by the Manitoba Farm Loans Association since the Manitoba Branch of the Canadian Farm Loan Board began to operate on November 1, 1929.

1. Statutes of Manitoba, 1930, Chapter 12, Section 19, Para. 72.
2. Ibid, Para. 74.
3. Ibid, Para. 73, 75, 76.
4. Statutes of Manitoba, 1928, Chapter 17.

The Association since that time has been engaged, and will no doubt be engaged for some years yet to come, in the collection and handling of loans previously made. The growth and present position of the Association are clearly revealed in the following table.

Summary of Applications Received, Applications Approved, Loans Outstanding and Net Profit of the Manitoba Farm Loans Association for Fiscal Years ending August 31, 1922 to April 30, 1929, inclusive. (In thousands of dollars)

For Year Ending.	Applications		Applications Approved.		Loans Outstanding		Net Profit For Year.
	No.	Amt.	No.	Amt.	No.	Amt.	(1)
Aug.31,1922	1,125	$2,719	612	$1,724	2,796	$7,379	$40,553.98
Aug.31,1923	1,156	2,674	597	1,339	3,076	8,492	47,242.78
Aug.31,1924	415	1,010	82	170	3,178	8,926	57,725.34
(2) Apr.30,1925	164	374	53	93	3,157	7,595	28,902.01
Apr.30,1926	441	1,146	144	337	3,175	7,587	40,741.01
Apr.30, 1927	364	1,072	176	503	3,201	7,611	21,342.67
Apr.30,1928	304	733	92	235	3,081	7,279	- 8,895.18
Apr.30, 1929	108	271	45	110	2,869	6,798	- 50,710.76

Note. (1) Figures for Net Profit are given in full.
(2) For 8 months only.

Until May 1921, the interest rate charged borrowers was six per cent. From April 1921, to October 1925, this rate was increased to

1. Annual Reports of the Manitoba Farm Loans Association, 1922-1929.

seven per cent but after the latter date was reduced to six and one-half per cent. The 2,869 loans on the books of the Association as at April 30, 1929, were bearing interest as follows:[1]

Year 1917-1921	.......1068 loans	at 6% per annum,	$2,771,488.29
Year 1921-1925	.......1438 loans	at 7% per annum,	$3,062,066.35
Year 1925-1929	.... 363 loans	at 6½% per annum	$ 964,673.90
	2869		$6,798,228.54

At April 30, 1929, the Association had debentures outstanding with interest accrued to date amounting to $10,107,779.79, of which approximately $9,975,000 was owing to the Province. At the same date the total mortgage loans outstanding with accrued interest amounted to only $7,936,571.27. This is explained by the fact that the Association has been compelled to take foreclosure proceedings on many mortgages during the past few years. It obtained title by way of transfer and forclosure to 177 farms during the year ending April 30, 1929, and to 160 farms during the preceeding year. Losses on the sale of such farms accounts in part for the adverse balance of the Association for 1928 and 1929¾

The Manitoba enabling Act was assented to February 16, 1928. It gave the Lieutenant Governor in Council power to subscribe to stock in the Canadian Farm Loan Board to an amount not exceeding at any time five per cent of the total loans outstanding within the Province.[2]

1. Twelfth Annual Report of the Manitoba Farm Loans Association, Nov. 28, 1929.

2. Statutes of Manitoba, 1928, Chapter 17, Section 1.

The amount of money which the Act allows for the purpose of paying for such shares is limited to $400,000. Loans may be made up to this extent to purchase these shares.

The Lieutenant Governor in Council was given power to decide upon the manner in which loans are to be made to farmers; that is, directly, through local co-operative societies, recognized colonization societies, or in all or any of these ways.[1] The Act provides all other necessary clauses as stipulated in the "Canadian Farm Loan Act, 1927," and gives the Lieutenant Governor in Council the power to make such further regulations as are deemed advisable.

In 1928 Alberta also passed enabling legislation to permit the establishment of a branch of the Canadian Farm Loan Board within the province.[2] This Act came into force the day it was assented to, March 21, 1928. It authorizes Provincial Treasurer on behalf of the Province to subscribe to capital stock of the Canadian Farm Loan Board to the extent of 5% of the total loans made by the Board at any time within the Province.[3] Unlike the Manitoba Act, there is no limit stipulated as to the amount of money the Province can so invest.

The Act provides for the establishment of a Provincial Board of four members, nominated and appointed in the manner set forth in Section 8(b) of the Canadian Farm Loan Act, 1927, outlined below. Loans may be made directly to farmers and through any co-operative society or colonization

1. Statutes of Manitoba, 1928, Chapter 17, Section 3.
2. Statutes of Alberta, 1928, Chapter 4.
3. Ibid, Section 2.

society which may from time to time be designated by the Lieutenant Governor in Council.[1] The Government is allowed to advance money to provide for the expenses of the Provincial Board.[2] All other necessary clauses which the Dominion Act requires are properly inserted.

The Alberta Branch of the Canadian Farm Loan Board has been very active since it commenced loaning operations in May 1929. During the first twenty-one months to January 31, 1931, three thousand eight hundred and eighty-two formal applications for loans had been received. On the 3,172 farms inspected and valuated during this period, 1,471 loans were approved involving a sum of $3,023,200. Of this amount, $2,593,000 had been already dispersed to borrowers.[3]

The Saskatchewan Farm Loans Act of 1917[4] provides for loans to be made directly by the central Board to the farmer without the intermediary of local farm loan associations. The Saskatchewan Farm Loan Board, established by this Act, is a corporate body administered by a Commissioner and two other members appointed by the Lieutenant Governor in Council.[5] The Commissioner is the managing member of the Board and both he and the other members of the Board receive such remuneration as may be determined by the Lieutenant Governor in Council.[6] The Commissioner holds office for ten years, unless sooner removed by the Legislative Assembly while the other members hold office during the pleasure of the Lieutenant Governor

1. Statutes of Manitoba, 1928, Chapter 4, Section 5.
2. Ibid, Section 9.
3. Statistics from a letter from the Deputy Provincial Treasurer dated February 27, 1931.
4. Statutes of Saskatchewan, 1917, Chapter 25.
5. Ibid, Sections 2 and 5.
6. Statutes of Saskatchewan 1920, Chapter 36, Section 1.

in Council[1].

The Board has the power to lend money secured by first mortgage on land within the Province, and to do all other things" necessary or incidental to the business of lending money on farm property."[2] Loans can be made up to fifty per cent of the Board's valuation of the property.[3] There is no stipulated limit to the amount each farmer can borrow. Loans are repayable on the amortization plan and extend over a period of thirty years.[4] The borrower may, however, make additional payments on his mortgage at any due date of interest or principle.[5] If a mortgagor fails to apply his loan to the purposes set forth in his contract or if he allows his farm to unduly depreciate, the Board may declare the balance of the debt immediately due and payable and may take such procedure as allowed by law to a mortgagee of a mortgage in arrears.[6]

Loans are restricted to purposes which, in the opinion of the Board, constitute permanent improvements to the mortgaged property or will assist in the productive development of such property. Loans may also be made to liquidate existing debts which have been incurred for the above purposes. In very special cases loans may be made for the purchase of land for agricultural purposes.[7]

1. Statutes of Saskatchewan, 1917, Chapter 25, Sections 6 and 7.
2. Statutes of Saskatchewan, 1917, Chapter 25, Section 4.
3. Ibid, Section 14 and Statutes of Saskatchewan 1917 (Second Session) Chapter 65, Section2.
4. Ibid, Sections 14 and 15.
5. Ibid, Section 18.
6. Ibid, Section 20.
7. Statutes of Saskatchewan, 1918, 1919, Chapter 76, Section 3.

The rate of interest is not definitely set but must be "Sufficient to pay the interest on and the cost of raising the money to be advanced to the Board by the Provincial Treasurer under the provisions of this Act, the expenses of conducting the business of the Board and other incidental expenses."[1]

Loan funds are obtained from the Provincial Government and are limited at any date to the aggregate amount of mortgages held by the Board and assigned or hypothecated to the Provincial Treasurer as security for the said advance.[2] In no case is the total amount advanced to the Board to exceed $15,000,000.[3] The Province raises the funds by sale of Provincial debentures to run for a term not exceeding forty years and to bear such rate of interest as the Lieutenant Governor in Council determine.[4] The terms and conditions under which the Government loans to the Board are also determined by the Lieutenant Governor in Council.[5]

The Provincial Government has been selling debentures paying 5% interest and has loaned to the Board at 5 1/3% while the interest rate charged by the Board for loans to farmers is 6½%. Thus the Government has 1/3 of 1% to cover expenses of sale and other incidental expenses of the Department and the Board has a margin of 1 1/6% to cover expenses and to create a reserve fund for losses.

1.Statutes of Saskatchewan, 1911, Chapter 25, Section 17.
2.Ibid, 1917 (Session 2) Chapter 65, Section 4.
3. Ibid, Chapter 25. Section 22 as ammended by Statutes of Saskatchewan (1920,Chapter 55,Sec.2.
4. Statutes of Sask.1917,Chapt.25, Sec.23.
5. Ibid, Section 24.

Pending the sale of Government securities the Provincial Treasurer may, with the approval of the Lieutenant Governor in Council, supply the Board with needed working capital by borrowing from the consolidated fund or from any bank or corporation.[1]

Borrowers under the Saskatchewan plan are not required to purchase shares in the loaning board as are borrowers under the Federal plan. Manitoba originally had such a provision in its long term credit act but it was repealed in 1921. The American loan scheme requires each borrower to purchase stock in his local association and to deal through thi association in all matters; thus the Saskatchewan borrower has a much closer association with the government than does the American borrower.

The Saskatchewan Farm Loan Board has been quite active since its inception. Since the Board began operations in 1917 over $13,000,000 has been loaned to farmers on first mortgage security. The amount advanced in each year is as follows:

1917	....	$ 211,567.85
1918	....	1,546,798.92
1919	....	2,001,516.48
1920	....	2,372,222.98
1921	....	2,100,479.45
1922	....	361,120.36
1923	....	470,540.84
1924	....	281,357.27
1925	....	187,584.68

1.Statutes of Saskatchewan, 1917, Chapter 25, Section 27.

(Yearly Advances) (Continued.)	1926	....	$ 236,333.41
	1927	....	469,365.80
	1928	....	947,573.86
	1929	....	1,839,951.93
	Total for 12 years	....	$13,026,413.83 [1]

Further statistics on the operations of the Saskatchewan Farm Loan Board could not be obtained.

In 1927 the Dominion Government passed "An Act for the purpose of establishing in Canada a system of Long-Term Mortgage Credit for Farmers".[2] All of the provinces but three have subsequently passed enabling Acts to facilitate the operation of the Federal Act within these provinces. Saskatchewan, Ontario and Prince Edward Island are the only provinces which have not passed such legislation.

The Act incorporates the "Canadian Farm Loan Board" consisting of the Minister of Finance, who acts as chairman, and three other members appointed by the Governor General in Council on such terms and conditions as the Governor in Council may prescribe.[3] The "Canadian Farm Loan Commissioner" is the only salaried official on the Board. His salary and term of office and the fees of the other members of the Board are determined by the Governor in Council. The remaining members of the Board are appointed, one for a period of three years and the other for a period of six years. Thereafter, all members other than the Commissioner are appointed for a period of six years. Any member of the

1. As given by the Secretary of the Saskatchewan Farm Loan Board.
2. Statutes of Canada, 1927, Chapter 43. 3. Ibid, Section 3.

Board is eligible for reappointment. This Board is charged with full responsibility of administering the Act. It approves all loans, makes all appointments and pays all salaries and expenses, both at the Head Office and in each of the Provincial Branches.[1]

The Dominion Government undertakes to provide the Board with such initial capital as the Board requires up to a limit of five million dollars.[2] The Board pays no interest on this amount until after three years, at which time the rate is set at five per cent per annum.

The Board also receives funds through the sale of capital stock which is divided into shares of one dollar each. Before a farmer can secure a loan he must subscribe and pay for an amount of this capital stock equal to five per cent of his loan. Each province in which loans are made subscribes to an amount of capital stock equal to five per cent of such loans. The Dominion Government also undertakes to purchase shares up to five per cent of the total loans outstanding.[3]

The Board is authorized to sell Canadian Farm Loan Bonds to an amount which does not exceed at any time twenty times the paid-up capital stock subscribed by the borrowers.[4] These bonds are to bear such rate of interest as will make their market value at the date of issue approximately par. They are not to run for a period longer than thirty-five years. The Board is given the power to determine

1. Ibid, Section 13 and Section 8, (subsection b).
2. Ibid, Section 5, paragraph (a)
3. Ibid,Section 5, paragraph (b)
4. Ibid, Section 6.

their denominations and to make provisions for redeeming them before their due date by the payment of a premium if it is so desired.

The Board can make loans only on the security of first mortgages on farm lands. Loans are limited to fifty per cent of the Board's appraised value of the land and to twenty per cent of the value of permanent insured improvements thereon.[1] Appraised value is based on the value of the land for agricultural purposes only; this being determined as far as possible "on the productive value as shown by experience".[2] No loan can exceed $10,000 on any one farm. No applicant can receive a loan unless he is actually engaged in or is shortly to become engaged in farming. He must also satisfy the Board as to his integrity and his ability to successfully cultivate his land.[3]

Loans can be made only for the following purposes:[4]

(a) to purchase land;

(b) to purchase fertilizers, seed, live-stock, tools, machinery and any implements and equipment necessary to the proper operation of the farm mortgaged;

(c) to erect farm buildings or to clear, drain, fence or make any other permanent improvement tending to increase the productive value of the land;

(d) to discharge liabilities already accumulated;

(4) any purpose which in the judgment of the Board may be

1. Ibid, Section 7, paragraph (a).
2. Ibid, paragraph (d)
3. Ibid, paragraph (c)
4. Ibid, paragraph (b)

reasonably considered as improving the value of the land for agricultural purposes.

The rate of interest is not definitely stipulated but must be sufficient in the opinion of the Board to cover the interest rate paid on the bonds and to provide for the expenses of operation and necessary reserves for losses.[1] The present rate of interest charged on all loans is six and one-half per cent. This together with an amortization payment of two per cent would make an annual payment of $8\frac{1}{2}$% of the loan. No interest rate greater than eight per cent can be charged on defaulted payments or on taxes, insurance and other charges which the Board has been compelled to make in order to protect its interests in the property.[2] This rate has been set by the Board at seven per cent.

The borrower has the option of any one of four plans in making amortization payments.[3] He may chose to repay two per cent of the loan in annual or semi-annual instalments or he may chose to repay only one per cent of the loan in annual or semi-annual instalments. All four call for equal periodic instalments of blended principal and interest. The disposition of payments, or the amortization schedule as it is technically known, for each of the first two plans is given in detail in Appendix A. It will be noted that with each successive payment the amount charged to interest becomes less while the amount repaid on principal increases. This is typical of all repayments on the

1. Ibid, Section 7, paragraph (e).
2. Statutes of Canada, 1927, Chapter 43, Section 7, paragraph (g).
3. Ibid, Section 7, paragraph (f).

amortization basis.

Under Plan No. 1 there are 22 annual payments of $8.50 each and a final payment of $8.31 for each $100 of loan made. Plan No. 2 calls for 44 semi-annual payments of $4.25 and a final payment of $5.25 to fully amortize an original loan of $100. Both of these plans are on the two per cent amortization basis. It takes 32 years to extinguish a mortgage indebtedness of $100 under Plan No. 3; there being 31 annual payments of $7.50 and a final payment of $7.47. Plan No. 4 is on the one per cent amortization basis as is Plan No. 3, but payments are made semi-annually. Here there are 62 payments of $3.75 and a final payment of the like amount for each $100 of loan.[1]

Loans may be repaid in whole or in part on any date on which an instalment becomes due, but this does not relieve the borrower from meeting all subsequent payments promptly.[2] If the borrower does not apply the proceeds of his loan to the purposes set forth in his agreement or if he sells the mortgaged property the Board may declare the loan immediately payable in full.[3]

Before the Board can commence loaning operations within any province that province is called upon to pass enabling legislation containing certain definite provisions.[4] In this enabling Act the province is authorized to subscribe to capital stock in the Board to an amount equal to five per cent of the total loans outstanding within that province

1. This information is taken from Bulletin No. 1 issued by the Canadian Farm Loan Board.
2. Statutes of Canada, 1927, Chapter 43, Section 7, paragraph (g).
3. Ibid, paragraphs (i) and (f).
4. Ibid, Section 8.

at any time. A provincial board is established to act as agent for the Board within the province. The provincial board consists of four members appointed by the Board; three being nominated by the government of the province and the other by the borrowers within the province.[1]

The Act must designate whether loans are to be made directly to farmers or through intermediary societies or in both ways.[2] Farm Loan bonds are made a legal investment for trust funds within the province. Provision is also made for the provincial treasurer and the chief executive officer of the provincial board to act on the Advisory Council to the Board. The enabling Act also provides that if a provincial board does not operate to the satisfaction of the Board, the Board may relieve it of its duties and may carry on its business until a new provincial board is established.[3]

The Advisory Council, referred to above, consists of the provincial treasurer of each province in which there is a provincial board and the chief executive officer of each provincial board. This body meets at least once every year for the purpose of discussing the general policy of the Canadian Farm Loan Board and the credit requirements of the farmers.[4]

If any province in which the Canadian Farm Loan Act is operative passes legislation which in the opinion of the Board would prejudicially

1. Ibid, paragraph (b)
2. Ibid, Section 8, paragraph (c).
3. Ibid, Section 8, paragraph (f)
4. Ibid, Section 11.

affect the security of existing or future loans, the Board may cease to make further loans within that province.[1]

Twenty-five per cent of the net annual earnings of the Board are carried to a reserve fund. After the reserve reaches twenty-five per cent of the paid capital stock of the Board only ten per cent of the net annual earnings are required to be carried to this fund.[2] The Board may declare an annual dividend on its shares when in the judgment of the Board the net earnings of the Board warrant such payment. No dividend higher than five per cent is to be declared, however, before the reserve fund reaches twenty-five per cent of the paid capital stock.[3] Dividends are not paid directly to borrowers but are held by the board to accumulate until such time as they are, together with the borrower's shares, sufficient to pay off his remaining liability in full.[4] The shareholders in each province are to receive, as far as practicable, the full benefit of the operations in such province.[5]

1. Ibid, Section 12.
2. Ibid, Section 9, subsection 1.
3. Ibid, subsection 2.
4. Ibid, subsection 4.
5. Ibid, Section 15.

B. Private.

Private loaning institutions occupy a very important place in our national economic structure. The valuable service which they have given in the past and are still giving to the farmers of Western Canada can not lightly be overlooked. Loan companies, trust companies and insurance companies all loan more or less extensively on farm mortgages. Until recently they have been the only sources from which the farmer could obtain long-term loans. These institutions, unlike government loaning bodies, are created for the purpose of making money. Nevertheless, they have proven a very influential factor in opening up the West. They have enabled the farmers to obtain capital with which to develop their farms and construct needed permanent improvements long before they could have done so otherwise.

During the latter years of the nineteenth century farm mortgages in Canada were usually drawn for a period of fifteen or twenty years . The interest rate varied considerably, ranging anywhere from 9 to 15 per cent. These loans were usually made repayable in a lump sum at maturity. This worked a great hardship on those farmers who wished to pay off their mortgage before the due date. Moreover, under this system a farmer was unable to take advantage of lower rates of interest. The mortgage company, seeing that he was probably a good risk, usually held him to the stipulated terms of his contract. This led to great dissatisfaction among the farming class. Their appeal for relief both from the prevailing high interest rates and the long periods of their mortgages finally roused the Dominion Parliament to take action in their behalf. A law was subsequently passed whereby a mortgagor could pay off his obligation at any time after five years by giving a bonus of three months' interest to the lender. As a result of this legislation, large money lending institutions adopted, almost universally, a five year term for farm mortgage loans.

One of the witnesses, an officer in one of our largest trust companies, before the Standing Committee of Banking and Commerce, 1926, maintained that farmers do not, as a rule, want long-term mortgage loans.[1] He also was of the opinion that the amortization plan will not make a very strong appeal to the Canadian people.[2] When asked if he admitted that the system of long-term mortgage loans repayable on the amortization basis had been carried on extensively and to great success in Europe, he answered:

> "Quite. European conditions, Sir, are entirely different
> "from ours. Let us compare them. In Europe there is
> "a density of population as against a sparceness in Canada.
> "In Europe a foreclosed property is almost a curiosity as
> "against the situation we now have in Canada in this respect.
> "The rates of interest, in Europe, in recent years are

1. Standing Committee on Banking and Commerce, 1926, Evidence of Witnesses on Bill 148, Page 75.
2. Ibid.

"relatively as high as interest rates in Canada. I submit, we in "Canada are at no disadvantage over the European mortgage borrower."[1]

At present mortgage companies usually follow the practice of renewing loans for an additional five years if the borrower has been able to meet his interest payments promptly. If the loan is well secured, the mortgage company does not wish it paid off. The repayment of principal is almost entirely left to the option of the borrower. The same witness cited above states:

> "If the borrower wants to pay off so much, say up to one-
> "fifth, we give him the privilege; but we do not insist
> "because we take the view that if your security is safe,
> "why get in your money. It is going to cost you so much
> "more to put it out again. Our inspectors keep in close
> "touch with the loans we have made. We think in making a
> "loan the five year basis is a good one."[2]

From the Loan Companies'Act we find that a loan company incorporated under Dominion charter can lend money on improved real estate or leaseholds up to sixty per cent of the sale price of such real estate.[3] This provision also holds good for Canadian trust companies and insurance companies. In actual practice, mortgage companies lend only up to around fifty per cent of the appraised value of land and buildings.[4] The above Act definitely states that no loans can be made on vacant land

1. Ibid, Page 76. 2. Ibid, Page 76.
3. Revised Statutes of Canada, 1927, Chapter 28, Section 61.
4. Standing Committee on Banking and Commerce, 1926, Evidence of Witnesses on Bill 148, Page 72.

not used for agricultural purposes.[1] Furthermore, a loan company can not hold land for more than seven years other than that required for its occupation or held by way of security.[2]

Canadian Loan Companies, on December 31, 1928, had $105,121,365, or 77.89 per cent, of their total assets invested in loans upon real estate.[3] This covers the whole of Canada and includes loans upon urban as well as upon farm real estate. It gives a good idea, however, of the magnitude of their loaning operations and shows to what a great extent loans are made on real estate mortgages. Of these total mortgage loans, 6.52 per cent were made in Alberta, 12.56 per cent in Saskatchewan, and 11.16 per cent in Manitoba.

The table in Appendix D gives the mortgages on real estate held by Canadian loan companies in the Three Prairie Provinces as at December 31st, 1928. It will be observed that the total real estate mortgages outstanding at this date in the three provinces was $31,862,625 while the corresponding figure for the rest of Canada was only $71,306,507. It is surprising to note that two large loan companies, the Canadian Permanant Mortgage Corporation and the Huron and Erie Mortgage Corporation, hold real estate mortgages to the value of $93,480,247, or 89 per cent of the total of $105,169,132 of real estate mortgages held by all loan companies in Canada. These two companies hold over 90 per cent of such mortgages in the Three Prairie Provinces.

1. Revised Statutues of Canada, 1927, Chapter 28, Section 7.
2. Ibid, Section 77.
3. Report of the Superintendent of Insurance of the Dominion of Canada on Loan and Trust Companies for the period ending December 31,1928, Page xxii.

Trust companies had invested $5,651,201 or 38 per cent of their total company funds of $14,766,284 in mortgages on real estate on December 31, 1928.[1] At the same date $17,095,284 or 71 per cent of the total trust funds of $24,105,724 held by them was similarly invested. Appendix E gives the distribution of these loans as between the various Canadian trust companies in the West. Only seven of the eighteen trust companies listed in the report of the Dominion Superintendent of Insurance, were carrying on farm mortgage business, in the three Prairie Provinces in 1928. Of these seven, the Northern Trusts Company is by far the largest investor holding over 58 per cent of the total real estate mortgages held by all trust companies in these three provinces. The Western Trust Company has all of its loans on real estate invested in Manitoba, Saskatchewan and Alberta, and ranks second in importance having nearly 25 per cent of the total mortgages of all trust companies in this area.

The most important sources of long-term agricultural credit, however, are the life insurance companies. At December 31, 1928, they had $123,494,024 invested in real estate mortgages in the three Prairie Provinces as opposed to $31,862,625 for loan companies and only $4,791,662 for trust companies. Life Insurance companies are the only financial institutions whose reports show a division between farm mortgages and real estate mortgages. Of the $352,280,711 outstanding in mortgage loans at December 31, 1928, $77,292,291 was invested in farm mortgages, of

1. Ibid, Page xxx.

which $75,009,649, or over 89 per cent, was held in the three Prairie Provinces.[1] Appendix F (Table I) shows the amount of farm mortgage loans outstanding in each of the three Prairie Provinces for the years 1921 to 1928, both inclusive.

> "During the decade 1905-1915, a very large increase "took place in the amount of the loans of Canadian "life insurance companies on the security of farm "mortgages, particularly in the Prairie Provinces "of Western Canada. During the following decade the "same rate of increase was not experienced, while on "the other hand the companies found it necessary to "write down, and take losses on realization of, "properties on which loans had been made in the earlier "period and which had proved to be unsuited for agri- "culture or otherwise insufficient for the advances "and accumulated charges. During the past few years, "due to favourable crops and better cultivation, "the situation has improved and many companies have "reduced their outstanding interest and overdue prin- "cipal to normal proportions."[1]

Appendix F (Table II) shows the amount of farm mortgage loans in the three Prairie Provinces on which interest has been overdue one year or more for the period 1921 to 1928, inclusive. The amount written off farm mortgage loans by insurance companies in these provinces is

1. Ibid, Page xxxiv.

given in Appendix F (Table III).

From these tables it will be seen that insurance companies have taken considerable losses on farm mortgage loans. During the eight year period from 1921 to 1929, the total loss on farm mortgages by all insurance companies was $7,777,363 throughout the whole of Canada. Of this huge loss over $7,627,000 was sustained on loans made in Manitoba Saskatchewan and Alberta.

For the above reasons the interest rate charged by insurance companies in Western Canada is much higher than the rate charged for similar loans in the Eastern provinces. Mr. G. D. Finlayson, Superintendent of Insurance of the Dominion, makes the following statement as to the rate of interest charged by insurance companies in the West.[1]

> "On farm loans the minimum rate of interest, except on very "large loans, is 8 per cent. In the case of small loans "you will probably find higher rates, going up to 9 per cent. "In some cases I have found loans bearing 10 per cent inter- "est. I would say that the average would be something over "8 per cent on farm loans."

Mr. Finlayson goes on to say that the interest rate on similar loans in Ontario is 7 or 7½ per cent.

When land is sold on crop payments with only a small initial instalment paid down the former owner is virtually extending credit to the purchaser. Thus we can say that retired farmers and other individuals

1. Standing Committee on Banking and Commerce, 1926, Evidence of Witnesses on Bill 148. Page 37.

constitute a source of long-term credit to farmers. There is an absolute lack of information as to the extent of this indebtedness in the West. How much of the total estimated land incumbrances of $634,000,000 odd, is owing to individuals in this way is, therefore, indeterminable.[1]

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1. This is 73 per cent of $868,567,000 as given in Chapter V.

CHAPTER IV

SOURCES OF SHORT-TERM CREDIT IN THE THREE PRAIRIE PROVINCES

As agriculture has expanded more and more into a commercial industry, the need of credit to finance the farmer from one crop to another and to purchase the necessary equipment has greatly increased. These credit needs are only temporary ; the returns for such investments being received in the course of one to three years. The amount of money required for these current operating expenses is usually small and does not warrant giving a mortgage on the land as security. If the loan goes to pay for seed grain, harvest help, binder twine, gasoline bills, or the like, the farmer expects to receive full feturn of his investment in the fall when he sells his crop. The loan can then be repaid out of the proceeds at no special inconvenience, as the need for additional capital is no longer present.

If, however, loans are made to finance the purchase of livestock, machinery or fertilizer, the investment does not become fully productive for a period of from one to three years. In this case it would work a decided hardship upon the farmer if he were compelled to repay the loan in six months. Commercial banks can not extend credit for over the six months period and still maintain the liquidity of their assets which the law demands. The need for short-term and intermediate agricultural credit has increased greatly in the last few years. The governments of the various provinces have attempted to satisfy this growing demand by creating special credit institutions.

A. Governmental

Manitoba and Alberta have both passed legislation establishing co-operative agricultural credit societies to make short-term and intermediate loans to farmers. In Saskatchewan, there are no such societies, but the Provincial Government has, at various times, granted loans for the purchase of seed grain, cattle, feed, etc., to farmers who have had crop failures. The Alberta Co-operative Credit Act, with slight modifications, is almost a direct reprint of the Manitoba Act.

The Manitoba Rural Credits Act was assented to on March 9, 1917, but since that time there have been several amendments which have brought about radical changes in the working of the system. The provisions under which the rural credit societies now operate and their present financial position will be briefly outlined.

Short-term loans are made to farmers through local organizations in which each borrower is a stockholder. These associations are formed on the application of at least fifteen farmers.[1] Applications are forwarded to the Provincial Secretary and, if approved, the Lieutenant

1. Statutes of Manitoba, 1917, Chapter 73, Section 3.

Governor in Council issues letters pattent incorporating the society. Loaning operations can not commence, however, until at least 35 members have each subscribed to one $100 share of capital stock in the society, and have paid at least 25 per cent of their face value, in cash. The liability of each member is limited to the amount of his subscribed stock.

The Provincial Government may subscribe to stock in such an association up to fifty per cent of the total amount subscribed by individuals.[1] Municipalities in which the members of the society live can subscribe to stock in like proportions to the Province. Thus, if a society is organized with a membership of fifty farmers, taking $100 of stock each, it would start with a subscribed capital of $10,000 as follows:

Fifty farmers at $100 each	$ 5,000
Municipality, half the above	$ 2,500
Manitoba Government	$ 2,500
Total Capital Stock	$ 10,000

The affairs of each association are managed by a board of directors composed of nine members. Three of these are elected by the individual shareholders, three by the municipal council and the remaining three by the provincial Government. The only paid officer of the board of directors is the secretary.-treasurer who has charge of all financial records of the society. The Province may pay the secretary-

1. Statutes of Manitoba, Chapter 73, Section 9.

treasurer's salary, of not more than $50 per annum, if the society is unable to do so.[1] Eight of the nine directors are local men; the other must be a provincial officer especially qualified in agriculture. This director must be a graduate of Manitoba Agricultural College or of like standing. Uniformity in the management of local societies is secured by appointing such a provincial officer as director on several boards.

There is a provincial office headed by a supervisor which has charge of all the rural credit societies in a general way. The supervisor is appointed by the Lieutenant Governor in Council, which body also defines his powers and duties. Until 1923, the supervisor had very little to say about what loans should be granted. There was also a decided lack of administrative control by the Government as lender. We are told that "there has been no effective check on loans approved by the local directorate, who have virtually become the final authority in granting loans within the aggregate limits of funds available."[2]

Rural Credit Societies are organized for the following purposes:[3]

(a) To procure short term loans for members, for paying the costs of farming operations of all kinds and increasing the production of farm products, and particularly for the following purposes:-

i. the purchase of seed, feed and other supplies;

ii. the purchase of implements and machinery;

1. Statutes of Manitoba, 1924, Chapter 58, Section 3.
2. Report of the Commission on "The Rural Credits Act", Winnipeg, Feb. 8, 1923.
3. Consolidated Amendments, Manitoba, 1924, Chapter 173, Sec 22/

iii. the purchase of cows, horses, pigs, and other animals;

iv. the payment of the cost of carrying on any farming, ranching, dairying or other like operation;

v. the payment of the cost of preparing land for cultivation;

vi. the payment of not more than one-half of the cost of erecting cilos.

(b) To act as agents for the members in purchasing supplies and selling products; and in placing fire, hail, and life insurance.

(c) To promote co-operation for the improvement of conditions of farm life, and to extend its application to all residents of the districts.

Loans are made to farmers for the above purposes on personal notes. Whatever a farmer purchases with a loan so received, together with the offspring, in case live-stock is purchased, or crops produced as a result of such loan, are all subject to lien without documentary specifications as security for the loan.[1] All notes are due on or before December 31st of the year in which they are made.[2] Loans for certain purposes which are not fully productive within the year may be renewed for a further period of one year upon the sanction of the directors. The interest rate charged members can not exceed seven per cent. The association is allowed one per cent to cover administration expenses and build up reserves. Thus the highest rate that can be paid to

1. Statutes of Manitoba, 1925, Chapter 49, Section 10.
2. Consolidated Amendments, Manitoba, 1924, Chapter 173, Section 24.

the original lender is six per cent.

In the original act, loans to individuals were not limited. In 1923, the act was amended so that loans to an individual farmer can not exceed fifty per cent of the surplus of his assets over his liabilities.[1] In no case is the loan to exceed $2,000, except on special approval by the directors and consent by the Provincial Treasurer.

During the first three years that the system was in operation, chartered banks supplied the societies with necessary loan funds. Each society guaranteed all loans by endorsing the farmers' notes and handing them over to the bank as collateral security. In 1920, the banks refused to continue to extend credit to local societies on the six per cent interest basis. They were decidedly opposed to a fixed arbitrary rate of interest. Attempts to arrive at a satisfactory agreement failed. The Manitoba Government came to the aid of the societies and undertook to supply them with the needed funds from the Consolidated Revenue, up to the amount of $3,000,000.[2] Government loans to individual societies must not in any case exceed twenty times the paid up up capital and surplus of such societies.

In 1920, there was another act passed by the Manitoba Legislature establishing a Provincial Savings Office. This Office receives savings directly from the public. The Government uses the funds thus accumulated for financing the Rural Credit Societies.

1. Statutes of Manitoba, 1923, Chapter 40, Section 4.
2. Statutes of Manitoba, 1920, Chapter 109.

Due to bad crops, in the year 1921, the Rural Credit Societies were forced to carry over many of the loans which had been made. On November 30th, of that year, there were 73 societies in operation, with a total of outstanding loans amounting to $2,556,975.[1] As this was very close to maximum loans under the act, further expansion of credit was slight.

On November 27th, 1922, a Special Commission was appointed to inquire into the Rural Credits Act.[2] Its findings revealed that the societies were in a very weak financial position and that the Government stood to loose a very large sum, estimated at $250,000, but later actually found to be nearly $700,000.[3] In order to straighten out the business of the societies and put them on a firmer basis, the Government made provision for the appointment of an administrator to take over the management of such of those societies as were in difficulty.[4] The administrator assumes all powers and duties which were formerly given to the board of directors. On August 31, 1924, of the 74 societies in operation, 25 were being managed by the supervisor acting as administrator. On April 30, 1929, out of a total of 74 societies, only 21 were continuing under their own management, while 53 were under administration.

1. Annual Report of the Rural Credit Societies for the year ending November 30, 1921.
2. This Commission consisted of F. J. Collyer, a member of the Board of Trustees, Province of Manitoba Savings Office, and W. T. Jackman, head of the Branch of Rural Economics, Department of Political Science, University of Toronto.
3. Annual Report of the Rural Credit Societies for the year ending April 30, 1925.
4. Statutes of Manitoba, 1924, Chapter 58, Section 13.

From 1917 to 1923, the Manitoba Rural Credit System experienced a very rapid growth. The number of societies increased from ten in 1918, to 74 in 1922. The total volume of business increased from $16,600 in 1917, to $2,996,973 in 1922. The following table shows the diversity of purposes for which loans were granted during this period.

Total Loans Granted by all Rural Credit Societies. 1918 - 1922.[1]

Purpose	1918	1919	1920	1921	1922
Purchase of stock ...	$ 39,126	$ 172,532	$ 205,542	$ 109,201	$ 39,174
Machinery	17,840	94,155	212,023	80,166	47,663
Crop Purposes	55,041	246,739	330,099	246,232	134,213
Breaking	53,465	247,691	399,868	235,132	76,458
Seed Grain	18,165	32,009	144,460	143,846	105,859
Improvements	5,935	18,865	85,295	100,222	87,161
Liabilities	20,969	56,742	274,291	465,592	322,565
Sundry	5,040	183,143	414,422	558,919	630,007
Hail Insurance	-	-	-	-	23,874
Total	$ 215,581	$ 1,051,876	$2,066,000	$1,959,720	$ 1,466,974

Since the report of the Commission appointed to inquire into the operation of the Act, loans have been very greatly restricted. New loans, for each year since 1924, are as follows: 1924, - $72,530; 1925 - $11,500; 1926 - $29,878; 1927 - $12,955; 1928 - $38,412; 1929 - $14,340;[2] these loans have been granted almost exclusively for the purchase of seed grain,

1. Annual Reports of the Rural Credit Societies. 2. Ibid.

hail insurance and twine.

The number of societies in operation has remained constant, at 74, since 1922. In 1922 the total membership was 4,992. From 1923 to 1929 the total membership has remained unaltered at 4,998.[1]

In 1924, a Commission was appointed to inquire into the various lending schemes in Manitoba. The report of this Commission recommended that certain loans made by the Rural Credit Societies prior to 1923 be written off as bad debts. All loans made since 1923 were considered good. Following the recommendations of the Debts Adjustment Board, $759,276.49 for principal and $349,707.29 for interest were written off as bad debts during the year ending April 30, 1929.[2] At the latter date, there were loans outstanding to the amount of $1,152,143.60. This indicates that a very conservative policy has been followed by the management of the Rural Credit Societies since 1923.

The general outline of the "Alberta Co-operative Credit Act", as mentioned before, follows closely the corresponding Act in Manitoba.[3] Slight modifications as to the organization of a society and the rate of interest, however, have had a tendency to make its adoption less rapid than in the other province.

The Alberta Government, the municipalities, and the farmers hold stock in local societies under the same conditions as in Manitoba. A local society can not begin loaning operations until it has a membership of at least thirty farmers who have a combined stock subscription of

1. Ibid.
2. Annual Report of the Rural Credit Societies for the period ending April 30, 1929.
3. Statutes of Alberta, 1917, Chapter 11.

$3,000, of which at least 20 per cent is paid up in cash. On the first of January of each year following the formation of a society an additional 20 per cent of the stock subscription becomes due until it is fully paid.[1]

Loaning funds may be secured from any chartered bank, financial corporation, firm, or person authorized to do business in the Province. All loans and obligations of Rural Credit Societies are guaranteed by the Provincial Government.[2] Municipalities also guarantee such loans and obligations up to one-half the total amount of stock subscribed by shareholders.

The rate of interest charged the farmers can not exceed 7½ per cent.[3] The society is allowed one-half of one per cent to cover operating expenses and, thus, the lender may receive as high as 7 per cent on his money. In 1924, there was an amendment passed to create a sinking fund by adding from one-quarter to one-half of one per cent to the interest rate properly payable by the borrower.[4] Such additional interest to be invested in securities as the Provincial Treasurer may select. This sinking fund is to be used to meet losses incurred on bad debts.

The objects for which Rural Credit Societies are formed are the same as those for Manitoba.[5] All applications for loans must be accompanied with a certified statement of all assets and liabilities

1. Revised Statutes of Alberta, 1922, Chapter 161, Section 4, (3).
2. Ibid, Section 13.
3. Ibid, Section 32.
4. Statutes of Alberta, 1924, Chapter 6, Section 5.
5. Revised Statutes of Alberta, 1922, Chapter 161, Section 25.

of the applicant.[1] In the event of the borrower's default in payment, the secretary-treasurer can seize and sell any property upon which the society holds a claim, without any further authority than the board of directors.[2] Provision also is made for the retirement of a stockholder on the full repayment of his obligations by refunding to him the amount he has paid up on his shares without including interest or dividends.[3]

In 1925, special provisions were made for the formation of Co-operative Credit Societies, to assist in the production of sugar beets.[4] For societies of this nature there are two classes of common shares, Class A and Class B. Class A shares have a face value of $50 and are held by ordinary subscribers. The initial payment on Class A shares is $25, the remainder becoming due on the first of September in the year following the date of the loan. Class B shares have a face value of $25. These are issued to persons or companies operating sugar beet industries and are payable in full at the time of issue.

No loans made by a Sugar Beet Co-operative Credit Society are guaranteed by the Province unless a company or a person engaged in the sugar beet industry holds as many Class B shares as the growers hold of Class A shares. A provision is made for the ordinary shareholders to subscribe to such fully paid up B shares if the sugar beet company does not,

1. Ibid, Section 51.
2. Ibid, Section 55.
3. Revised Statutes of Alberta, 1922, Chapter 161, Section 29.
4. Statutes of Alberta, 1925, Chapter 29.

in which event the Provincial guarantee becomes operative.

All of the other provisions of the Alberta Co-operative Credit Act apply equally to Sugar Beet Co-operative Credit Societies as to ordinary farmers' societies.

On August 31, 1930, there were 43 Rural Credit Societies in operation with a total membership of 1,639. The growth of the system has been very gradual as seen from the following table of outstanding loans.

GOVERNMENT OF THE PROVINCE OF ALBERTA CO-OPERATIVE CREDIT SOCIETIES.[1]

Statement Showing Total Guaranteed Bank Loans Outstanding as at December 31st in year shown.

1919	$ 32,602.00
1921	44,039.21
1922	290,459.60
1923	381,479,79
1924	314,001.29
1925	426,850.34
1926	454,287.62
1927	647,019.00
1928	834,811.18
1929	1,082,992,94
1930	1,832,664.72

Further statistical information as to the operation of these societies is not available.

1. Figures supplied by the Deputy Provincial Treasurer of Alberta.

There is a new project in the initial stages of formation in Ottawa for the establishment of an Agricultural Credit Corporation to make loans to agriculturalists in Western Canada for mixed farming purposes. The plan was first broached by E. W. Beatty, K. C., president of the Canadian Pacific Railway, in an address delivered in London, Ontario, in December, 1930. At this time, speaking as a private citizen anxious for the welfare of the Dominion, Mr. Beatty made concrete suggestions for the amelioration of conditions in the Prairie Provinces. Premier R. B. Bennett at Regina, December 30, 1930, definitely announced that legislative steps would immediately be taken to put this plan into operation. The first of these steps, the chartering of the Corporation, has already been accomplished.

In a further address delivered by Mr. Beatty before the Winnipeg Board of Trade on February 16, 1931, a more detailed outline of the plan is revealed. Mr. Beatty stated that people in the East have no desire to extend charity to Western farmers, "but there is every desire to assist and assist in a way that was readily open to Eastern interests, namely, by the provision of the capital requirements of a corporation created to extend credit on fair terms to those in the West who were willing and able and so situated as to have reasonable prospects of success and who desired to diversify their farming operations."[1]

The Agricultural Credit Corporation suggested by Mr. Beatty has been incorporated with a capital of $5,000,000 and is now in process of

1. Mr. Beatty's address as reported in the Montreal Gazette, February 17, 1931.

organization. Capital stock of the Corporation will be subscribed by the railroad companies and mortgage and machine companies doing business in the West. This capital is to act as a revolving loan fund to allow farmers "to develop as supplementary to their present activities those safe-guards in the business of farming which have already been achieved by some through a certain measure of livestock production having been included in the programme."[1]

It is intended to establish the system on strictly business principles. In no sense is it to be a relief organization nor is it intended to be of a temporary nature only. Loans are to be repayable over a two or three year period and are to be made in amounts ranging from $100 to $1,000 per person. Security for the loan will be taken on the livestock purchased. The two essentials of the plan as stated by Mr. Beatty are:

> "First, - the policy must be operated in such a way
> "so as not to impose a burden on the farmer in the
> "matter of handling charges, interest, etc., but rather
> "to provide him with a greater stability in earning
> "power at the very minimum of cost.
>
> "Secondly, - the policy must insure the safety of the
> "investment so that the capital of the loan corporation
> "is not impared."[1]

The remarks in an editorial in the Montreal Gazette on the newly formed Agricultural Credit Corporation are much to the point and are heartily subscribed to:

1. Mr. Beatty's address, Montreal Gazette, February 17, 1931.

"It provides all the elements of care and prudence
"without inconveniencing the borrower. Adoption
"of the federal project will enable something con-
"structive to be attempted, and, it is to be hoped,
"enable something practical to be accomplished at a
"time when material assistance is needed to give an
"impetus to Western agriculture. Once the Dominion
"Governments' $5,000,000 revolving loan fund is put
"to the test, it will not be long before its operations
"can be judged by tangible results. If it is carried
"out efficiently, and in the manner its proponents
"advise, its service and benefits should be approximated
"to the most sanguine expectations. In this event,
"success of the plan will contribute to the prosperity
"of the farmers in the West and to the good fortune
"of the entire Dominion."[1]

1. Editorial in the Montreal Gazette, February 18, 1931.

B. Private.

There are many private sources from which the farmer can secure short-term credit. Among the most important of these are, the commercial banks, local retail establishments, implement and machine companies, oil companies, lumber companies and private individuals. Definite statistics as to the amount of such credit outstanding are not available. In response to requests for such information, made to the treasurers of the Dominion and Provincial Governments, the Dominion Bureau of Statistics and various retail credit organizations, all replied that there was no way of determining the amount of credit extended to farmers by the institutions, companies, and individuals mentioned above; but the universal opinion expressed was that the total of this type of credit was considerable. There appears to be no comprehensive published information of any kind upon this subject and any estimates subsequently given must, therefore, be accepted with caution.

The commercial banks are the main source of short-term credit for the farmers of Western Canada. The branch banking system is the chief characteristic of Canadian banks. On December 31, 1929, there were only eleven chartered banks in Canada, but these eleven banks had a total of 4,258 branches, 4,069 being in Canada and 189 in other countries.[1] Thus Canadian chartered banks are Dominion wide institutions, some claiming international importance. The history of Canadian banks is one in which the Darwinian law of "survival of the fittest" has been the

1. Canada Year Book, 1930, Page 858.

prevailing tendency. Through amalgamation and consolidation the weaker ones have been absorbed by the stronger. Although they are privately owned and managed, their activities are made uniform by law and are, to a large extent, under the direct supervision of the Dominion Government.

The Bank Act necessitates each bank rendering a periodical report to the Dominion Government.[1] It also regulates their note-issuing powers and privileges and compels them to keep adequate reserves, making the banking system in Canada one of the strongest in the world. The following statement of facts substantiates the above assertion. Any other country having as highly developed commercial framework as that of Canada would find it very difficult, if not impossible, to duplicate this statement. Only twenty-six banks have failed in the Dominion of Canada during the sixty-two year period from Confederation, in 1867, to December 31, 1929.[2] Of these twenty-six banks, twenty-four paid their note holders in full. Out of twenty-three banks liquidations[3] during this period, fourteen paid one hundred per cent to their depositors, while, of the remaining nine, six paid over fifty cents on the dollar to their depositors.

The extent to which the Prairie Provinces are supplied with banking facilities can be clearly seen from the following table.

1. Statutes of Canada, 1923, Chapter 32.
2. Canada Year Book, 1930, Page 861.
3. Liauidation not completed on the three remaining banks.

Number of Branches of Individual Canadian Chartered Banks in the three Prairie Provinces, as at December 31, 1929.[1]

Chartered Banks	Manitoba	Saskatchewan	Alberta
1 Bank of Montreal ...	43	71	76
2 Bank of Nova Scotia ..	9	25	12
3.Bank of Toronto	14	39	15
4.Canadian Bank of Commerce	56	106	80
5.Royal Bank of Canada...	79	145	86
6.Dominion Bank	12	6	6
7.Bank Canadienne Nationale	16	9	7
8.Imperial Bank of Canada..	10	31	26
9.Weyburn Security Bank....		30	
TOTAL	239	462	308

Out of the 4,069 branches of Chartered banks in Canada, 1009, or nearly one-quarter, are in the three Prairie Provinces. In these three provinces there is, on an average, one branch bank for each 2,156 of their inhabitants while, in the rest of Canada, a branch has to accomodate on the average, 2,490 people.[2] As between the provinces, there is a branch for each 2,775 people living in Manitoba, 1,919 in Saskatchewan and 2,097 in Alberta.

1. Canada Year Book, 1930, Page 858.
2. Estimates in Canada Year Book, 1930, Page 99.

There are special provisions in the Bank Act, of 1923, which enable chartered banks to make loans to farmers for special purposes, provided the designated security is obtained. The banks are not permitted, however, to loan money upon the security of "any land, tenements or immovable property".[1] They can lend money to a farmer on the security of his threshed grain grown upon the farm and also make loans for the purchase of seed grain upon the security of any crop to be grown from such seed grain.[2] In the latter case the Bank Act provides a set form for taking the security[3] which gives the loaning bank a first and preferential lien on the seed grain, the growing crop and later the threshed grain.[4] The loaning bank can enter and take possession in case of default in payment or failure upon the part of the farmer "to care for and harvest the crop."[5]

Banks are also permitted to loan money to farmers on the security of their livestock.[6] The form on which the security is to be taken and the method of procedure in case of default of payment is clearly and explicitly set forth.[7]

The legal rate of interest is definitely stipulated at seven per cent per annum.[8] Strictly according to the words of the act " no higher rate of interest shall be recoverable by the Bank". It has been proven beyond a doubt that chartered banks have been exacting interest

1. Statutes of Canada, 1923, Chapter 32, Section 76, subsection 2,(b).
2. Ibid, Section 88, subsection 2 and 8.
3. Ibid, Chapter 32, schedule d.
4. Ibid, Section 88, subsection 10.
5. Ibid, subsection 11.
6. Ibid, schedule f.
7. Ibid, subsection 12.
8. Ibid, Section 91, subsection 1.

in excess of the legal rate in the Western Provinces for some years. This complaint of the Western farmers will be fully considered below in Chapter VI.

The amount of credit extended to farmers in the West by commercial banks, as stated before, is not known. In a survey of two districts in Saskatchewan made by the Department of Farm Management of the University of Saskatchewan, in the summer of 1930, it was found that of the total farm debt, 8.6 per cent, in the Kindersley district, and 8.7 per cent, in the Turtleford district represented loans made by banks.[1] Thus bank loans would, in all probability, constitute somewhere around one hundred millions of the total farm debt in the three Prairie Provinces as worked out in Chapter V. Estimates by head officials of some of our largest commercial banks also place this figure at somewhere between eighty and one hundred million dollars.

The following is an excerpt from a speech delivered in the Dominion House of Commons on March 19, 1931, by H. E. Spencer, progressive M. P. from Battle River.

> "Conditions have forced many farmers to get their necess-
> "ities from the local store on credit, and this naturally
> "has had a bad effect on business because the storekeepers
> "should not be asked to carry the country. In the province
> "of Alberta conditions became so bad that a delegation
> "of retailers waited on the Premier of the province in

1. These figures are taken from an address delivered by Dr. Wm. Allen at the Annual Convention of Saskatchewan Agricultural Societies, Saskatoon, January 14, 1931.

"January last and informed him that they were carrying such a load "that they could not go in; that they themselves were feeling "pressure from those who supplied them with goods. They informed "the Premier that on their books alone they were carrying no less a sum "than $40,000,000."[1]

The figure of $40,000,000 given in this speech presumably includes both rural and urban store credit. Sixty-one per cent of the population of Alberta in 1926 is classified as rural.[2] Assuming that the same amount of credit is extended to a person living in the city as to a person living in the country, the rural store credit works out to be approximately $25,000,000 in Alberta. In 1926 there were 77,130 farms in Alberta and 248,162 in all the three Prairie Provinces.[3] Continuing the calculations, we find that the local store credit to farmers in the three Prairie Provinces works out to be the huge sum of over $80,000,000. This is probably a very inaccurate estimate. The extent to which local retail stores sell merchandise on credit varies considerably as between different districts. From the farm surveys of the two districts in Saskatchewan, referred to above, we find that store credit represents 16.7 per cent of the total farm debt in the Turtleford district and only 3.7 per cent in the Kindersley district.

The above figures indicate to what an extent the farmer depends upon the local retail merchant to supply him with short term credit. Whether this is a wise and just merchandising policy is a question about

1. Debates of the House of Commons, March 19, 1931, quoted in Montreal Daily Star, March 26, 1931.
2. Census of Alberta, 1926, Page 8.
3. Figure compiled from the census returns of Alberta, Saskatchewan and Manitoba, 1926.

which there is much controversy. There is usually a great risk in connection with store credit because the only evidence of indebtedness is on the books of the merchant and the security is purely of a personal nature. The risk which the merchant assumes and the necessity for having a larger amount of working capital is many times reflected in the general prices of merchandise. Where this is the case, the cash customer is obliged to stand the burden of the credit customer, and, thus, the policy of a merchant extending book credit is unjust and consequently to be condemned. Where, however, credit customers are charged interest in sufficient amount to make good the cost of the service rendered, there would appear to be no great cause for complaint in such a policy. It might be better, however, if banking institutions maintained this credit service rather than placing the burden on inexperienced merchants.

It has often been stated that the aggressive and greedy policies of implement and machine companies have done more detrement to Western Canada than any other one factor. This is a very harsh statement and is not accepted as true. The use of machinery has enabled many Western farmers to materially reduce costs of production and accomplish things otherwise impossible. It appears that lowering the costs of production is the most promising way to attain farm profits.

Dr. Wm. Allen states: - "Too little farm equipment, and inefficient types of farm equipment, may bring more serious results to the farmer than some from over-investment in farm equipment."[1] He also

1. Bulletin No. 43: College of Agriculture, University of Saskatchewan, 1928, No.76.

asserts, however, that many farmers have too heavy investments in both general and special farm equipment.

The debt on farm implements and machinery in the Kindersley district is reported to be 7 per cent of the total farm incumbrances, and in the Turtleford district of the total debt, 8.3 per cent is on machinery.[1] This would place the total credit outstanding in the West by implement and machine companies at around $65,000,000.[2]

Oil companies, lumber companies and private individuals extend short-term credit to farmers; but there is no way of determining its amount. Oil companies have only recently adopted the policy of selling oil and gasoline on credit. A confidential estimate by an executive to one of the large Canadian oil companies placed the gasoline debts of the farmers in the three Prairie Provinces at $15,000,000. This figure is to be accepted only at its face value and is given merely to indicate the growing demands which the farmers are making upon retailers to supply them with working capital.

In reference to intermediate credit, that which is extended for periods of from six months to three years, it may be stated that, as notes commonly run for more than zix months and real estate mortgages are sometimes made for less than three years, there is some overlaping of sources of short-term credit. Many of the sources of short-term credit outlined above also supply the intermediate credit needs of the farmer. Bank loans, sales of implements, oil, lumber, groceries,

1. Taken from an address by Dr. Wm. Allen before the Annual Convention of Saskatchewan Agricultural Societies, Saskatoon, January 14, 1931.
2. This figure is based on the total debt burden of Western Canada as estimated in Chapter V.

hardware etc. on time, advances by co-operative marketing and credit societies, all may be extended into the intermediate credit field. The most outstanding sources of intermediate credit, however, are implement companies, the co-operative credit societies and the banks.

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C H A P T E R   V

THE DEBT BURDEN OF WESTERN CANADA

How much are the farmers of Western Canada actually owing? How deeply are they involved in debt and to whom? On this subject there is a great deal of contraversy and a surprising lack of information.[1] Any estimates that have been made are so conflicting that it seems advisable to attack the problem from the very beginning. Loaning companies are very hesitant about revealing the amount of loans which they have outstanding in the West at the present time. The economic situation in the country is so uncertain that they view with trepidation any attempt to disclose the facts. Are their fears well grounded? The following is an attempt to throw some light on this clouded but vitally important question.

In a survey of the Belbeck district in Saskatchewan, published by the Department of Farm Management of the University of Saskatchewan in June 1927, appear the following facts in regard to farm mortgage indebtedness in this particular area.[2] Of the 96 farms studied, 53 of the owners reported indebtedness, while the remainder claimed to have no debts. The average farm debt for these 53 farms was $9,011 while their average capital was $32,058. In other words, the farm debt represented on the average 28 per cent of the total farm capital.

1. See Foot of Following Page for Notes 1 and 2.

This information was classified into seven groups according to size of farms. It was thus found that the proportion the debt bore to farm capital had no special relation to the size of the farm. In no group was this debt ratio below 20 per cent or over 45 per cent of the capital. It was found, however, that by dividing the farms into groups according to the length of ownership, that those farms owned for less than 20 years were more burdened with debt than those owned for a longer period. Farmers who had owned their farms for five years or less were all in debt while only 29 per cent of the farmers who had owned their farms for over twenty years reported no indebtedness.

The Belbeck district is located just north of Moose Jaw and is quite representative of the large block of heavy clay land in the south central part of the province. It was among some of the first areas to be settled in Saskatchewan. Agricultural activities are almost entirely confined to grain-growing which has been carried on successfully in this district ever since it was first introduced. This area is typical of some of the best farming lands in Saskatchewan.

Foot-notes from previous page:-

1. Prominent officials of the Dominion and Provincial Governments state that they are not aware of any statistics or estimates concerning the amount of credit outstanding in the West.
2. Bulletin No. 37, The College of Agriculture of the University of Saskatchewan, June 1927. This is study No. 1 of the Farm Business of Saskatchewan. It was made during the summer of 1926 at which time a survey was also made of the Melfort area. Since then there has also been published the third of the series, a study of the Alameda district. Two other districts, Turtleford and Kindersley were surveyed during the summer of 1930, but the reports of the findings have not as yet been published.

Farms are 30 per cent larger in the Belbeck area than the average Saskatchewan farm, and their land values are twice as great. The value of live stock per farm in this area was about one-third greater than the average for the Province, which is what one might reasonably expect, considering the size of the farms. The value of equipment, however, was double and the investments in farm buildings were treble that for the average Saskatchewan farm. Thus a study of farm indebtedness in this area reveals that even the most prosperous sections are heavily burdened with debt.

A like survey was made of the Melfort district, located about 60 miles south-east of Prince Albert, during the summer of 1926.[1] The land in this district is quite typical of that found in the northern borders of the open prairie. Most of the development has taken place since the completion of the Canadian National Railway from Prince Albert in 1905. Homestead lands were nearly all taken up by 1911 and since then the area has experienced a steady growth. The area is well supplied with railroads; the average distance a farmer has to haul his grain being only 3.5 miles.

Of the 82 farms studied, 41, or 50 per cent, of the owners reported mortgage indebtedness. In these 41 cases the average mortgage debt per owner was $4,598 which represents, on the average, 18.9 per cent of the total farm capital. This debt in individual cases ranged from 3.4 per cent to 66.2 per cent of the farm capital. Here again

1. Bulletin No. 43; College of Agriculture of the University of Saskatchewan, June, 1928.

it was found that the area of the farm was not an outstanding factor in determining the ratio of mortgage debt to farm capital. In this study, it will be noticed, only farm mortgage debt is investigated, while in the survey of the Belbeck area the total farm debt was given. Term of ownership was found to be a factor in determining the proportion of mortgage indebtedness to farm capital just as it was in the Belbeck district. People who had owned their farms for five years or less were found to have an average mortgage encumbrance of over 28 per cent of their total capital, while those who had owned their farms for over five years had a mortgage debt of only 18 per cent of their total farm capital.

The typical farm in the Melfort district was half a section, 320 acres, while the typical farm in the Belbeck area was three-quarters of a section, 480 acres. Farmers on the whole are quite prosperous in the Melfort district as shown by the fact that the value of farm buildings per acre of land amounts to $10, while the corresponding figure for the whole province in 1926 was $4.68.[1]

The third of these farm business surveys was made of the Alemeda district, in Saskatchewan, during July and August of 1927.[2] Farming conditions in this district are those which prevail quite generally throughout the southeastern part of Saskatchewan and southwestern Manitoba. The great majority of the farm owners of this district, as well

1. Bulletin No. 43, College of Agriculture, University of Saskatchewan, 1928, Page 31. Census of Saskatchewan 1926, Page 199.
2. Bulletin No. 46, College of Agriculture, University of Saskatchewan, May, 1930.

as those of the other two districts studied, are either of British or American origin and all of them speak English. Thus the chances for misunderstanding the questions were practically eliminated. The Alemeda district is a comparatively old and well established district. The average period which 78 owners and 22 tenants had lived upon the farms then occupied was 15 years.

Out of 72 farms studied, 30 had mortgage encumbrances. The average debt on these 30 farms was $4,110, which represented 25 per cent of the total farm capital. The ratio of mortgage debt to farm capital generally decreased with the length of the term of ownership. In the group of farmers who had owned their land for five years or less, 49 per cent of their total farm capital was covered by mortgages; whereas those who had owned their farms for over twenty years had less than 20 per cent of their farm capital mortgaged.

The average capital on Alemeda farms was $16,847 as compared with $24,847 for the Melfort district; $34,368 for the Belbeck district, and $11,405 for all of Saskatchewan. This was divided between land, buildings, equipment, and live-stock as shown in the following table.

AVERAGE FARM CAPITAL

Belbeck, 1926; Mulfort 1926; Alemeda 1927.[1]

	Belbeck		Melfort		Alemeda	
	119 Farms Averaging 487 Acres.		106 Farms averaging 487 acres.		100 Farms averaging 563 Acres.	
	Av. Value per Farm.	% of total Capital.	Av. Value per Farm.	% of total Capital.	Av. Value per Farm.	% of total Capital
Land...	$ 22,810	66.4	$ 15,562	63.1	$ 10,112	60.0
Buildings	6,483	18.9	4,651	18.9	2,923	17.4
Equipment	2,970	8.6	2,492	10.1	2,001	11.9
Livestock	2,105	6.1	1,938	7.9	1,811	10.7
Totals..	$ 34,368	100.	$ 24,643	100.	$ 16,847	100.

AVERAGE CAPITAL PER FARM.

Saskatchewan, 1921 and 1926 (1)

	1921 119,451 Farms Averaging 368.1 acres.	1926 117,781 Farms Averaging 389.7 acres.	Decrease Per Farm.
Land ...	$ 8,878	$ 6,951	$ 1,927
Buildings ..	1,812	1,825	- 13
Equipment ..	1,479	1,439	40
Livestock ..	1,645	1,190	455
Totals ..	$ 13,814	$ 11,405	$ 2,409

1. Bulletins Nos. 37,43,46. College of Agriculture, University of Saskatchewan.

(1) Census of Saskatchewan, 1926, Page 199.

From the above table it will be seen that, although farms in the Alemeda district were on an average 76 acres larger than those in the other two districts, their average land value was $5,000 and $12,700 less than the average land value in the Melfort and Belbeck districts respectively. From this it would appear that the Alemeda district was a very poor farming area, but, when we consider that the average Saskatchewan farm has $1,098 less in buildings, $542 less in equipment, and $621 less in livestock than the average Alemeda farm, we see that there must be at least some districts in Saskatchewan that are less prosperous than the Alemeda district.

Field surveys of two other Saskatchewan districts, Turtleford and Kindersley, were made by the Department of Farm Management of the University of Saskatchewan in July, 1930, but the reports have not as yet been published. Dr. Wm. Allen, professor of Farm Management at Saskatchewan University, who is in charge of this research project, revealed many interesting facts about these two districts in an address delivered at the Annual Convention of Saskatchewan Agricultural Societies at Saskatoon, in January 1931. The following information is taken directly from Dr. Allen's address.

The indebtedness of farmers in these two areas is clearly shown in the following table in which the farms are grouped according to years of occupation.

FARM DEBT FOR TWO DISTRICTS IN SASKATCHEWAN AS OF JULY,1930.

	Years on Farm.	Total Farms In Group.	Farms With Debt.	Aver.Total Farm Capital. *	Average Debt. *	Debt as % of Cap. *
TURTLEFORD.	0 to 5	27	25	$ 7,058	$ 2,833	40.1
	6 to 10	26	26	8,648	2,638	30.5
	11 to 15	29	25	11,038	1,925	17.4
	16 to 20	29	24	11,647	1,577	13.5
	21 to 25	53	49	15,447	2,347	15.2
All Farms	....	164	149	11,536	2,262	19.6
KINDERSLEY	0 to 5	51	50	10,860	6,551	60.3
	6 to 10	25	24	15,289	4,787	31.3
	11 to 15	30	27	18,448	3,505	19.0
	16 to 20	42	38	18,375	4,077	22.2
	21 to 25	54	48	23,067	4,450	19.3
All Farms	....	202	187	17,361	4,804	27.7

* Based on total farms of group.

The information in the above table corresponds to that given for the Belbeck district but differs from that given for the Alemeda and Melfort districts in that it shows the total farm debt instead of merely giving the farm mortgage incumbrance. Moreover, the information given in this table differs from that given for all of the other three districts in that the "average total farm capital", the "average debt" and the "debt as percentage of total capital" figures are all based on the total farms in each group instead of being limited to only those farms upon which the owners reported indebtedness.

In the above table we note that the average farm debt for all farms studied is $2,262 for the Turtleford district and $4,804 for the Kindersley district. Now, if the figures for the other districts are revised to correspond to those in the above table, we find the following to be true, - the average farm debt for all farms studied in the Belbeck district will be, not $9,011, but $4,978. Likewise in the Melfort district the average farm mortgage debt will become $2,299 and for the Alemeda district this average debt will be $1,619 per farm.

In his address, Dr. Allen makes the following statement:

> "At Kindersley, 80.7 per cent of the debt is in the
> "form of mortgage on farm real estate, 7 per cent for
> "farm implements, 8.6 per cent for bank loans, and
> "3.7 per cent miscellaneous, mostly for store bills.
> "At Turtleford the proportions of debt were as follows:
> "mortgage on real estate 66.3 per cent, for farm
> "implements 8.3 per cent, to banks 8.7 per cent and
> "for miscellaneous 16.7 per cent. "

Considering that there were 164 farms studied in Turtleford and 202 in Kindersley we may in all fairness say that mortgages on farm real estate represent on an average 72.7 per cent, or roughly 73 per cent of the total farm debt.

With this figure as a basis we can say that the average farm debt in the Melfort district in the summer of 1926, in all likelihood, would have been somewhere around $3,149. Likewise farmers in the Alemeda district in the summer of 1927 would have had an average total farm debt of approximately $2,217.

Kindersley is situated about midway on a line of the Canadian National Railway running from Saskatoon to Calgary. The land around Kindersley is noted for its great productivity and is typical of a large section of the country in mid-western Saskatchewan. Farmers in this district are considered to be among the wealthiest in the Province. The land is open prairie and lends itself readily to the establishment of large scale farming.

The average farm in the Kindersley district contains 446 acres of crop land while in the Turtleford district the average crop area is only 216 acres per farm. A great deal of the farming around Kindersley is done by tractor power with a consequent increase in farm machinery and incidentally also in farm debt. In the table it is seen that capital per farm is 50 per cent greater at Kindersley than at Turtleford, while the indebtedness is over 110 per cent greater.

Turtleford is situated about 125 miles due north of Kindersley; Battleford being about equidistant from both places. As there are many natural obstacles to prevent large scale farming the use of power machinery is not general.

It would appear that farms in the Kindersley district are more are more typical of Western Canadian farms in general than are those in the Turtleford district. The size of the Kindersley farms more nearly corresponds to the average size of farms in the Prairie Provinces than do those in the Turtleford area.

The survey of the Kindersley district is more recent and thus more representative of present conditions than are the surveys of the Belbeck, Melfort, or Alemeda districts. The last few years have undoubtedly seen a great increase in farm indebtedness but, owing to the fact that statistics are nowhere available, the exact amount or even a reliable estimate of this increase is hard to determine.

Below is a table giving a summary of the reconstructed figures for the total average farm debt in each of the districts studied.

District	No. of farms surveyed.	Average total farm debt per farmer	Total farm debt for all farms.
Turtleford	164	$ 2,262	$ 370,968
Kindersley	202	4,804	970,408
Melfort	82	3,149	258,218
Alemeda	72	2,217	159,624
Belbeck	96	4,978	477,888
Total.....	616	3,632	2,237,106

Considering no increase in the farm debts since the districts were surveyed the average debt per farm works out to be $3,632.

The information so far has been entirely confined to the province of Saskatchewan. Toget a true picture of the situation in all of the three Prairie Provinces, studies of typical districts in Manitoba and Alberta should also be included. A survey has been made in each of these two provinces but they are not representative of the general farming conditions in the province. They were made by the Canadian Pioneer Problems Committee and, consequently, districts on the fringe of civilization were selected. Both surveys were made during the summer of 1930.

The district chosen in Manitoba by the Canadian Pioneer Problems Committee is around Swan River. The farms surveyed include a few in the well settled area around Dauphin but the great majority are located in the territory to the north and west extending in a semicircle from Dauphin to Swan River. The average area of all farms surveyed is 323 acres per farm while the average crop land is only 155 acres per farm.[1] The average total farm capital is $8,789 per farm. This is divided as follows: land, $4,034; buildings, $2,038; livestock, $1,127; implements and machinery $1,482.[2] This indicates that large scale farming is not extensively carried on in this district.

Even on such small farms there is considerable debt reported, The total average debt per farm in this area is $1,300, divided as follows: mortgage, $1,057; implement companies $87; lumber companies $7; bank credit $80; store credit $10; other debts $59.[3]

1. Canadian Pioneer Problems Committee: Survey of the Swan River area in Manitoba made during the summer of 1930. Unpublished statistics compiled by Dr. R. W. Murchie of Manitoba Agricultural College.
2. Ibid.
3. Ibid.

The survey in Alberta was made of the Peace River district, including farms located on the park land extending from Peace River Crossing to Grand Prairie and into the Peace River Block of British Columbia. About one-third of the sample is of fringe men who have not been on their homesteads for more than three or four years The remainder of the farmers surveyed are scattered and representative of the whole pioneer area.

Farms on the whole in this area are quite large but are not extenzively developed. The average farm contains 436 acres, while it has only 179 acres of crop land.[1] The average total farm capital is $12,266 per farm and is divided as follows: land $7,596; buildings, $1,600; livestock, $1,374; implements and machinery $1,716[2]. It is generally known that the Peace River district has been comparatively prosperous during the past few years. The richness of the virgin soil and the abundant rainfall have given farmers in this district a distinct advantage over those in the rest of Alberta. Still, the average farm indebtedness is reported to be $1,377. The distribution of this debt is as follows: $779 on mortgages; $162 to implement companies; $344 to banks; $26 to local stores; $53 to various other sources.[3]

After considering the matter from all angles, and in the light of these various farm surveys, a conservative estimate of the present

1. Canadian Pioneer Problems Committee; survey of the Peace River Area in Alberta made during the summer of 1930. Unpublished statistics compiled by Dr. R. W. Murchie of Manitoba Agricultural College.
2. Ibid.
3. Ibid.

average farm indebtedness in the three Prairie Provinces is placed at $3,500 per farm. This of course is only a rough guess, but, if it errs, it is more likely to be too low than too high.

According to the 1926 census of the Prairie Provinces, they contain 248,162 farms. Considering the average farm debt to be $3,500, the resulting total debt burden of Western Canada would be $868,567,000.

In an interview with a high official in one of our largest banks he made a statement to the effect that he considered the total bank loans in the three Prairie Provinces made direct to farmers was in the neighbourhood of $80,000,000 to $100,000,000. Dr. Wm. Allen states that bank loans represent only 8.7 per cent of the total farm debt in the Turtleford area and 8.6 per cent of this debt in the Kindersley district. Taking $90,000,000 to be the amount of bank loans outstanding to farmers in Western Canada and 8.7 to be the percentage of bank loans to total farm debt, the total debt burden of the Three Prairie Provinces works out to be the gigantic sum of $1,030,500,000.

In a speech made in the Dominion House of Commons on March 25, 1931, Mr. M. H. Campbell, M. P. (Mackenzie) states: "In my opinion the greatest single problem facing the farmers of Western Canada today is the mortgage indebtedness against their lands. Undisputed possession of a piece of land is fundamental to everything else in the agricultural industry. Recently in the Saskatchewan Legislature a figure of $215,000,000 was quoted as the value of farm mortgages applying against Saskatchewan farms, and $32,000,000 as the Saskatchewan farmers' annual interest bill on all indebtedness, mortgages, bank loans, implement notes, and so on."[1]

By capitalizing the latter figure of $32,000,000 for the interest bill of Saskatchewan farmers at 8 per cent, the total debt burden of the 117,781 Saskatchewan farmers is $400,000,000. This represents an individual farm debt of $3,395, which is only $105 less than the average farm debt for the three Prairie Provinces as estimated above. Taking this figure the total debt burden of Western Canada is $842,509,990.

From the above estimates we can quite reasonably say that the total debt burden of the three Prairie Provinces lies somewhere between eight hundred millions and one billion dollars.

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1. Debates of the House of Commons, March 25, 1931, as reported in the Montreal Daily Star, March 26, 1931.

CHAPTER VI

ECONOMIC CONDITIONS IN THE WEST

In a period of deflation interest, wages, rents and freight rates fall less rapidly than the prices of consumers goods. All producers are affected; those in the primary extractive industries, it would appear, receive the hardest shock. Production in the manufacturing industry can be curtailed within a few months if it is being carried on at a loss; or, in other words, there is a very flexible control over supply.

In the agricultural industry, on the other hand, production for any year tends to be determined by the demand of the year before, and there is very little control over the supply in the agricultural industry. The great number of small holdings hinders the adoption of any general policy for limitation of output. The large manufacturing industry is so highly organized that any general policy can readily be put into effect. Thus we see that in the manufacturing industry there is a much more effective control over costs than in agriculture.

Primary industries the world over are in a very depressed state. Western agriculture is passing through especially difficult and trying times. Most of the speeches by Western members in the Dominion Parliament during the 1931 session emphasize this fact.[1] Never before have

1. The following is only one of the many statements which bear out the

(continued Page 109)

the factors which determine the future prosperity or failure in the West evoked such wide-spread interest, even amounting to concern, as at present. Mr. M. H. Campbell, M. P. says:

> "I believe it will be readily admitted that the
> "condition of agriculture in Canada is the most
> "acute problem with which the House must grapple,
> "and the success or failure of the Government will
> "be largely determined by their attitude towards
> "this problem and the measure of success attending
> "their efforts to solve it."[1]

Prosperity in Eastern Canada is, to a very large degree, determined by the prevailing economic conditions in the West.[2] This dependancy of Eastern industry upon the agricultural West is a point which can not be too greatly stressed. Our present tariff system is constructed on the policy which is exemplified in the following slogans: "Canada for the Canadians", and "Development of the Home Market". Eastern manufacturers depend to great extent upon Western Canada as a market for their products.

1. Debates of the House of Commons, March 25, 1931. As reported in the Montreal Star, March 26, 1931.
2. In the speech from the throne delivered at the opening of the Dominion Parliament on March 12, 1931, is the following statement: "The welfare of all Canada is involved in satisfactory returns being received by the grain growers."

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1. (Continued from Page 108.)
above assertion. "I have lived in Western Canada for 23 yearsand have gone through very serious times, particularly during periods of deflation, but I have never seen anything like conditions existing at the present time." (Speech of H. E. Spencer, M. P. (Battle River): Debates of the House of Commons, March 19, 1931, Montreal Star, March 20, 1931.)

Agriculture is Canada's largest industry, and wheat is its major product. Canada supplies between thirty and forty per cent of the wheat of commerce in the export market. Thus, it can be safely stated that wheat is the single commodity of greatest importance in Canadian industry and trade. In so far as the question of agricultural credit is a vital one in the West, it is also a problem which is supremely important to the whole of Canada. It is a national problem which requires immediate solution.

The factors contributing to the present unprofitable period of agriculture, through which we are now passing, are many and varied. These factors are both internal, - those directly attributable to inefficient farming methods, - and external, - those over which the farmer has no control.

Among the internal causes, the most outstanding appear to be those which accompany the practise of one-crop farming.[1] In the first place, it has proven true, in the history of one-crop farming all over the world, that there are certain weeds which thrive well with grain. These ultimately take possession of the soil and the cultivated crop is no longer able to compete with the weed crop.

A second cause is the decrease in the fertility of the soil. There are many indications that the practise of growing grain crops alone has resulted in a very marked decrease in the productivity of the land.

1. Vide, address by Mr. C. M. Bowman, The Dominion Mortgage and Investments Year Book, 1930, Page 24.

The very pointed expression of "wheat mining" is often applied to Western agriculture. Year by year the soil is depleted of the necessary ingredients to produce a grain crop. Plant food is there but it is not in a form which can be assimilated by the grain plant. Another effect upon the soil, inherent in a one-crop system, is the occurrence of plant diseases which attack crops in their weak growing state and prevent them maturing fully. These diseases are more prevalent in old long-cropped land than they are in clean virgin soil.

The weed menace in Manitoba is beginning to be viewed with great alarm by the farmers; it has, also, recently spread over large sections of Saskatchewan. Practically the only method to combat weeds is the attempt to exterminate them through continued cultivation by allowing the land to lie fallow for a season.[1] The cost of summer-fallowing, including the loss of a crop, is generally computed to be around $10 to $12 per acre.[2] Moreover, in many cases it is very poorly done and the object of destroying weeds is often defeated; however, it is deemed necessary under the present system of agriculture.

The solution of the problem appears to lie in the development of mixed farming. The introduction of grasses and legumes would not only build up the soil but would also greatly reduce the expenses of weed-

1. In this regard, Mr. Reinochl, chief farm manager of the Colonization Finance Corporation of Canada, Limited, says:
"This (the practice of summer fallowing) has always proven one of the most expensive methods of controlling weeds, and in every case its use has in time been abandoned. There is no justification for the use of summer fallow where the rainfall is sufficient to grow a crop annually." The Dominion Mortgage and Investment Year Book, 1930, Page 24.

control. It would enable the farmer to develop a supplementary source of income apart from his grain crops which would have a very stabilizing influence on agriculture. A greater diversification in agriculture would be very beneficial to the Western agricultural producer and seems almost inevitable. The recent development of the Agricultural Credit Corporation is based upon this belief.

Costs of production of grain crops in Western Canada vary tremendously. This variation is pronounced not only between different districts but also between neighbouring farms in the same district. The production costs from year to year on an individual farm also differ greatly.

In a survey of the Belbeck it was found that the cost of producing a bushel of wheat, in 1925, was slightly over one dollar.[1] This was considered to be lower than the average cost of wheat production for Saskatchewan as a whole. The average yield of wheat was 18.5 bushels per acre for Saskatchewan in 1925, whereas in the Belbeck district the average yield was 27.4 bushels per acre.

By experience it is shown that the cost of production per acre does not vary materially with the yield except for harvesting and threshing expenses. After taking all of these items into consideration, on the basis of the average provincial yield, the average cost of producing one bushel would have been $1.345.[2] In this case costs would have exceeded receipts by $.13 per bushel, or by $2.47 per acre.

1. Bulletin No. 37, College of Agriculture, University of Saskatchewan, June 1927 , Page 92.
2. Ibid, Page 93.

The yield of wheat in the Alameda district in 1926, was much above any previous yield. The average cost of wheat production for 100 farms in this district in 1926 was over .59 cents per bushel.[1] If the yield had been the average for the eleven year period from 1917 to 1927, the cost of producing a bushel of wheat would have been somewhere between 65 and 85 cents.[2]

The average cost of production of wheat on 106 Melfort farms for the crop of 1925, was approximately 78 cents per bushel.[3] The average yield of wheat per acre was 31.9 bushels while for the Province the average yield was only 18.5 bushels per acre.[4] Adjusting the cost in consideration of the average provincial yield, it would have been $21.30 per acre or around $1.20 per bushel.

A summary of the data received from 421 farms in four districts in Saskatchewan for the crops of 1925, 1926 and 1927, reveals that the average cost of producing a bushel of wheat is $1.24 for an annual average provincial yield of 16.5 bushels per acre.[5] Ninety per cent of the receipts from crop sales were from wheat. This goes to show why the returns of the Western farmer are always considered in terms of wheat.

1. Bulletin No. 46: College of Agriculture, University of Saskatchewan, May, 1930, Page 98.
2. Ibid.
3. Bulletin No. 43: College of Agriculture, University of Saskatchewan, June 1929, P.82.
4. Ibid.
5. Vide, address by Dr. Wm. Allen before the Annual Convention of Saskatchewan Agricultural Societies held in Saskatoon, Jan.14, 1931.

Oats and barley, especially oats, are, to a large extent, consumed upon the farm for horse and cattle feed. Only 71 per cent of the total crops produced upon this sample of 421 farms was directly revenue producing.[1]

In 1924, the United States Tariff Commission made extensive inquiries as to the cost of producing wheat in the northern states as compared with the cost in Western Canada. They found the average cost in Minnesota, North and South Dakota and Montana to be around $1.44 per bushel; in the three Prairie Provinces the average cost was estimated at 93 cents per bushel.[2] The findings of this Commission served as the basis for the imposition of a duty of 42 cents a bushel on grain entering the United States.

From the above data we can say that the average cost of producing a bushel of wheat in Western Canada lies somewhere between 90 cents and $1.25 per bushel, in all probability being well above the dollar mark.

Now that we have the average cost of producing a bushel of wheat fairly well determined, the next question that arises is "How much does the farmer, on the average, receive for a bushel of wheat?" It is generally conceded that the most impressive fact relating to present day agriculture is the prevailing low price in the world market for nearly all products of the soil.

1. Ibid.
2. Vide, Report of the United States Tariff Commission. March 4, 1924.

The table in Appendix G, compiled by one of the leading agricultural economists in the Dominion, gives a vivid moving picture of the Canadian agricultural situation for the past sixty years. This table includes wheat grown all over the Dominion; but, as the three Prairie Provinces produced 544,598,000 of the 566,726,000 bushels of wheat raised in the whole of Canada in 1928 [2], the figures for the average farm price per bushel may be taken as approximately the amount received by the Western Canadian farmer.

From the table we see that in no year since 1921, except 1924, and 1925, has the average farm price of wheat exceeded $1.10 per bushel. During five of the ten years from 1921 to 1931, inclusive, the average farm price of wheat was well below a dollar a bushel, in 1930 going as low as 44 cents per bushel, lower by 21 cents than for any other year quoted. The simple average for the decade gives the average farm price at less than 92 cents per bushel. This is an astounding statement when we consider that the average cost of producing a bushel of wheat is well above a dollar.

The figures in the table reveal more than this. They show that the greatest expansion of agriculture occurred during the period of the Great War when abnormal demand for food products made prices high. Between 1901 and 1911 the acreage of wheat in Canada little more than doubled, rising from 4.2 to 8.9 millions of acres. In the next decade, from 1911 to 1921, the acreage of wheat in Canada rose by over 150 per

1. The Table in Appendix G is given with the special permission of Dr. E. J. Lattimer, professor of Agricultural Economics, Macdonald College.
2. Canada Year Book, 1930, pages 211 and 218.

cent, showing an absolute increase of three times that for the preceding decade. Since 1921 the acreage has been fairly constant, indicating that the industry has not been experiencing very great prosperity since the War.

The prices farmers have to pay for their necessities is well indicated by the index number of wholesale prices (1913 as base of 100) given in the table. It will be noticed that in 1911 the price of wheat was 80 cents and the index number stood at 95, while in 1921, with the price of wheat received by the farmer only one cent higher, the index number of those things which the farmer had to buy was 171.8, an advance of over 80 per cent. In 1925 the average farm price of wheat was $1.23 per bushel; in 1930 it was only 44 cents, a decline of nearly 65 per cent. Between the same two dates the index number of wholesale prices declined only around 20 per cent.

What do these figures mean? They indicate clearly that the purchasing power of wheat in terms of other commodities has been steadily declining. Between 1911 and 1921 the value of wheat did not rise to anywhere near the same extent as did the value of wholesale commodities in general. From 1925 to 1930 the decline in the real price of wheat as determined by its purchasing power has been nearly 45 per cent greater than for wholesale prices. Further comparisons might be given to show that at no time during the post war period since 1921 has the purchasing power of wheat equaled or even approached the 1911 level.

The debt burden of Western Canada, as estimated in Chapter V, is well over $850,000,000. On very few of these loans are the farmers paying less than 8 per cent interest and many, such as bank loans and store debts run as high as 10 or 12 per cent. Considering the general rate to be 8 per cent and the total debt $850,000,000 the resulting figure of $68,000,000 represents the annual fixed charge under which the agricultural industry in Western Canada is trying to survive.

That the returns from farm produce are insufficient to meet such heavy calls for fixed charges, pay the high costs of production and leave anything at all for the time and labour of the farmer is readily understood. Can the farmer meet his obligations under existing conditions? This question must be answered in the negative.[1] The solution for the problem rests in the ability to change these conditions so that the farmer will be able to meet his obligations.

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1. Mr. H. E. Campbell, M. P., holds that Western Canada is bankrupt. (Vide, Debates of the House of Commons, March 19, 1931). He is supported in his view by Mr. Robert Gardner, M. P. who states: "May I say also, Mr. Speaker, that in may judgment, if the farmers of Western Canada today were forced to liquidate, eighty per cent of them would be insolvent." (Debates of the House of Commons, April 20, 1931.)

C H A P T E R VII

CONCLUSION

Before a comprehensive and intelligent solution for the agricultural credit problems of Western Canada can be attempted there must be a recognition and thorough understanding of the defects of the present systems under which loans are granted to farmers. Many of these have been mentioned in the preceding chapters, but a brief summary will clarify the situation and supply the material with which to build constructive suggestions.

To be more specific, these faults may be divided into two categories; those relating to the rate of interest and the amount and term of the loan embody the main ground for complaint by the farmers; those relating to risk, liquidity and security constitute the basis for the creditors' reply.

The situation with respect to long term agricultural credit will be considered first. The main grievance seems to be with the high rate of interest. Private institutions usually charge around 8 per cent on loans while governmental institutions have reduced this rate to 6½ per cent. This is an outstanding achievement and deserves the highest praise. One of the main reasons why the latter institutions have not developed more rapidly is because of the lack of sufficient funds. It is hoped that when the Canadian Farm Loan Act becomes fully operative this difficulty will be overcome.

It is practically impossible for a farmer to repay a large mortgage upon his farm in five years. Loans limited to this period are thus not the best, for they necessitate costly renewals. Where only interest payments are met each year the ultimate repayment of the loan is left too much to chance. A system which requires periodical payments such as the amortization plan entails, allows him to pay off both principal and interest.

Many people, nevertheless, prefer to pay more for their capital and secure it from private institutions. It may be that they do not fully understand the amortization principle and confuse payments under this plan with payments for interest alone. A more likely reason, however, is that it takes far longer to procure a loan under a farm loan system. Many farmers state that they have been as long as from six to twelve months in getting a loan through , whereas in dealing with a private company it is only a matter of a few weeks or even days. Moreover, private mortgage institutions place few restrictions upon the purposes to which loans are applied, and consequently such sources may prove more attractive to some borrowers. The Saskatchewan Farm Loan Board limits individual loans to $5,000 while the Canadian Farm Loan Board places this limit at $10,000. Thus, if a farmer wishes a loan for over these amounts he must needs go to private sources.

One of the greatest objections raised by the farmers against the banks is the high interest rate charged upon loans. The current rate upon bank loans in the West is eight, nine and ten per cent.[1] Very few farmers, if any, can borrow money at as low as seven per cent, the maximum legal rate stipulated in the Bank Act. Competition seems to be ineffective in keeping the rates down to reasonable levels. In 1922, "with the branches of five chartered banks at Gran Prairie and three at Peace River Crossing, interest rates continue at ten per cent."[2] The prevailing interest rates at Foremost, Alberta, in 1922, was also ten per cent.[3] At Coronation, Alberta, in the same year, it was admitted by bank managers that interest rates as high as nine per cent were being charged.[4] Many other cases might be cited to bear out the fact that the farmers' complaint relative to exorbitant bank interest rates is well grounded.

Farmers also claim that banks are restricting credit beyond all bonds of reason. Even though a farmer may have extensive security the bank will not extend him the required amount of working capital. Banks reply that they are forced to curtail credit as the amount of their yearly carryover is steadily increasing. In Alberta, in 1916, branches of chartered banks reported to have loans to the extent of seventeen million dollars outstanding for over one year. In 1921, this total had increased to over fifty-two and a half million dollars.

1. Vide Report of the Commission on Banking and Credit with respect to the Industry of Agriculture in the Province of Alberta, 1922. P. 17.
2. Ibid. 3. Ibid, Page 4. 4. Ibid, Page 13.

Even though this carryover has undoubtedly increased greatly in recent years the banks still claim that all those who are deserving of credit in the West will receive it.

Banks usually discount loans at the time of making instead of charging a fixed rate of interest and collecting it at the end of the term. This general practice has met with much criticism by the farmers. If a farmer applies for a loan of $100 all he receives is $93., considering the discount rate is 7 per cent. He is thus paying $7. for the use of $93. or interest at the rate of 7.57 per cent . Besides allowing the bank to exact a higher charge for the use of money than is stipulated on the note it allows them to deduct this charge before it has accrued. The only defense the banks make to this charge is to state that discounting has been carried on ever since banks were first established and that it is their intention to continue. If the farmer does not wish to borrow on this basis he can go to other sources for his credit. As the banks practically dominate the short-term credit field the farmer is forced to accept their terms.

Farmers often require credit for longer periods than the banks wish to extend it. The usual period for which a bank will grant a loan to a farmer is three or four months, whereas the farmer desire working capital for six or eight months. This has led to the objectionable practice of frequent renewals with a virtual compounding of interest. The banker is fully aware that when a farmer redeives a loan in the spring or early summer there is no chance of having it repaid until the returns from the crop are received. Still the banker insists on having the note mature in three months. At the end of this period the farmer will be compelled to renew the note and interest is now charged upon the amount originally borrowed as well as upon the discount. Often additional security is demanded and other conditions imposed which may inconvenience the borrower considerably. What the farmer desires is a straight note which will run for the entire period he requires the loan.

Banks usually answer the above objections by claiming that in order to fulfil their proper function they must keep their assets liquid and thus should not be asked to give loans for a longer period than three months, with a maximum limit for special purposes of six months.

> "All authorities apparently agree that there is a barren "area of credit unsupplied by either the banks on the one "hand or the loan companies on the other."[1]

From the above observations it may be safely concluded that a commercial bank is illsuited to supply the intermediate credit needs of a farming community.[2]

Rural credit societies have been formed in Manitoba and Alberta to more effectively meet the fundamental needs of agriculture and remedy one of the outstanding deficiences of the present commercial banking

1. Report of the Special Commission appointed to Enquire into Agricultural Conditions, Ottawa, 1923.
2. On June 7, 1921, Congress provided for a Joint Commission of Agricultural Inquiry. In its report (Part II, Page 7) this Commission said: "The Commission believes that the difficulties of agriculture are in part due to the credit restrictions and limitations of the past 18 months, and in part due to the fact that the banking machinery of the country is not adequately adapted to the farmers' requirements."

system. The development in Alberta has been slow but apparently successful. The Manitoba system was rather unsuccessful in its early stages but is now being re-established on a more permanent basis.

There are many reasons why the early operations of the rural credit societies in Manitoba did not meet with the success comparative to that achieved by similar institutions in Europe. In the first place, the development of the Manitoba system was rapid and took on extensive proportion s before its efficiency could be demonstrated. Moreover, this expansion occurred during the abnormal years of the great world war when the main object was to increase the production of food stuffs at any cost. The farmer had to repay his loan with dollars which were worth more than those which he had received; he borrowed when prices were inflated and often found it impossible to repay when deflation came.

With the withdrawal of the banks from the position of lender in 1920, the checks which they had exerted over the extent and character of individual loans was lost. After this date there appears to be no effective check upon loans approved by the loeal directorate.[1] Local societies had become largely institutions of borrowers rather than lenders and due to their inexperience in matters of credit, many loans were granted in excess of what the security warranted. Placing the management of those societies which had become embarrassed into the hands of a governmemt administration has done much to rehabilitate the system.

1. Vide Report of the Commission on the Manitoba Rural Credits Act. 1923, Page 9.

It is felt that the need for intermediate credit facilities in the West is great, and that a further development of institutions supplying this form of credit is highly desirable. Loans should be effectively restricted to productive and provident purposes to put in or take off a season's crop and to finance such productive investments as livestock and breaking; they should not be used for fixed capital investments or speculative ventures as sometimes has been the case in the Mantioba scheme.[1]

Farmers are a jealous lot. Many times a farmer will secure a loan from a bank rather than go to his local rural credit society for the simple reason that he does not wish his neighbours to know his financial rating. Another reason for prefering the bank is that loans can be secured much more quickly than from the credit societies. It has been pointed out that loans from rural credit socieites have been greatly restricted during the past few years practically forcing the farmer to depend upon the banks to supply him with working capital.

Prosperity in the West, depends upon external and internal factors. The external factors regulate the price of wheat in the world markets; over these there appears to be little control. The internal factors have to do with regulating the costs of production, and it is along these lines tha t the farmers of Western Canada must look for a solution to their difficulties.

One of the most effective ways to reduce the cost of production is by reducing fixed charges. It has been shown in the preceding

1. Ibid, Page 11.

chapters that these fixed charges are exceptionally large and in all probability the farmer is going to be unable to continue to meet them. Owing to the fall in commodity prices particularly in wheat and other grains, a very great depreciation in land values and farm improvements has resulted. It is becoming increasingly evident that the agricultural industry is heavily overcapitalized. It is practically an impossibility for farmers to continue to pay high rates of interest on the excessive burden of debt which they are now carrying. Mortgage companies realize that they must take a great reduction in the principal of their loans if they are to keep the farmer on the land. A system for recapitalizing farm assets and reducing mortgage indebtedness would rejuvenate the whole industry and place it again upon a sound footing.

There should also be a marked reduction in interest rates. No industry can long continue to prosper when it is paying between 8 and 10 per cent interest on its borrowed capital. If existing credit institutions can not see their way clear to extend loans on a much lower rate, especially designed institutions should be established to supply agriculture with adequate and sufficient credit at a rate comparable with that obtaining in other industries. The Agricultural Credit Corporation, sponsored by Mr. Beatty, is a step in the right direction.

Although the West is at present passing through difficult times, there is a firm belief in its ultimate prosperity. The great heritage of natural resources in the form of fertile land, and the enterprising and sturdy character of its population appear to be sufficient security to warrant a further extension of credit. With a greater development of our natural resources will come an increased population, an expanded home market, greater diversification and, in time, well-deserving prosperity.

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APPENDIX A.

Amortization Schedule, or Disposition of Payments, under

Plans No. 1 and No. 2 of the Canadian Farm Loan Act, 1927.

	PLAN NO. 1 2% Amortization - 8.50 Annual per $100.00 of Loan			PLAN NO. 2 2% Amortization - $4.25 Semi-Annual per $100.00 of Loan		
Payments	Interest	Principal	Balance Principal	Interest	Principal	Balance Principal
1	6.50	2.00	98.00	3.25	1.00	99.00
2	6.37	2.13	95.87	3.22	1.03	97.97
3	6.23	2.27	93.60	3.18	1.07	96.90
4	6.08	2.42	91.18	3.15	1.10	95.80
5	5.93	2.57	88.61	3.11	1.14	94.66
6	5.76	2.74	85.87	3.08	1.17	93.49
7	5.58	2.92	82.95	3.04	1.21	92.28
8	5.39	3.11	79.84	3.00	1.25	91.03
9	5.19	3.31	76.53	2.96	1.29	89.74
10	4.98	3.52	73.01	2.92	1.33	88.41
11	4.75	3.75	69.26	2.87	1.38	87.03
12	4.50	4.00	65.26	2.83	1.42	85.61
13	4.24	4.26	61.00	2.78	1.47	84.14
14	3.96	4.54	56.46	2.73	1.52	82.62
15	3.67	4.83	51.63	2.69	1.56	81.06
16	3,36	5.14	46.49	2.63	1.62	79.44
17	3.02	5.48	41.01	2.58	1.67	77.77
18	2.67	5.83	35.18	2.53	1.72	76.05
19	2.29	6.21	28.97	2.47	1.78	74.27
20	1.88	6.62	22.35	2.41	1,84	72.43
21	1.45	7.05	15.30	2.35	1.90	70.53
22	1.00	7.50	7.80	2.29	1.96	68.57
23	.51	7.80	-	2.23	2.02	66.55
24	-	-	-	2.16	2.09	64.46
25	-	-	-	2.10	2.15	62.31
26	-	-	-	2.03	2.22	60.09
27	-	-	-	1.95	2.30	57.79
28	-	-	-	1.88	2.37	55.42
29	-	-	-	1.80	2.45	52.97
30	-	-	-	1.72	2.53	50.44
31	-	-	-	1.64	2.61	47.83
32	-	-	-	1.56	2.69	45.14
33	-	-	-	1.47	2.78	42.36
34	-	-	-	1.38	2.87	39.49
35	-	-	-	1.28	2.97	36.52
36	-	-	-	1.19	3.06	33.46
37	-	-	-	1.09	3.16	30.30
38	-	-	-	.98	3.27	27.03
39	-	-	-	.88	3.37	23.66
40	-	-	-	.77	3.48	20.18
41	-	-	-	.66	3.59	16.59
42	-	-	-	.54	3.71	12.88
43	-	-	-	.42	3.83	9.05
44	-	-	-	.29	3.96	5.09
45	-	-	-	.16	5.09	-

APPENDIX B.

Average Value of Farm Land, Per Farm and Per Acre in the Three Prairie Provinces for the Census Years, 1901 - 1926.[1]

Year	ALBERTA		MANITOBA		SASKATCHEWAN	
	Per Farm	Per Acre	Per Farm	Per Acre	Per Farm	Per Acre
1901	$ 1,388	$ 4.81	$ 2,891	$ 10.54	$1,702	$5.97
1911	5,693	19.86	7,104	25.44	6,140	20.76
1916	5,387	15.88	6,359	22.05	6,922	19.56
1921	7,360	20.84	7,400	26.96	8,878	24.09
1926	6,357	19.16	5,001	18.48	6,951	17.82

APPENDIX C.

Average Capital Per Farm - Saskatchewan, 1926;[1] Belbeck, 1926;[2] Melfort[3] 1926; and Alameda[4], 1927.

	Saskatchewan 1926 (119,781 farms averaging 368 Acres.)	Belbeck 1926 (119 farms averaging 487 Acres)	Melfort 1926 (106 farms averaging 487 Acres)	Alameda 1927 (100 farms averaging 563 Acres)
Land	$ 6,951	$ 22,810	$ 15,562	$ 10,112
Buildings ..	1,825	6,483	4,651	2,923
Equipment ..	1,439	2,970	2,492	2,001
Livestock ..	1,190	2,105	1,938	1,811
TOTAL ...	$ 11,405	$ 34,368	$ 24,643	$ 16,847

See Following Page for Footnotes.

Footnotes to Appendix B.

1. Census of the Dominion of Canada, 1901, 1911 and 1921.
   Census of the three Prairie Provinces, 1916 and 1926.

Footnotes to Appendix C.

1. Census of Saskatchewan 1926. Pages 198, 199. Table 55 and 59.

2. Bulletin No. 37, June 1927, College of Agriculture, University of Saskatchewan.

3. Bulletin No.43, June 1928, College of Agriculture, University of Saskatchewan.

4. Bulletin No.46, May 1930, College of Agriculture, University of Saskatchewan.

APPENDIX D

Mortgages on Real Estate Held by Canadian Loan Companies in the Three Prairie Provinces as at December 31, 1928.[1]

Company	Alberta	Manitoba	Saskatchewan
Canada Permanent	4,048,257	7,268,292	5,789,447
Canadian Mortgage Investment Co.	125,112	9,768	93,490
Central Canada Loan	30,803	51,453	--
Huron and Erie	2,241,335	2,494,230	6,989,851
International Loan	5,678	643,437	147,793
Northern Mortgage Co.	350,989	168,285	214,803
Real Estate Loan	66,722	1,122,880	--
Totals	6,868,896	11,758,345	13,235,384

1. Report of the Superintendant of Insurance of the Dominion of Canada for the Year Ending December 31, 1928, on Trust and Loan Companies, pp. XXll.

APPENDIX E

Mortgages on Real Estate Held by Canadian Trust Companies in the Three Prairie Provinces as at December 31, 1928.

Company	Alberta	Manitoba	Saskatchewan
Company Funds	$	$	$
Canada Trust	184,325	93,074	59,723
Canada Permanent Trust	44,720	64,115	34,792
Northern Trusts	231,803	107,172	141,242
Prudential Trust	13,936	-	-
Sterling Trusts	3,093	-	297,316
Western Trusts	30,870	121,947	325,517
Totals	508,747	386,308	858,590
Guaranteed Funds			
Capital Trust	8,900	-	10,960
Northern Trusts	785,857	773,093	756,271
Sterling Trusts	-	-	2,800
Western Trusts	51,415	67,508	581,219
Totals	846,166	840,601	1,351,250
Grand Totals	1,354,913	1,226,909	2,209,840

1. Report of the Superintendent of Insurance of the Dominion of Canada for the Year Ending December 31, 1928, on Trust and Loan Companies, pp. XXX.

APPENDIX F

TABLE 1

Life Insurance Companies
Farm Mortgage Loans Outstanding in The Three Prairie Provinces, Book Value at December 31, 1921 to 1928.[1]

Year	Alberta	Manitoba	Saskatchewan
1921	17,624,552	11,575,840	36,683,049
1922	19,028,267	12,679,475	41,563,833
1923	20,296,274	13,970,078	43,386,392
1924	19,526,776	14,127,612	43,891,358
1925	18,142,306	13,879,388	42,609,192
1926	16,830,397	13,918,771	40,121,242
1927	16,980,217	14,069,512	40,512,646
1928	18,469,854	14,416,802	42,122,993

TABLE 11

Life Insurance Companies
Farm Mortgage Loans in the Three Prairie Provinces on which Interest has been overdue one year or more at December 31, 1921 to 1928.[2]

Year	Alberta	Manitoba	Saskatchewan
1921	2,261,952	1,110,180	3,314,383
1922	3,080,314	2,219,560	4,624,219
1923	5,187,920	3,075,698	4,707,910
1924	5,169,610	3,563,866	4,627,360
1925	4,769,236	3,532,645	5,093,412
1926	3,360,334	2,888,800	3,556,590
1927	2,560,992	2,539,689	3,313,889
1928	2,148,189	2,686,757	2,974,267

APPENDIX F

TABLE 111

Life Insurance Companies.
Total Amount Written off Farm Mortgages or Foreclosed Farm Real Estate and Loss on Sale of Foreclosed Farms during the Year in Each of the The Three Prairie Provinces.[3]

Year	Alberta	Manitoba	Saskatchewan
1921	3,023	17,836	43,084
1922	193,141	22,258	146,349
1923	403,017	82,066	295,794
1924	707,318	232,298	400,018
1925	731,078	115,771	191,705
1926	941,996	158,694	199,181
1927	953,461	239,636	363,299
1928	315,442	253,975	587,020

1. Report of the Superintendent of Insurance of the Dominion of Canada for the year ending December 31, 1928, on Life Insurance Companies, pp. XXXV.

2. Ibid. pp.XXXV1.

3. Ibid. pp. XXXV11.

APPENDIX G.

Wheat in Canada.[1]

Year	Millions of Acres	Millions of Bushels	Value Millions $	Farm Price per Bushel $	Index Number 1913 = 100 wholesale. Price of all commodities.
1871	1.6	17	17	1.00	124.5
1881	2.4	32	32	1.20	109.9
1891	3.7	42	32	.76	91.4
1901	4.2	56	36	.65	85.5
1911	8.9	132	105	.80	95.0
1921	23.	301	243	.81	171.8
1922	22.	400	339	.85	152.0
1923	22.	474	317	.67	153.0
1924	22.	262	320	1.22	156.2
1925	22.	395	488	1.23	160.3
1926	23.	407	442	1.09	156.2
1927	22.	480	478	1.00	152.6
1928	24.	567	451	.80	150.6
1929	25.	300	319	1.06	146.0
1930	25.	398	174	.44	136.5

1. Dominion Bureau of Statistics.
   Canada Year Book, 1929, Statistical Summary, pages 26-27.
   Monthly Bulletin Agricultural Statistics, January 1923-1930.
   Prices and Price Indices 1913-1928, page 22.
   Figures 1930 subject to revision.