AGRICULTURAL CREDIT IN CANADA

An Analysis of Government Measures.

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I N D E X

CHAPTER I.

Agriculture - the true foundation of Trade and Commerce.

In view of the commanding importance of agriculture in the economic life of the country, and with a recognition of the outstanding fact that just to the extent that agriculture flourishes can other great industries which hinge with and depend upon it be maintained in operation, it is becoming increasingly clear that agriculture "is the true foundation of trade and commerce" (1) This statement is emphasized when it is understood that agriculture is the great source from which the whole nation is clothed and fed, and that its varied activities not only provide the means of sustenance to our own population, but contribute in no small measure to the welfare of the world. The character of agriculture has changed to be no longer a means of earning a living, but as a source of national wealth. It is in the interest of the country to facilitate the progress of the farmers, because the prosperity of agriculture underlies the entire social and economic welfare. It is impossible for the urban populations to be cared for without the successful operation of the farmers; and without an abundant provision for the needs of the workers in the urban centres we cannot think of a successful commercial and industrial system, all forms one great web, which when strained at any one point, will be misshaped at all other points. (2)

(1) and (2) Report of Committee of Rural Credits, 1920, to the Ont. Gov't.

Present day commerce and industry, as opposed to agriculture, has been well looked after, as far as financial accommodation goes. There are many points in favor of industries, which make lending to them more secure. But such a system cannot be carried out permanently. If the farmer is left entirely isolated and unaided, the whole economic structure will be in a precarious position.

From the earliest times simple forms of credit have been in general use, and as soon as it became known that credit could be used to take the place of gold or silver, in a large measure a new era was opened up in the realm of finance. Consider the situation if a bank could not loan its credit, but had to be satisfied with loaning only its capital. Business could not be carried on in its present manner; there would be no means of meeting the present great demands for expansion. The exchange of commodities is facilitated to a large extent by the use of many dollars of credit based on one dollar of hard cash. It is so much easier to pay for goods by such credit instruments as bank notes, Dominion notes or cheques, than be having to count out the amount in gold every time goods are purchased or sold. It is not difficult to see, that with the restriction of business that would ensue, under such conditions, there could not be the development of enterprise and wealth on the scale which we have to-day.

There are two forms of credit; that which is used for productive purposes, and consumer's credit, which is used merely

for securing the goods which satsify the desires of the individual. The latter has frequently come into disrepute, and has tainted the whole conception of credit. A spendthrift keeps on borrowing and spending for himself and his friends until his wealth is gone. The man in need appeals to some one with money, and gets credit, in order to relieve himself of his temporary embarrassment. There are still not a few people who borrow as a means of self gratification.(3) This kind of credit, designed to make up some loss already incurred, produces no value out of which the loan may be repaid at a later date, and it is certain that such credit should be discouraged.

The effect of productive credit is the very opposite to that of consumer's credit. It is credit used for the purpose of creating value; it is employed by the borrower for increasing his wealth over and above the amount which he has to repay as the principal and interest of the loan. The employment of credit for this purpose trains to business-like conduct, it impresses the borrower with a sense of responsibility and instead of weakening the character of the borrower, it strengthens it. It is most necessary that farmers in Canada should be educated in this manner. They must be made to realize that too much credit at a very low rate is not to their advantage. An increasing expansion of business must come only through an intelligent command of capital, which, in turn is obtained through a regular system of borrowing.

The word "credit" means "faith" or "confidence" in its primal significance! and before an individual can secure credit

(3) Report of Committee on Rural Credits, 1920, to the Ont. Gov't Dept. of Agriculture. P. 8.

in the ordinary form of a loan he must give some security which will insure that the loan at maturity will be repaid. The lender must have "faith" in the borrower or in his enterprise before he will make him a loan. For his faith he naturally turns to some material foundation; for, as yet, no matter how good the intentions of the borrower may be, the fluctuation of business may make it impossible for him to repay the amount borrowed at the specified time, unless there is some material surety which can be used to assure this repayment. It is this problem of security which has engaged so much attention from all business men, especially from those who are acting in a fiduciary capacity, such as bankers. (4)

Naturally credit gravitates to wealthy men. But the average man requires credit all the more because he is not so well provided with capital. He competes with his wealthier rival, and in this competition he must frequently extend credit to his customers; consequently he is in greater need of securing credit. A small amount of credit percolates down to them, but usually loans are made and credit is allowed to those whose security is the best. This is simply carrying out, on the part of the lenders, good business judgment.

If credit is so important that the bulk of the world's business is done on credit, and if it is so important to the individual firm that at the beginning of the year it arranges with its bank for a line of credit up to the limit of its requirements for

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(4) Report of Committee on Rural Credits, 1920, to the Ont. Gov't. Dept. of Agriculture. P. 9.

the year, it is equally important for the agriculturist who wishes to carry on his enterprise in the most effective ways and with the greatest amount of economy. Agriculture is the greatest industry in this country, employing more people than any other industry. (5) The successful farmer becomes more of a business many every year. He must use more implements, buy more fertilizer, and sow better seeds; raise better stock and grow better crops; store his produce in order to sell in the highest-price market; pay cash in order to buy cheaply. For these reasons and many others, important among which is the necessity to live on the part of the cash-crop farmer, the absolute need of short-term credits for him is obvious.

In addition to the short term credit requirements for providing various forms of working or circulating capital, the farmers have need for long-term credits to enable them to make investments in fixed assets and permanent improvements, the returns from which come but gradually over a period of years. The active farmer frequently desires to purchase more land, either for himself or for his son; he wishes to establish a drainage system in a certain part of his farm; he may want to erect suitable buildings upon his farm. These loans would be paid back out of the increased

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(5) Figures showing numbers gainfully employed 10 years and over. Canada Census, 1911 in the three groups employing largest percentage.

Agriculture	28.72%
Service	19.55%
Manufacturing	16.08%

income received through the enlargement of the capital equipment. In addition to these credit requirements of the land owner there should be facilities for enabling farmer's sons and tenant farmers who have comparatively little capital but have good character, ability, and a desire to remain on the land, to become owners of their own farms in the shortest possible time and with the utmost economy in the matter of payment. For perpetual tenancy, little can be said in its favor. The tenant in this case often simply mines the soil, takes everything he can get out of it, and then moves on to do the same on some other farm. There are altogether too many tenant farmers, even yet, in Canada.(6)

Whether money should be loaned for these reasons or not, it is attempted to show below. However it is with this policy in mind that the Canadian and Provincial governments have gone ahead. The importance of these two forms of credit varies in different localities. In the older sections of the country, the need for short-term credits is felt more keenly, whereas in many sections especially in the West, long-term loans are more important. In figures the ratio of outlay in land, equipment, etc., to cash is 50 - 1.(7) That means that the fixed assets of the farmers are about fifty times as large as their working capital.

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(6) Canadian Census Reports. Percentage of tenant farmers.

1891--11.4%
1901-- 8.6%
1911-- 7.9%
1921--7.9%
1931--10.2%

1931 figures showing 2.4% increase over 1921 for farms used. Increase is greatly due to economic conditions of years 1930-31 when many farmers were forced to sell their farms.

(7) Encyclopedia of Social Sciences. Agricultural Credit.

This differs from the condition of manufacturing where the ratio is nearer ten to one. In any of the more recently settled sections of the country where agriculture is almost the only means of livelihood, there is a great deficiency in the amount of money that can be borrwed. The farmer who has attempted to buy the land has not the money to pay for it. To make up this lack he must mortgage his farm immediately, and give as security all he has - his farm. Lenders like farms where at least fifty per cent of the purchase price was paid by the farmer.himself. The risk to the lender, otherwise, is great, and for this risk an average of nine per cent interest is charged. What can the farmer do under this load?

But the question that confronts us is at once larger and more intricate than the problem of procuring cheap money for farmers. It is no less fundamental than the entire problem of rural life. In Europe, in their attempts to solve this problem they have changed their whole rural economy. They have believed that under modern complex conditions organized industries preyed upon the unorganized. Agriculture, being unorganized, suffered. Wherever farmers once worked separately, they have begun to work together. Even a cursory observation proves that this has operated to the benefit of the rural population no less that to the advantage of the agricultural industry. In every country in Western Europe, farmers have organized after the same fashion, namely, the application of the co-operative principle to agricultural

production, distribution, and finance. This has contributed to the economic improvement of the farmer and the conservation of agricultural resources, the educational development of the individual and the progress and integration of rural society.

Even though agriculture was the first industry for man to learn, perhaps it is not so strange that the co-operative movement has begun to take hold. The farm is ill-suited to supply a large amount of ready money. This is due to the fact that the crops can in most cases be harvested only once a year, and that there is so much capital tied up in fixed assets for the proportion returned each year. This lack of cash return is the greatest factor against farm loans.

Europe has applied the principles of co-operation to agricultural production with a certain amount of success, and in it has found strength. They have solved together many of their problems of production, distribution, and finance. It is very clear that united action and resourses can attempt something approaching a permanent supply of funds at a favorable rate in a better way than if there were no co-operation. In Europe also it has been seen that credit is double edged, and they have done something about it. Credit may help, or may destroy. What is needed is not more, but better credit, to free the farmer from his economic bondage rather than permanently place him in an impossible position. This has been achieved by co-operative credit, which implies union and mutual help and control. It is safe and educative, encourages thrift and prudent enterprise.

CHAPTER II.

"Pre-war European Experiments and their Success"

From the three more important countries can be seen all there is in the way of agricultural credit development in Europe. In all other countries the system is very similar. Nor is it necessary to give an exhaustive description of the action taken in any of these countries. A very brief summary of the developments is sufficient to show what has been done and how the conditions of European farmer differ from those of the Canadian farmer.

Germany

In Germany there were of course both long time mortgage credit institutions and short time personal credit institutions. Of the former type there were joint stock mortgage banks, governmental non-profit seeking institutions, and rent charge banks. The immense sums loaned by these banks were mostly covered by mortgages on urban property; in 1911 the percentage of rural loans being only six per cent of the total. The loans were made at six per cent and the bonds issued in denominations of from one hundred to five thousand marks, were at four percent. Loans were granted on first mortgages only, with an amortization plan which enabled the farmer by paying off principal at the

rate of one half of one percent per annum to be entirely free at the end of fifty or sixty years. Many of the Banks had aid from the government in their administration. In the case of the Prussian Central Mortgage Credit Joint Stock Bank, founded in 1870, the Administration was in the hands of the following-

1. The President and three directors, who had to be citizens of Prussia, elected by the administrative council, and approved by the king.
2. Administrative Council
3. The Revisers
4. The general Assembly of Shareholders.

Mortgage loans could be issued to the limit of twenty times the original capital plus fifteen times the amount of subsequent paid up capital.

Of the Governmental, nonprofit-seeking institutions there are two types; those which do not require declaration as to purpose of loan, and those which grant loans mainly for specific land improvements or building undertakings. The Landschaften, state, provincial and district mortgage credit banks and Savings banks do not require declaration of the intention on the part of the borrower. With the exception of the savings banks all these associations obtained funds mainly by the issue of land mortgage bonds. The Bonds of each institution were backed by the collective mortgages held by it, and by its reserve and sinking funds. They usually had no share capital. It was customary to loan up to ½ or 2/3 the value of the farm. The interest rates were about 4% plus a charge of ½ of 1% for administration.

The second type, or those which granted loans for specific improvement were the land improvement funds, land improvement annuity banks, provincial aid banks and Imperial Insurance institutions. These institutions obtained their funds and secured them much in the same manner as the first type of nonprofit-seeking institutions.

The rent charge banks were small and unimportant, and probably the transactions carried out by them overlapped considerably with the other institutions. Their sole purpose was to lend money for the erection and equipment of small holdings.

Short time personal credit institutions.

The most famous of these is the Raiffeisen system. It is the federation of several local societies organized among the rural population for credit purposes.

Their legal foundation is that of unlimited liability of all members for all liabilities of the society. They admit only members from a narrow district in order to insure better the success of their aim, to improve the conditions, materially and morally, of their members. Usually there are no shares issued, but where this is necessary by a law, only one share may be held by a member. There is only one officer paid for his services, the Secretary of the society who keeps the books and handles all the money; the administrators give their time free. These societies are rather wonderful in the fact that for many years they worked successfully. There were rules of meeting

which barred all talk of politics or any other topics which would stir up trouble among the members. The Central Bank of the Federation served as a clearing house for the local societies and as a purchasing and selling agency. In this way the farmers were able, with no effort on their part to share in the advantages of the collective buying and selling. The Capital of the Central Bank was raised through issue of shares, deposits received, and loans raised, and by commissions and profits on dealing in goods. Net profits from the transactions of the Central Bank were used in the reserve fund or to pay dividends. No dividends were ever declared by the separate societies and any profits were kept in an indivisable fund for the purpose of eventually putting the whole thing to some useful purpose in the community.

The Schulze-Delitzsch Federation claimed that the proper principles of co-operation were Self-help, self-government, and self-responsibility. Due to the man whose name was taken as the name of the System, these co-operative societies were organized in 1868 under a recognized legal form. These however are more for the urban small merchant, and lay great stress on share capital and dividends.

The Landschaften were mutual loan associations restricted to a province or a district and based upon the security of the land. The idea behind them was to place the association between the borrower and the lender. The borrowing landowner was debtor to a Landschaft, and for the loan the Landschaft was debtor to

the holder of the bonds, issued to cover the loan. The borrower was given bearer bonds which he sold on the open market like any other commercial paper. In this way there was joint borrowing, because the institution becomes responsible to the holder of the bonds for payment of interest and for redemption. The bonds could be realized on at any time. The value of the bonds was higher than that of a single mortgage because of the security which the lender has, and therefore the interest was lower. The landowner made payments to the Landschaft both of interest and principle in much the same way as for any other mortgage. There was more ease for the farmer and more security than in most of the institutions for the purpose of loaning money to farmers on long term. The Farmer could at any time reduce his loan by buying on the open market, bonds sold by other farmers, and having them put to his credit. Also the Landschaft could not seize the land pledged as security if it had not deteriorated in value. In many cases however the farmer being slow in payments, the Landschaft had to seize the farm and movable possessions , which could be done without legal procedure.

Security to the bondholders is very important if money is desired at a reasonable rate. This security is accomplished by bonds not being issued in excess of the amount of mortgages bearing equal interest; mortgages never being granted in excess of two-thirds the value of the land; the debt being reduced by amortisation; the reserve fund and property of the Landschaft

liable for all claims; and by the landowners being responsible for part or the whole of the deficit, should the funds of Landschaft prove inadequate.

There was little interference by, or dependence on the State. Because the Landschaften were public corporations, they were under state supervision, however. This was exercised by the minister of agriculture, Crown Lands, and Forests, and by a specially appointed royal commissioner. Otherwise it was self-governing and its employees had the standing of State employees. Some of these served without pay.

The Landschaften interest rates ranged between three and four percent depending on the money market at the time they were issued. But it must not be thought that the interest was the only charge made on the farmer. There were administration charges which had to be made and from which the Landschaft made up its reserve and paid its officials.

As the trustworthiness of the mortgage bonds rested on the valuation of the property, this valuation was carried on under the greatest care and supervision. Valuation was first made by officials of the Landschaft, then tested by committee especially appointed for that purpose, and then in doubtful cases, revised on the spot by higher officials. But not even then did these valuations become operative. They had to be approved by the Minister of Agriculture and the King.

Founded from the funds of the Landschaften, yet almost independent of them, were Landschaft Banks, which dealt in personal

credit. Their duty was to buy back for cash the bonds which the borrowers received as their loans, and in this way finance the bonds and keep up their price. They also opened accounts and granted short term credits. In many cases they paid off former mortgages in order to pave the way for the Landschaften proper, which could obviously only grant loans on first mortgages.

Savings Banks are under the management of municipal trustees, which aim not so much to guard deposits, as to furnish an opportunity for those who possess funds to secure an investment for their savings that is safe and sure to yield interest regularly. These deposits are invested in mortgages, securities and other fields where loans can safely be made. Though they are important they cannot compare with the Landschaften.

Italy

The credit systems of Italy were much the same as in Germany, so much so that little explanation is necessary. There were private institutions operating all over the country, some institutions restricted to a particular part of the country, and government controlled institutions operation in both ways. Usually the borrower was given cash but sometimes bonds were issued. In most of them loans were paid off by amortisation, the time running from ten to fifty years. The annual payments included amortisation instalments, interest, income tax, commission and management expenses, and a share of the revenue and stamp duties.

Personal credit was divided between state aided institutions and co-operatives. The state-aided institutions acted as

central banks for many small institutions. They rediscounted bills drawn by intermediate credit institutions against farmers who had received advances. Also they discounted bills offered by intermediate credit institutions for loans for collective purchase or sale of agricultural supplies or produce. Then there were loans for definite purposes; for the purchase of seed, fertilizer, live stock or machinery, or for cultivation or harvesting. Loans could be made at four percent to intermediate institutions to be advanced to farmers at a maximum of six per cent for a period of one, two or three years.

Of the co-operative institutions, some were modelled after the German Schulze-Delitsch with the principles of self-help, self-government, and self-responsibility, and others on the Raiffeisen principle of joint unlimited responsibility, with the possibility of resorting to the popular and savings banks when their own funds were insufficient. The interest rates ran from four to seven percent.

France

Besides the ordinary commercial institutions which advanced credit to farmers, there were independent co-operatives, state-aided co-operatives (through the Bank of France) and the credit Foncier.

The independent co-operatives were modelled as in the

Italian case, after the Raiffeisen. The farmers had their own syndicates and only members could borrow money. State aided co-operatives consisted of local banks and regional banks. They were founded to protect the small farmer from high rates of interest and stood between the lender and the borrower as did the Landschaft associations. They succeeded in lending at five and six percent In order to secure to the farmers more working capital, the state inaugurated small mutual credit agricultural system, in which the State furnished the initial capital to the Associations, and the members of the Associations had limited liability.

These banks granted short term personal credit, long term personal credit, and long term collective credit. The short term personal credit was on the ninety day basis with three possible renewals. The farmer, local bank and regional bank all had to sign the paper in order to be within the regulations of the bank of France which did the discounting. Two signature paper with collateral was acceptable in place of three signature paper in some cases. In order to get more rural population, the government allowed long time personal credit at two per cent. This proved itself successful because many sound men were able to buy farms and older man who were no longer capable of running a paying farm, were able to get out without too great a loss.

For long term collective credit there was passed in 1907 a law which allowed the state to advance to the co-operative societies sums up to twice the capital of the societies. Loans

were made for periods from fifteen to twenty-five years at two percent, each payment including a sum for amortization.

The Agricultural credit Banks were under the permanent control of the department of Agriculture. The local banks were responsible to the limit of their capital, and the regional banks acted as agents for the distribution of capital between the Bank of France and the local bank. Also they were the centres of bookkeeping.

The Credit Foncier was a joint stock financial institution under the legislative provisions of the government. It loaned money on mortgage on real property to proprietors made advances to communes etc., and dealt in mortgages, bonds or negotiable paper to an amount not in excess of the sums loaned. Mortgages could be made on two kinds of security-houses in towns, and rural property. We are not interested in the first. Loans on the land can be made in short term mortgages without amortisation from one to nine years. Long term mortgages with amortisation from ten to seventy five years were the usual ones. Other business was mortgage lines of credit, and loans to departments communes, and public institutions. No loans could be granted over fifty percent of the value of the property. No loans could be made without the consent of the government and deposits were accepted only from its clients.

From the brief descriptions of the various institutions which have gone farther than just theory, it is quite clear that

in Europe co-operation amongst the farmers has had beneficial results. The farmers have shown themselves ready and willing to co-operate in the formation of mutual credit societies, and the great change in the manner of farming and the increase in the value and quality of the produce may be a good indication of the advantages in such systems. Not only have the farmers themselves placed in operation their little resources to the mutual benefit of all, but the governments in every case have stepped in and added the strength of huge capital wherever it was expedient to do so. Yet there was no sign of this system demoralizing the farmer to the extent that he thought that the government could wait for interest until times were better. In the greater number of societies and institutions there is a clause allowing such society or institution to confiscate the land of the defaulting farmer. In many of the local co-operatives not one penny has been lost. In France, where they were confronted with the startling situation of rural depopulation, the government has made great attempts to put men back on the land, and keep them there by loaning them money very cheaply. This is of course not a profitable business, and none but a government could attempt it. But it has been figured that less is lost in this way than by relief for the same men if they stayed in the City, or if private institutions took over the mortgages and were left with a defaulting farmer.

CHAPTER III.

Dominion Credits.

The discussion of the problems in connection with rural credits in Canada is of long standing. Many years ago, in some of the provinces of Canada an effort was made to meet the requirements of the small town and country districts by means of a system of small banks. It failed. Canada followed the European system of establishing large commercial banks, operating through branches in the localities where their establishment was warranted.

Three times a bill respecting co-operative credit societies was attempted in the Federal House - 1909, 1910 and 1914. These were on the Desjardin model. It was not until 1927 that any direct Federal Legislation was passed in respect to far loans. In that year there was passed the Federal Farm Loan Act. Previous to that, long term credits were left to the Trust, Loan and Insurance Companies, and the short term credits to the Chartered Banks. The Chartered Banks still have the only Dominion wide mechanism for granting short term credits, but the provinces have to some extent taken this field into their own hands.

Short Term Credits.

In the realm of Short term credits, for a long time, there has been the feeling that the chartered banks are not suitable for granting it. Canada is slowly passing through the stage in her agricultural development that the United States was

passing through some years ago. The best lands of the country have been taken up, wealth accumulating from the rise in land prices will be harder to carry.(1) The old plans for the improvement of the lot of the farmer will have to go, and, if the Canadian farmer is to continue to produce in the best way, there must be new and more practical methods of financing his enterprise.

From the various committees and commissions for the purpose of enquiring into the conditions of agricultural credits, there have been suggested many methods which have worked well in foreign countries. In Europe the aim has been through co-operation, either with limited or unlimited liability and government supervision. United States, Australia and New Zealand have short term credits with co-operation, but with direct government assistance. In France there is a combination of these two. The Bank of France has to make an annual grant. Though this might not be direct assistance, there has not been any sign or assurance that the sums "loaned" will ever be repaid.

Can the Canadian farmers be put in the class with any of these? Are their problems identical with the problems of other countries? I think not. The country in which the geographical and racial conditions are most similar is United States. But in United States the banking conditions are very different, nor do the Canadian bankers look to the system across the line as the final goal toward which they are striving.

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(1) Supplementary Report on Agricultural Credit by H.M. Tory, 1925, P. 9.

Until 1929 the Federal Land Banks in United States functioned successfully. They carriedout their basic idea of keeping the costs of operation as low as possible, and in this way give to an unorganized group the cheapest money possible. The Federal Land Banks boasted the record of having an operating overhead of less than one per cent per annum. This was largely due to the immense turnover. Millions of dollars were loaned every year.

But since 1929, when the American Banking system underwent the most severe shaking-up in its history, the outlook for agricultural credits has changed. Agricultural credits are an even more pressing problem in United States than in Canada.

The idea of co-operatives in Canada is not readily accepted. Perhaps the Canadian farmers are not yet ready for it, as has been suggested, and in some time in the future they will accept it. It is pointed out that in Quebec the co-operative system, an exemplified by the Caisses Populaires, has had great success. But the conditions existing in one province are not the same as those existing all over the country. In Europe the countries are small in comparison with Canada, are densely populated, and the co-operative systems work successfully.

The Banking system of Canada is somewhat similar to that of European countries. But this alone is not sufficient to make the conditions as a whole similar. Nowhere in the world is there a clause in the Banks Acts similar to section Eighty-eight

of the Canadian Bank Act. Ninety days is the longest period for which the Canadian Bankers can make a loan to farmers. From that alone, at the very outset, the banks are handicapped. A ninety day loan is of little value to most farmers. The crops can only be moved once a year, hogs take about seven months, and cattle three to four years. Of course there is the option of renewing the loan for two or three more ninety day periods, but this is awkward for the farmer, and usually his security is gone. The security necessary for these loans makes it difficult for the farmer to work economically. If he pledges almost everything he has for a bank loan, which must be entirely spent on the purpose for which he has borrowed the money, he has nothing left to give the general-storekeeper for the credit he must run there. That makes his operations more expensive than ever, expecially if he must go to a private money lender and borrow the money for his current needs at ten percent or more.

The Banks are naturally not in the business for the benefit of the farmers alone. They are planned primarily to aid the industries in the country, and this must be done at a profit. The commercial enterprises are run on a more business like basis. For instance, before a factory owner can get a loan from a bank he must show his balance sheets for the year and estimate his business for the next year. The hazards in this line are not usually as great as are those of a farmer, who must depend to a

large extent on the climatic conditions for success or failure.

As has been said, section eighty-eight of the Bank Act is exceptional. When the Act was first drawn up, the Bankers were allowed to loan on the security of warehouse receipts. This allowed the farmer in grain moving periods, to turn over his crop to the banks, for the money for moving the crop to the elevators. Elevator receipts were made out, and given to the bank which held them until the proceeds from the sale of the grain had been received. In 1908 in order to make the note issue of Canada more elastic, the Chartered Banks were allowed to increase their circulation to an amount equal to fifteen percent of the capital and rest fund, for the period from October first to January first. This made loaning easier.

The plight of the farmers was great in 1915. Crops were decreasing in quantity, even though they had increased remarkably in quality. This year, 1915, a temporary bill was passed allowing banks to loan for seed grain on the security of the grain purchased, crops grown therefrom, and the seed threshed from the crop. The banking and commerce committee had another bill passed in 1916 which made the 1915 bill permanent and also allowed loans on live stock. About this time there was a drive in the west for the increase of mixed farming, and this had to be looked after by the banking regulations. By amendment to Section 88, in order to safeguard the banks and other creditors, a loan cannot be made until a notice of intention to give security under section eighty-eight has been registered with the Assistant

Receiver General of the Province where the loan is made and surity cannot be taken for a pre-existing debt unless a promise to give such security was held at the time the loan was made. In those provinces where there were no laws providing for this, they were passed under pressure from the Dominion Government.

Intermediate Credit

The Bankers are definitely handicapped by the shortness of the time for which they could loan and from the fact that they could loan on the security of real estate. Already the difficulties in Bank credits have been shown, when almost all other security was taken by the banks and nothing left for the current credits, which the farmer has to have. There has been an element in Canada crying for what may be called intermediate credits. It is credit which is not longer than the five year loans made by the loan and trust companies, but longer that the ninety day credits allowed by the Chartered Banks. Intermediate credit has worked, or until 1930 did work well in United States. From this example many men argued that the same type of intermediate credit banks would work in Canada. However, the conditions in Canada are not identical to those in United States, and it is very doubtful if any kind of intermediate credit is necessary in this country.

In Canada the Loan Companies have done a large part in the advancement of agriculture and from the very first, have been outstanding in this work. They were first founded in Ontario, and from there have expanded with good results all over the country.

The Loan Companies were originally co-operative societies, run individually, for the purpose of using the excess savings of the Community for good pruposes. These in the course of time expanded into what we now know as Loan Companies. The total amount of mortgages held by Loan Companies in Canada in 1933 was close to five hundred and fifty millions of dollars.(2) And from the figures published by individual companies it can be seen that they have followed the opening up of territory in Canada. At first, in fact until 1890, about five sixths of the farm mortgages held were in Ontario and or on eastern property. Since then this has been almost turned around and the West is mortgaged much more than the East ever was or can be. This change is due largely to the fact that the West was advertised extensively and loans were made more attractive than the usual.

It cannot be said that the loan companies are charging too much for their money, although this charge is made against them repeatedly. It is true that the rate of interest has been steadily rising in the West since the loan companies started to do business there. But the reasons for this are obvious. The loan companies have been following the drift and development of the farm industry, and have always been ready to mortgage the new lands. As this land pushes farther away from the centres of trade it becomes increasingly expensive to appraise the farm and get the money to the farmer. Also let it be remembered that in many cases this land is more or less speculative. Perhaps the demand will not last for whatever the farmer can produce.

(2) Canadian Political Science Association, 1934, P. 177.

and that in a few years, before the mortgage could be paid off, the farm would be worthless. The main reason in the past twenty years, for the increase of the interest and the apparent stringency of money as far as the loan companies were concerned, was not so much the reasons given above, but the legislation passed by the governments. Wherever the governments stepped into the breach to aid the farmers, they took prior rights over first mortgages. This left the loan companies, which formerly held first mortgages, with only a second mortgage to cover their loans. This was not the experience in Ontario, but happened in the West. However this is not the place to deal with "vested rights" that property which the governments took away from the mortgage companies when they took the rights of first mortgages. The discussion is merely one of the amount and type of credit available for the Canadian Farmer.

In United States the sale of bonds of the Intermediate Credit Institutions was facilitated by the government making them tax-free. In United States where there is a great deal of money it is successful. But in Canada it would not have the same effect. The Canadian government deliberatly stopped making any bonds tax-free many years ago and there is no reason to believe that such a retrograde step would be taken again. However if farm credit bonds were made tax-free, and loan company bonds were not, it would retard the progress and lessen the effectiveness of the loan companies even more.

The Loan Companies usually lend on a mortgage for twenty or thirty years, to be repaid on the amortization plan. This is long term credit without government aid, which is possibly the best and more economical type for the Canadian Farmer. But getting back to intermediate credit, it is possible to have a loan for less than five years. When the shortest loan is made it is for five years. But it is not necessary to carry this for the full time if there is an opportunity of paying off sooner. There is in some cases a small extra charge made if it is paid off sooner; and in some cases a bonus is given. In either case it is so small that it may be neglected. But it can be seen that if the farmer in the West wishes a small loan, for say eight hundred dollars in order to buy a little live stock, he could probably get this money on a second mortgage with a loan company paying no more than either percent. This will be paid off on the amortization plan, and if there is an opportunity of doing so before the five years is up, the farmer is at liberty to pay off the whole indebtedness.

Long Term Credit

The step that the Dominion Government has taken in the field of Agricultural Credits is carried out by the Canadian Farm Loan Board.(3) The Act was passed in 1927, and is due probably to

(3) Statutes of Canada, 1927, Ch. 43.

the investigation of Dr. Tory. His report had a great effect on all agriculturists and financiers and many of his suggestions were carried through.

Long Term

The Canadian Farm Loan Board consists of four members, one of whom is the Minister of Agriculture, who is the chairman of the Commission. The Treasurer of each province in which the Board has been accepted, acts in an advisory capacity. It is a corporate body with power to issue and sell bonds, make long term loans to farmers, hold real estate in order to protect itself against loss, invest funds in securities guaranteed by, or issued by the governments, Canadian or Provincial. As in other government loan policies, money is lent only on first mortgage. The Capital stock is issued in one dollar shares of which the Canadian government subscribes an amount equal to five percent of the loans; and each provincial government a like sum.

Each borrower subscribes stock equal to five percent of the loan made to him. In order to get the Board functioning, the Canadian government gave five million dollars interest free for three years. From then on five percent has been charged. Also $50,000. in 1928 and $300,000. in 1931. The former is charged to the supplementary estimates and the latter 25 year 5% bonds.

The Board has the right to say what purposes are legal for loans under the Farm Loan Act. These are set out in the Act as follows:- The farmer may borrow to purchase farm land, or materials, whether seed or implements, which are necessary for the proper operation of the farm. Also money may be borrowed to im-

prove the land or erect buildings. Accumulated debts may be paid off with this money. Loans are made only up to fifty percent of the appraised value of the farm, plus twenty percent of the insured improvements, with a limit of ten thousand dollars for one farm. The mortgages are subject in all respects to the laws of the province in which they are held.

The Board was formed two years before any action was taken. In 1929 Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia, and Quebec expressed intentions of using the long term Farm Loans. There was necessarily some delay after the passing of the Act because the desire of the provinces to benefit under the Act had to be ascertained before any steps could be taken. The Provinces had to pass a bill in parliament. The Board began loaning at six and one half percent with a penalty interest for back payments of seven percent.

The money that the government gave interest free, the board has used sparingly.

Despite the fact that the provinces have objected to the slowness of the Board in commencing operations, and the precautions taken, there have been large sums loaned each year.(4)

1929(1930(	$2,630,376
1931	3,517,488
1932	1,996,344
1933	1,276,114

It will be seen from these figures that the amount of the loans has been dropping. That is due to the increasing care

(4) Annual Reports of Canadian Farm Loans Board.

taken by the Board in loaning. Collections are bad, and more interest is owing than was due for the first year. Yet there was a profit shown at the end of 1933 because of the six hundred and sixty-two thousand dollars of interest that does not have to be paid. It has been estimated that a loan total of fifteen millions is necessary before the board could make a profit if it had to pay the interest on the initial capital. The total has not reached $10,000,000. yet.

The cost of running the Canadian Farm Loan Board is great-over one hundred thousand per year. This has often been held up by its enemies as one good reason why the people of Canada should not help pay for farm loans. However the government thinks that the best was out is to continue loaning. In October 1934 Hon. H.R. Rhodes intimated that the rate would be reduced from six and one half percent to five and one half, because the price of money to the government had dropped, and he would ask for an additional issue of ten million dollars worth of bonds.

The figures of the amounts loaned to the individual provinces will be found under the heading of each province.

Since Mr. Rhodes announcement, with an election approaching, and the reform platform of Mr. Bennett taking the pre-eminent position, there have been many new suggestions put forward for the betterment of the farming community of Canada. The Original plan of the Canadian Farm Loans Act, was to deal with each province as a separate unit. This plan has been tentatively discarded for the scheme of having the whole of Canada

under one head. In this way the disadvantage of one province will be hidden to some extent.

Mr. Rhodes suggested that an additional ten million dollars be issued in bonds for the Farm Loans Board. The latest plan, when the whole of the Dominion comes under one head is to increase the total bonds to nine millions, from which can be seen a great loosening up of credits. There are probably to-day many farmers unable to get credits who will profit by the new Act if it is passed.

Under the new Act, the Development Board of Ontario and the Saskatchewan Farm Loans Board will cease to function. It will do away with the legislation that was formerly necessary from the provinces, and the provinces will no longer be required to subscribe to five percent of the loans issued in its territory. Nor will the farmer-borrower have to become a shareholder to the extent of five percent of his loan. These shares now held by the farmers and by the Provincial Governments will be bought back by the Farm Loan Board at par. There also is an attempt to increase the Dominion Government guarantee of loans from thirty millions to forty millions. Mr. Rhodes in his address foresaw a five or four and a half percent interest rate. It is once more the cry of the farmers that their interest rates are too high, and with the general decrease in rates there should be no difficulty in reducing it a little. However the rate of government bonds

cannot fall much below three and one half percent. It has been stated by Dr. McLean, the Farm Loans Board Commissioner, that the Board must charge two percent to be safe, and a rate of one and half percent is the lowest they Board can operate on. That makes five percent the lowest possible rate to farmers, and does not leave a sufficient margin for adequate reserves.

CHAPTER IV.

Provincial Credits.

Ontario.

The first attempts at agricultural credits in Ontario were made in 1912 when the Northern and Northwestern Ontario Development Act was passed.(1) Since then, with amending Acts of 1915,1916 and 1918, provisions have been made for the appointment of a Commissioner to administer the Act, and to loan to settlers in Northern and Northwestern districts amounts not exceeding five hundred dollars to any one person, the government having power to take mortgages on the land. Also the government erected creameries and grist-mills where it could be done for the benefit of a large number of settlers. The Act of 1918 authorized the government to loan five million dollars for the purposes of the Act.

The Second Act was in 1917 when the Farm Loans Act was passed.(2) It authorized the Provincial Treasurer to lend money to the Municipal corporation of any township to enable the corporation to make loans for farming purposes in the township. The loans could be made for erecting farm buildings, draining and fencing land and for permanent improvements, or

(1) S.O. 1912, C. 2.

(2) S.O. 1917, C. 25.

for such improvements as the regulations would permit, with the one stipulation that at least half of the money must be spent on permanent improvements. The Treasurer was to take debentures from the township, which were to be paid off on the amortization plan. Loans could not be made for more than sixty percent of the value of the farm, and a mortgage on already encumbered land could not be taken without the consent of the mortgagee or encumbrancer. However this Act was not brought into force because of the condition of the money market. The Treasurer stood to lose too much if the money loaned was to be at such a price that the farmer would benefit.

The Drury Government in 1921 took steps to alleviate the distress of the Ontario farmer. There were three acts passed with reference to agriculture. Long term credits were taken care of by an Act for the Promotion of Agricultural Development.(3) An Act respecting Short Term Farm Loans in Ontario was passed for the short term credits.(4) In order to make the attainment of money easier, An Act to Finance Agricultural Development was passed.(5) This last Act, as will be seen, was not directed to the loaning of money directly, but only as a means of getting the necessary funds.

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(3) S.O. 1921, C. 32

(4(S.O. 1921, C. 33

(5) S.O. 1921 C. 31.

Long Term Credits.

The Act for the Promotion of Agricultural Development was based on earlier legislation of the Province of Manitoba.(6) It made provision for the appointment, by the Lieutenant Governor in Council, of three men to form the Agricultural Development Board. This was a corporate body with power to issue bonds to the amount of five hundred thousand dollars, and debentures or mortgage bonds against the security of mortgages held by the Board. The bonds were purchased by the Province of Ontario.

Any British Subject, who had good character and had been farming with reasonable success for at least three years, could make application to the Agricultural Development Board for a loan. The only stipulation other than this made by the Board, was that the money granted had to be used for the special purposes for which the money was loaned, as set out on making the application. The Board assumed the right to say what these purposes were, but there was provision made for every purpose to which money could be put productively. Naturally money was not granted on long term for what may be described as consumer's purposes. It had to be put to work on the fixed assets of the farm, or for clearing up long standing and difficult liabilities which could most easily be paid off over a long period. Loans were made for the acquiring of land, installing of drainage systems, the erection

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(6) M.S. 1917, C. 33.

of buildings on the farm, and purchase of breeding live-stock. Money could be borrowed on a mortgage also for paying off charges under a will, discharging registered encumbrances and to consolidate outstanding liabilities incurred for productive agricultural purposes. The limits on the amount to be borrowed were set at twelve thousand dollars or a limited of three hundred dollars per acre, if the land held was less than fifty acres, which had to be repaid in twenty years or less. Subject to this maximum, a loan may be made up to sixty-five percent of the value of the property, as determined by the inspector. For the removal of encumbrances, the loan may be made up to fifty percent of the value. Repayment is made on the amortization plan, whereby the farmer makes the same payment each year, part of which is interest and part capital. As the years go by, the proportion which is capital increases and that of interest diminishes, until finally the whole amount is paid off. The interest rate at the beginning was six percent. This made the annual payment eighty-seven dollars and eighteen cents per thousand dollar loan. Later it was found that the Board was making profits, and that the rate could be reduced to five and one half percent and still make money. The charges besides this are small. There is a twelve dollar fee charged for inspection, payable whether the loan is granted or not. Charges other than this are made in proportion to the size of the loan and the difficulties in the way of disbursement.

As has been said the Agricultural Board had some success.

In the first seven years of its existance sufficient profit was made to pay back to the government all the money advanced to the Board in order to start its operations. By 1925 it was decided to reduce the interest rate from six to five and one half percent and in this way save the farmers about fifty thousand dollars in that year alone. When the loans increased the saving was over one hundred thousand.

From the figures shown below it will be seen that the reduction in interest rate had a great effect on the manner of loans made. In 1924 the amount of loans did not increase as was expected. But in 1926, and from then on, the increase was amazing. From 1926 until1929 it must be remembered that agricultural conditions were ideal. It would not be expected in this time that farmers would be wanting loans. But many farmers saw an opportunity to improve their farms, and took advantage of it.

1929 saw the turn of the tide. Up to this time the interest and principal had been well paid, and the outstanding debts were insignificant. The greater part of the payments were made on the dates set, and all but two or three percent were paid before the end of one year overtime. But in 1929, when there was a poor crop and added to this the produce could not be sold to advantage, the distress of the farmer increased. The number of loans increased but for the most part the amount desired was smaller. The main reason for this was that corporations and individuals wanted the money they had tied up in mortgages and the

farmer had to turn to the government as his only alternative to foreclosure.

At this time also the government found another difficulty. The land had been valued when prices were good. Now with a fall of prices of land as much as sixty percent there was not the easy margin for the Development Board to use as a buffer. During this period foreclosures increased, and to make matters worse, it became increasingly difficult to sell the land at a profit. Often the farm had to be held for more than a year before it could be sold at all. Such a thing as looking for a profit on farms taken over had long been given up. There was time, previous to 1929 when a farm was sold for more than the value of the mortgage. The amount over and above all claims by the Development Board was given back to the farmer. This is a practice which differs from the European system where the farm is taken and the loan company or society takes all there is. In 1932 the interest payments were poor. Of all payments thirty-five percent were in arrears. However there was still enough money taken in to pay all expenses and to lay aside a little as surplus.. The increasing number of mortgages means an increase in the debentures which command interest. Unless matters are straightened out, there will come a time when the interest of the mortgages does not cover the debentures and these will become a direct charge on the government.

The following table shows the amount of loans paid out each year. (7) Figures for every other year.

1922	$2,040,605
1924	3,582,150
1926	4,028,300
1928	5,670,025
1930	8,969,225
1932	10,869,975

In 1932 the total outstanding amounted to a little over $43,700,000. The total for 1934 reached $55,000,000 (8) This sum, with the lack of security caused by the great, reduction in land values has placed the Development Board in a difficult position, and led Premier Hepburn to cease loaning to the Ontario Farmers. Before the decision to discontinue loans was made, the interest rate was reduced from five and one half to four percent. This might have helped in reducing the burden of the farmers and, if they had any possibility of pulling through the paternalistic action of the government would have been a decided advantage.

The Ontario government realized that it would lose greatly by the move, because there would not be sufficient revenue to pay the bond holders so loans were stopped. It was shortly after this move that the Dominion government came to the aid of the Ontario farmers with the proposed amendments to the Canadian Farm Loans Act.

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(7) Annual Reports of Agricultural Development Board.

(8) Evidence placed before Dominion House of Commons, January, 1935.

Short Term Loans

The Act respecting short term Farm Loans in Ontario is operated by the same Agricultural Development Board. The Board, however, has no authority to loan short term credits directly to the farmers. It must go through the Farm Loan Associations. Though these can be formed easily only fourteen territories became organized:-

Balfour-Rayside	Elfrid	Trafalgar
Cosby-Martland	Glanford	Toronto
Nassagaweya	Howard	Seneca
North Grimsby	Mosa	Rexborough
Sault Ste.Marie	Nelson	

Short term credits are loaned on the co-operative principle which has been so successful in its application to other agricultural interests and products.

Farm Loan Associations can be formed in any territory in Ontario. All that is necessary is that five responsible farmers in the community sign a statement setting forth their belief that a Farm Loan Association is needed in their community. The Board then names some person to act as the Secretary temporarily. This man secures at least thirty farmers who desire to become members. Of course such members are limited to those actively engaged in farming or those promising to be so engaged within one year. Each member is required to subscribe to at least one share of stock, par value one hundred dollars, making a ten percent payment with his subscription. After the membership

has been subscribed it is necessary to go to the Township Council and secure its subscription to an amount equal to one half the amount subscribed by the local members. The Council then has the right to nominate two men to act as Directors on the Board of the Association. When the required amount of stock has been secured by the individual members and by the Council, application is made to the Treasurer of Ontario, who subscribes for an amount equal to that of the Township Council, and he too names two Directors. These funds are held as security and not used for current expenses. In this way a Board of five men, with definite money interests, is in charge of the Association.

Application for loans is made by the farmers to the Board of the local Association. It supplies forms on which the farmer sets forth the amount he desires, the purposes for which the money is required, and the assets which he has. The money may be granted for the purchase of seed, feed, or fertilizer, or for the purchase of machinery or live stock. In another category come payments of the cost of carrying on any farming operations or the cost of preparing land for cultivation. Occasionally fire or life insurance against which the farmers object, is required by the Directors as collateral security for a loan made for any of the above mentioned purposes especially those of the second category. The maximum rate of interest as set forth by the Act is seven percent, one

seventh of which goes to the local association for expenses. In general practice only six and one half percent has been charged. The loans may not at any time exceed one thousand dollars and are repayable at the end of the calendar year, with the option of renewing them if in the opinion of the association executive it is better to renew than to foreclose.

The purpose of this Act was not to supply easy money to the farmers, but to allow them to get short term money at a rate that was not exorbitant. The commercial banks could lend this money at only a slightly higher rate--seven or seven and one half percent,-but they are limited to ninety days credit by the Bank Act. A restriction like this makes it difficult for the farmer, as most of the work on a farm is not productive in such a short time, wherein it greatly differs from a commercial industry. Though in almost all cases the commercial banks are willing to extend the time of the note, the farmer finds it easier to borrow for a longer time from the local Association. As will be shown by the figures below this Act did not fulfil its objective as successfully as did the long term Act. Very few associations were formed and after only three years, the total outstanding began to be reduced instead of increasing. However in 1931, when matters were at their worst, the farmers once more began to apply for short term loans, but no more societies were formed. The Banks by 1931 had tightened up their loan limitations, and where they were granted the rate was prohibitive.

A bank is a business proposition, and for sound banking they cannot be criticized. It is at a time such as this that the government, with a competant staff of farm inspectors, can do much good in the field of Agricultural Credits. It is expected that after a few years the farmers will once more be on their feet, and able to pay back all money advanced. But this time has not yet come and the Government is faced with a great loss, or the alternative of taking many farms on foreclosures, a step which they are not likely to take. It is the policy of the Canadian government to keep the farmer on the land. He is more use there than on city relief.

The following figures show the loans granted by the Farm Loans Associations.(9)

1922-3	$279,673
1924	231,402
1926	175,940
1928	144,393
1930	139,064
1932	192,972

The Agricultural Development Act.(Finance)

The third Act passed was an Act to Finance Agricultural Development. As has been said, this Act did not directly affect the farmer. It authorized the Treasurer of Ontario to borrow money

(9) Annual Reports of Agricultural Development Board.

by means of deposits lodged with him by the public, in any amounts, from any persons or corporations, and to open offices for this purpose in such parts of Ontario as seemed to him wise. The Ontario Savings Institutions accepted deposits at four percent. Later this was reduced to three and one half. The Treasurer took this money paying one half of one percent extra to take care of the running of the offices. This in turn was released to the Associations, through the Farm Development Board at one half of one percent higher. The spread between this and the rate paid by the farmers was to take care of local expenses and provide for a reserve fund. The Development Board did not make anything on the Short term loans, and all the expenses that they entailed were paid for out of profits from the long term loans.

There is thought to be an agitation being put forward now for the abolition of the Savings offices. They have not been successful. It was the ambition of the government to have at least twenty millions on deposit, but this has been reached, even though their rate is above that given by the chartered Banks.

QUEBEC

Short Term

The first move towards providing short term credits for farmers in Quebec was made by Mr. Desjardins in 1900, when he founded the credit societies known as the Caisses Populaires. Under the Syndicates Act and amending Acts, co-operative societies

of producers and consumers may be established to carry on business within limited territories, which are usually parishes or groups of parishes, for the purpose of providing loans to members. By the Act, the control of the syndicate's business is divided between three boards, the Board of Management, the Board of Supervision, and a Committee of Credit. The Board of Management, a committee of at least five members, has charge of general management, makes contracts, invests the syndicate's money, and so on. The Board of Supervision checks the accounts, guarantees, etc., and the committee of credit, of at least three members, controls all the loans made by the syndicate, subject to the by-laws, and investigates the credits and securities of applicants for loans.

Every credit society must apply at least ten percent of its net annual profits to one or more reserve funds, until such funds are equal to its maximum liabilities, and thereafter it is advisable to apply at least five percent of the profits until the amount of the reserve funds is double that of the liabilities. Every syndicate operating under the Act is required to report annually to the Provincial Secretary and to the clerk of the municipality in which it carries on business. These clauses are set forth by the Quebec Syndicate Act.(10)

The Caisses Populaires have their management much in accord with this Act. These institutions were established in

(10) R.S.Q. 1909, title 9; C. 3; Sec. 19.

1900 under the guidance of Mr. Desjardins of Levis. Later, when the Syndicates Act was passed these institutions came under its power. After a careful study of conditions in Quebec and a knowledge of European institutions, Mr. Desjardins modelled institutions on the plan of Limited liability used by the Italian People's Banks[x], rather than the principle of unlimited liability which is used by the German banks.

Each member must hold one share which has a value of five dollars, and on which a dividend of from four and one half to eight percent is paid. These shares are redeemable on demand and are the only liability of the individual members. The interest is paid from each separate institution, and not on the aggregate earnings of all the Caisses Populaires. Dr. Tory, in his report in 1924 suggested that there would be more co-operation and better business if all these separate institutions had a central office.

The purpose of the institutions is to grant short term credits, though there is some mortgaging on the security of immovable property. In addition they make loans to their members on personal security. In order to do this, the institutions accept deposits, on which interest is paid, but the rate is never as high as is the dividend rate. The Caisses Populaires are for the benefit of both the agricultural and industrial pursuits, and as there is no way of separating these two in the reports, both will necessarily be included in the figures.

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x Supra Page 15.

feel the pinch if a loss had to be declared, there would probably be more than sufficient to cover it from one of the sister societies. If such a step were to be taken, it would decrease the usefullness of the institutions as they now exist. The farmers do not wish to take care of communities far distant from their own. It is only because of the closeness of all that the scheme works a loss in one year is not important, because there are only one or two societies reporting a loss each year, and it is never large enough to make the following year's business a loosing one.

Long Term

Except for the loan companies the provinces of Quebec had no long term loans until 1929 when they passed legislation for the purpose of taking advantage of the Canadian Farm Loan Act. The following is the table of loans made in Quebec under the Canadian Farm Loan Act.(12)

1929-30	$202,000
1931	1,249,231
1932	791,595
1933	649,367

The condition of long term loans in Quebec is a little better than in Ontario or in the Western Provinces. This may be due to the fact that the farmers have no room to expand. They have to improve their farms intensively, not extensively.

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(12) Annual Reports of Canadian Farm Loans Board.

However for the most part the loans are made to small merchants who do business with the farmer. In case of liquidation of any society, the credit balance, if any, is spent in the community on some charitable cause under the direction of the Lieutenant-Governor.

Until 1915 there were no reports sent to the Provincial secretary, and even now all reports are not sent in. But there are enough to show what is taking place. Usually there are only two or three reports missing. In almost every case there has been an annual profit. These profits are not shown, but the losses have been few, and slight. The following are the figures for the Caisses Populaires, as a whole, from 1917 to 1931.(11)

	1915	1920	1925	1930
No. of Banks	91	100	122	179
No. of Members	23614	31029	33279	45747
Amount Loaned	$1483160	$4272584	$3919960	$3724537
Profits	89693	311322	449530	645096

In the first few years of the existence of the Caisses Populaires there were very few institutions. It was not until 1908 and 1909 that there was any increase in the number. From then on their success has been very apparent. In Dr. Tory's report, there was the suggestion that a central office be formed to take care of dividends. In this was no single society would

(11) Quebec Year Books.

When the Act was passed by the Quebec House, there was much talk of the Province paying two percent of the interest rate because they considered the rate too high for farmers to pay. The action taken by the Dominion Government in the proposed increase in the loaning policy of the Canadian Farm Loan Board and the reduction in the rate is much the same as Quebec's plan. Money cannot be loaned in Canada at less than six or six and one half percent, and any loans made at a rate less than this are gifts to the extent that the rate is less than this rate.

MANITOBA

The first rural credit in Manitoba as planned by the government was the Settlers Animal Purchase Act of 1916.(13) Under it the government bought cows for resale to settlers wholly or partly on credit. The Act set out a system by which the money was loaned as follows:- Only members of the co-operative associations, which were formed in accordance with the Act could make application for cattle. These associations could be formed with only ten members, but only in that territory between Lakes Winnipeg and Manitoba. The shipment of cattle at one time, was limited to five head, on which the farmer had to place his bond for ten percent when it arrived. The whole debt was to be paid off within five years, with interest not exceeding five percent. For security the government took first lien on the cattle and their progeny, and until the payment was made in full, the farmer had to send any milk and cream, over and above his own immediate needs to one of the co-operative creameries or cheese-factories established in his district by the government. Though the scheme has remained in operation, it has not been very successful.

In 1917 the legislators of Manitoba thought that one way to pay off part of the great Canadian War Debt was by increased

(13) M.S. 1916, C. 3.

production. They planned a scheme of short term credits. It was a system based on European experience superimposed on Manitoba farmers. Though it was good, it did not fulfil their expectations. In that year the Manitoba Rural Credits Act, was passed to facilitate short term credits.(14) Also for long term credits the Manitoba Farm Loans Act was passed.(15)

Short Term

The Manitoba Rural Credits Act Established Rural Credit Societies, incorporated by the Lieutenant-Governor in Council, of not less than fifteen persons engaged in farming in the locality.

These co-operative societies could not start business until they had at least fifty shareholders, subscribing for at least five thousand dollars worth of stock with ten percent paid up. The province then subscribed for half as much as the members and the municipalities in which the societies were formed, subscribed for an amount equal to that of the Province. The Board of each society consisted of nine members, three from each group, the individual shareholders, the province and the municipalities.

The object of the societies formed under the Act was to procure short term loans for its members for the purpose of purchasing seed, feed implements, etc; to pay the cost of agricultural operations and prepare land foragriculture; to act as agents in buying supplies for members and selling their products; to promote co-operation among farmers in the district. The interest rate

(14) M.S. 1917, C. 73 (15) M.S, 1917, C. 33.

could not go above seven percent and if a profit were made, a dividend not exceeding six percent could be paid. The security required was a note signed by the borrower and endorsed by the society, with the property bought with the proceeds of the loan together with the offspring of the stock and crops grown from seed bought with this money, subject to a lien equal to the amount of the loan. Personal property of the borrower could also be used as security on which a lien could be taken. The method of borrowing for the purpose of loaning was very simple and easy. The societies made an agreement with a private lender or a chartered bank for the amount needed. This sum was guaranteed by the province.

The scheme began very well. The following is a table showing the activities in the first four years.(16)

1917	$16,600
1918	89,000
1919	841,000
1920	93,000

Though these sums are not very large, they were sufficient to give the officials great confidence. But collections were not easy to make. There was not sufficient care taken in the loaning of money, and no check was made on what the money was spent on. In 1920 the Chartered Banks began to object to loaning the necessary funds, even though they had been a great demand for them,

(16) Manitoba Public Accounts.

and every loan was guaranteed by the government as well as by the individual societies.

This move on the part of the banks led to the establishment of the Manitoba savings offices in the same year. The organization of these offices was very fast. Forty days after the banks had ceased to loan, the offices were opened and business resumed in the societies. With these, the public could deposit money and receive interest at four percent, as well as having every deposit guaranteed by the government, a method of saving very popular with the public. At the end of the first year, there were deposits of about three million dollars most of which was turned over to the government. This was the cheapest way for the government to get money for short term loans. In 1923 the deposits had reached almost seven and one half millions and in 1925 were over thirteen millions. This was hard on the savings business of the chartered banks, but it was estimated that there was not enough profit in the loans to the societies to continue them. The banks were getting only six percent.

In 1921 there was a general shaking up. The societies had not really been doing as well before 1920, as was thought by the figures. In this year the Jackman-Collyer report was made, in which it was charged that there was not sufficient supervision and the societies lacked "the most elementary business safe-guards". It was found that some of the securities and other officials of the societies, who were not eligible for loans, had received more

than the farmers, and the officials had no intentions of cleaning up their debts, because they could not. In this way about half a million dollars was lost.

There were suggestions made, some of which were carried out. The report suggested that some government check be kept, and that a financial statement be made at least once a year. Previous to this, the reports from the societies were poor if there were any at all. Also it was suggested that the interest rate be raised from six to seven percent in order to make more provision for bad loans. It was considered better to raise the rate a little, than to close out entirely and leave the field to the loans companies which, it was feared, would raise it to eight or nine percent. In this way the good farmers who paid their debts were penalized for the bad business of others. The report asked for the consideration of dividing the province into two or more divisions, which would be easier to supervise.

In 1921 then, the Rural Credits Associations made a new start, which a high debt and better prospects. In one way their prospects were not so good. The Act stated that loans could be made up to forty thousand dollars per annum. In 1920 this was raised to sixty thousand, which only led from bad to worse.

In 1923 matters had begun to be as unsatisfactory as before, and another report was made to the government. The Report of the commission appointed to enquire into the operations

of the Rural Credits Act uncovered much the same kind of trouble that the Jackman report did, but it was found that conditions were, if anything, worse. There were seventy four societies, but these embraced only about three thousand, five hundred farmers out a possible fifty thousand. Of these, thirty-three societies were in the hands of the government because they were declared insolvent. The cases of directors of the societies being the heavy borrowers as well as the heavy defaulters was a provincial scandal. Once more there were several excellent suggestions made. It was suggested that the farmers be asked to pay upto twenty-five percent of their capital stock. Previous to this they had only paid the ten percent which was required in the second year of operation. In order to get more capital, several of the municipalities engaged in the Rural credit scheme had issue no-dividend debentures. Strange as it may seem, these were taken up, though more by institutions which wished to see the venture succeed them by private investors. It was thought that if borrowings of the societies were limited to a total of ten times the paid up capital, and reserve, that there would be a better chance of making money. In 1921 there was the attempt to increase the reserves for bad debts by increasing the interest rate, but this did not work out. The reserve in 1923 was less than one half of one percent. The report also suggested that the directors be supervised and the borrowers be educated into the meaning of co-operative borrowing.

A new government took office about this time and roundly condemned the previous government for its blunders. But a political move did not do all that was necessary. The cost of operation was looked into and a measure was passed allowing twenty-five thousand dollars for expenses. This was the average for the five years of operation. The amount the societies were allowed to loan was set at twenty times the paid up capital and reserve. There was a greater check put on the societies especially as the government had in its direct control almost on half of the societies.

The Rural Credits Act functioned for two years more before there was another fuss made. It was discovered that in 1925 there was a possible loss of about seven hundred and fifty thousand dollars, and fifty of the seventy-four societies were in the hands of the government. The foregoing reasons were partly responsible for the bad state of affairs, and to this had to be added the serious effect of deflation of agricultural prices. The amount of loans granted for that year had not been so large as in many previous years, and it was the boast of the Association that not a loan made since 1923 had been ill-advised. But for all that, there was much to worry about. Old loans had been renewed with the hope that they could straighten themselves out if they were given time. But loans had

been made for purposes which were not legitimate, and for sums as large as eighteen thousand, instead of the two thousand as was set out in the Act. It could not be expected that loans such as these would ever be paid off.

The government immediately took more steps toward cleaning up the mess. Loans were to be made from then on directly through the government with the societies directors only as a committee of approval. The maximum loan which the government would make was one hundred and fifty dollars per person. This sum was far too small, but as most of the loans make in this period were to farmers who were carrying old loans, it was more a type of relief than loan.

In 1926 a test case was tried in the courts, in which a farmer had not paid the society and the society sued. The lower court allowed the claim of the society. The farmer appealed and in the supreme court the farmer won. It was declared that all loans from 1921 to 1923 were illegally made and the farmers had no reason to pay. This put one and one half millions in jeopardy. But any loans which had been made before or after this date were legal, and any loans which had been renewed after this date, though made in the two year period, were legal. At first it was though that the Association would lose heavily, but this matter was straightened up, and the loss was not increased. At this time there were over three millions

outstanding, of which half a million was uncollectable and half as much again doubtful. The clean up started in earnest with many foreclosures; but conditions were so bad that it did not go far. For debts of about one hundred and fifty thousand, the sale brought less than fifty thousand. This was not entirely due to the economic conditions of the time. The farmers were growing more communistic every day, and when the auctioneer would go out to a farm to sell the property, the friends of the farmer whose farm was to be sold, would come and bid as little as they could and give the farm back to him. As there were no reserve bids, the government could not make anything out of the sale.

Premier Bracken became mixed up in the affair and before he disentangled himself he had promised that the government would take over the Rural Credits, and that the system would be run entirely by the government provided that before this time the Association had the Rural Credits system a paying business. As it was the government was carrying the overhead.

But something had to be done by the government at once. The loans were not being paid and the farmers themselves were not in a happy condition. It was decided that no more renewals would be made, and that the terms of the contracts would be carried out to the letter. This it was argued would be hard on the third party, but it was probably the easiest way out. It was desired that the farmer should

stay on the land; that he was of more use there than anywhere else. For this reason, an independent committee was appointed to do the best they could with settlements--the Debt Adjustment Service. Repayment of loans made under the Rural Credits Act, the Cattle Scheme, the Seed Grain Loans Act. The Fodder Act had been guaranteed by the government. All these in the order they are listed were to be paid off to the best of the ability of the committee. There was to be some of the available money put to each loan in the case of more than one.

The Manitoba Savings Institution was also in a precarious position. Its money had been given to the Manitoba Rural Credits Commission which could not pay its interest. The Government had taken over the payment of interest but found the burden exceedingly heavy. The only resort was to the chartered banks. In 1932 the Manitoba Savings Institution ceased to function with Ten Million dollars on deposit. These deposits were divided among the chartered banks. The government made up the deficit by an issue of Province of Manitoba Bonds.

The Manitoba Farm Loans Act establishes a body corporate under the name of the Manitoba Farm Loans Association, to be managed by a Manitoba Farm Loans Board of five members appointed by the Lieutenant-Governor in Council. The Union of Municipalities and the Grain Growers' Association are both

represented by a member of the Board.

The Capital of the Association is raised by a million dollar issue of five dollar shared-one half taken by the province and the other hal by the borrowers. Every applicant for a loan must be a shareholder to the amount of five percent of the desired loan, that is, if the loan is granted, the borrower must buy one share of the stock for every hundred dollars of the loan. These share then were held by the association as collateral security, and paid off and retired on repayment of the loan. The Association also was given the right to receive deposits, with or without interest, from any persons or corporations, and the Lieutenant Governor in Council may authorize the issue of bonds and stocks by the Association and may guarantee the same.

The purposes for which the Board may lend money are:- Acquiring, cleaning, and improving land for agriculture, erecting farm buildings, purchasing live stock and implements, and discharging liabilities incurred for increasing land productiveness. No loan could exceed ten thousand dollars or fifty percent of the value of the land and improvements. The land was valued by the appointees of the Board. It was also stipulated that all buildings which were part of the security must be insured for at least fifty percent of their value. The Act called for an interest rate not exceeding six percent.

At this rate most economical loans was for twenty years, though it could be taken for twenty, thirty or forty years, on the amortization plan.

Before either the Rural Credits on the Farm Loans Acts of 1917 were put into operation, many foresaw their fall, and openly declared that they were unfair and foolish. It must be remembered that the Manitoba Loans Acts were among the first government loan Acts to be passed, and the public as always could not see the necessity for the change from the private lender and the mortgage company, to the government. However both the private lender and the mortgage companies were effectially closed out of part of the business. Perhaps it is just as well. The loan companies could not loan in what they called black-list areas. These were districts in which several loans had gone wrong. When this happened the companies closed out and would not take even a good farmer. The government loans were spread all over the province, and these black-list areas were given another chance, much to the sorrow of the government in later times.

There were many clauses and principles imbodied in the Act which went so far as to antagonize the loan companies. The greatest of these was the first mortgage taken by the Government, if it made a loan. A farmer could have a fair loan with one of these companies for which he had given a first mortgage. Probably the company did not wish to increase the loan because the first one was not being paid off well enough. The government could

come in then and loan to the farmer, but take the first mortgage which the loan company thought it had, and leave the loan company a poor second mortgage on which there was in many cases not a chance of collection.

The Farm Loan Association commenced very well, but in the case of long term loans it takes more time to ascertain whether the loan will be paid off or not than does a short term scheme. A Profit was made by the first nine years but after that when the principle did not come in so well, profits fell, and for the last few years of its existence there was a considerable debt. In 1923 money was no longer loaned to consolidate debts. This was considered inconsistent with good banking, especially as many farmers had at that time greater liabilities than assets.

In 1921 the interest rate was increased to seven percent. This had the effect of keeping some from applying for loans. In 1925 it was reduced to six and one half percent. The figures for the years show that much money had been loaned. The following table shows the amount outstanding every other year. (17)

1919	$3,086,961
1921	5,858,958
1923	8,492,566
1925	8,626,078
1927	8,810,663
1929	7,936,[illegible]
1931	5,924,720
1933	5,232,471
1934	5,537,945

In 1929 the Association ceased loaning and the Canadian Farm Loan Board began to take up where it had left off. But

(17) Manitoba Public Accounts.

conditions were not satisfactory; there was much cleaning up to do first; the accounts showed a profit which was non-existent; the government guarantee was not properly used. In 1923 the government had guaranteed bonds up to six and one half millions. This was seen to be too much for the province, and in 1927 an amendment was passed limiting the guarantee to two million eight hundred thousand in bonds and a three hundred thousand overdraft. After 1932 the government bought all the bonds at par, and guaranteed only the overdraft which necessarily had to be carried until after all the mortgages had been paid off. In 1934 the Association held three millions in property and had a loss of its books of over two millions. It can be seen from the figures that payments were not being made. There have been no loans made since 1929, yet the 1934 figures are higher than the 1933. More than half last figure is principle and interest over-due. There have been various schemes for payment, such as giving one dollar and thirty cents credit for every dollar paid that was due, providing taxes had been paid. But these can have no effect if the farmer has no money, and no means of receiving a loan.

The loans made by the Canadian Farm Loan Board are small. They are as follows. (18)

1929-30	$31,858
1931	212,617
1932	305,649
1933	228,514

These figures show the care with which the Canadian Farm

(18(Reports of Canadian Farm Loan Board.

Loan Board is going forward. Instead of giving the farmer all the money he wants on a mortgage, the latest attempts have been relief to the needy farmers, with small loans to those, who, in the opinion of the Board, have any chance of making a living to-day. It is just throwing money away to loan it to some farmers, because there is nothing they can do about it. Prices are too low to allow them to make a profit.

SASKATCHEWAN

The Saskatchewan government passed the Farm Loans Act in 1917, and it went into force immediately. There was a Board of three members appointed for ten years. Funds of not more than five millions were to be raised by government guaranteed bonds, with interest on loans just enough to cover the cost of, the money and operation. This, for many years was six and one half percent. The money was to be used for legitimate agricultural purposes and not for the purchase of land, because the speculative element might creep in. The government took a first mortgage, over the heads of the mortgage companies, for these loans. When a loan was paid off, a bond was not to be retired, but another loan substituted for it.

The same difficulty was experienced by the Saskatchewan as by other governments. There was a shortage of money. In the first three years over five and one half millions in loans had been issued and only two millions of this was government bond money. These bonds were not popular. The rate had formerly been four and one half percent. It was decided to raise three and one half millions in five percent bonds. This was better than the bank could give, and better than the Manitoba Savings Bank was giving.

Collections had by this time become unsatisfactory. In

many cases there was a foreclosure and in 1924 the government held over one hundred and thirty farms. There was still the difficulty of getting money. Each year more was granted by the government and each year money had to be borrowed from private sources. However all interest due to the Treasurer was paid. Besides the grants from the government, more debentures were being issued at four and one half percent, as at the start, and in 1927 at four percent. In this year, the debt of the Board to the Province had increased to over nine millions.

From 1927 on, matters became very bad. 1926 was a very good year and it gave the Board a false sense of security. The loans that were made, were not always well advised, and the debt became too high. In 1930 a special audit was made. In this audit, the former government was charged with bad management, and dominion aid was talked of. Mr. Weston, the auditor, found that there was a possible loss of two and one half millions. On looking through the loan applications, he found that in many cases loans had been made that the inspectors did not encourage, and that the Board overruled the inspectors frequently. Loans had been granted in excess of fifty percent of the value of the farms, and no check was made as to the purposes to which the money was put.

The audit had the desired results. Collections had been very bad, more than one half of the interest unpaid, and the Board was not in a position to ask for more money from the government. An investigation was requested and at once began. After the public investigation, the report of the Weston audit seems too harsh,

but at the same time the management mistakes could not be minimized. The loss however was not as large as the people had been led to believe from the Weston audit.

It is doubtful if the investigation did not color the report a little instead of a three million dollar loss, the investigation reported a surplus of over one hundred thousand. The Weston audit was probably wrong, but there could not be so great a difference. From this result the commission was considered to have done a service to the province and the mistakes which had been made were to be expected, when everything was taken into consideration.

With the support of the government behind it, the Board wentfarther wrong. The depression set in, in all its intensity, and Saskatchewan suffered as much any other province. Farmers were unable to make a living, paying the accustomed rate of six and one half percent, so for a period of four years, from November 1931 until November 1935, the rate had been reduce to five percent. The result has not been what was expected. With the drop in land values, the security behind the bonds has fallen. In 1934 there were seventeen millions in bonds outstanding, and as security for these bonds there is twelve millions in mortgages, with prices at their present level. Besides this there is only three quarters of a million in foreclosures.

This record is not to the credit of the province, but in the light of what other provinces have done, it is not so bad. The province of Saskatchewan is the only one, with the exception

of Ontario, where the provincial authorities have made loans, and have not had to call on the Dominion Government to help them out with the Canadian Farm Loan Board.

The following is a table showing the development of the scheme.(19)

	Total Loans	Int. Unpaid	Int. Paid	Cap. repaid.
1917	211,500	------	------	------
1922	8,593,700	56,300	914,500	[illegible]
1927	10,200,000	474,500	3,825,300	3,291,500
1932	17,000,000	2,264,700	5,615,700	4,656,400
1933	17,100,000	2,819,000	6,130,600	4,685,000

With a little explanation these figures show fairly well what has happened. From 1921 until 1928, there was little activity, 1929, however, was a big year, and there was a great deal of loaning until 1933, when prices were so low that loans could not be made of large enough proportions to be of great benefit to the farmer. The Board of the Farm Loans scheme has had power enough to curtail lending without having amendments made to the bill, limiting the sum to be loaned. This table does not show the security behind the loans. However, it cannot fairly be taken into account. Farm prices have almost completely collapsed. The only thing left to do, is to hope for the best and carry the farmers until times are better. From the table it can be seen that the farmers have done well in paying their debts, much better than in Manitoba. The interest unpaid column shows all interest unpaid on the date it fell due. Far the greater part of this has always been paid inside six months.

(19) Saskatchewan Public Accounts.

From the foregoing statements concerning the condition of the Saskatchewan Farm Loans Board, it might be considered that it would remain in action. But such is not the proposed plan. The Dominion government is considering taking over the whole affair, with no cost to the province. Though the low interest rate make payments easier, there has been a sufficient loss to force the province to accept the Dominion offer whether they wish it or not.

Although the Province of Saskatchewan did not pass a short term farm loans Act, it did aid the farmers by several smaller Acts which provided money for special purposes. In many respects these loans are preferable to the more comprehensive Acts. Under the long Term Farm Loans Acts all over the Dominion there has been the trouble of checking up on the farmers to see if they spent the money as they said they would. With the special loans, there is no worry about this side of it. The objection of this type is that it makes too many liens on the property of the farmer, and leaves him with nothing to give the general store-keeper. There are many of these acts. Only the more important will be mentioned here.

The Local Improvements Act,[20] guarantees advances made by the banks for the purchase of seed, grain, and fodder. This money is secured by a lien on two successive crops grown on the land. The sum advanced formed a charge on the taxes collected in the district in which the property was situated.

(20) R.S.S. 1920, C. 90

The Loan Company Guarantee Act,[21] guarantees loans by loan companies to farmers, already carrying a mortgage by that company, for the purchase of seed.

The Rural Municipal Relief Act.[22] The Dominion government and the Saskatchewan Government advance money in equal sums, to help farmers who have had a failure of crops in that year.

The Rural Municipal Seed, Grain Act.[23] The government guaranteed loans from banks to rural municipalities for the purchase of seed, grain. These loans are secured by liens on crops grown from seed and a charge upon the land itself.

The Drainage Act.[24] The Government guaranteed debentures issues to pay for the construction of drains. They are secured by liens on the land affected.

In order to keep these liens straight, and to satisfy the claims of all parties, there had to be a deb adjustment Service.[25] The Act calls for a Government commissioner who will be impartial. The farmer or a creditor informs the commissioner of the state of affairs, and the commissioner, authorized by the government, goes to the farmer and does all in his power to aid him. For farmer-debtor may for a period of not more than five years sign to the commissioner all his live-stock, chattles and crops. From the proceeds of these, sold in an orderly manner, the claims are paid as well as possible and the balance, if any, is paid to the farmer.

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(21) S.S. 1919-20 C. 53
(22) S.S. 1919-20 C. 30
(23) R.S.S. 1920, C. 100
(24) R.S.S. 1920, C. 161
(25) R.S.S. 1920, C. 162

ALBERTA

In 1917, the same year than many agricultural credits Acts were passed throughout Canada, Alberta passed two Credits Acts, the Co-operative Credits Act and the Farm Loans Act. The Farm Loans Act was never proclaimed, but the co-operative Credits Act went into force immediately.

Short Term

The Co-operative Credits Act was basically the same as other co-operative acts in Canada. Societies were forced with restricted membership, and a paid up capital. In Alberta the membership was restricted to farmers of certain districts, the maximum number one hundred, and the minimum thirty members. In 1925 this minimum was reduced to twenty-five. The capital of each society had to be at least three thousand dollars, with twenty percent paid up on admittance to the society, and the balance payable at the end of the year. This was a little better than in other provinces where the capital and paid up percentage was less, and where there was stated time limit for payment of the Balance. The province or the municipalities, under the terms of the Act could either subscribe for, or guarantee stock, to an amount equal to one half the amount subscribed for by the members.

The purpose of the Act was to loan money at seven percent to farmers for the purchase of seed, feed or supplies, implements, livestock, or cost of operation or preparation for cultivation. There was at the time a drive towards mixed farming and the chartered banks could not easily lend money for livestock. It was charged that the implement companies bled the farmers. This has some truth in it, but in most cases the farmers were not inclined to pay their bills promptly, and interest was charged on interest not paid, at a rate often exceeding twenty percent.

The number of societies increased quite rapidly until 1922. Then there was the trouble in the other western provinces, over the credit situation, the farmers of Alberta began to worry, and the usefulness of the societies diminished. The outcome of it was an inquiry. A commission was appointed, to 1922, to investigate into Banking and Credit facilities, with respect to the industry of Agriculture in Alberta.

The grievances of the farmers and bankers were looked into and conclusions reached that were very sound, though somewhat pessimistic. It was charged by the societies that the banks were attempting to keep the farmers in debt, whereas the co-operative credit societies were not out for profit, and therefore did not wish to see the farmers in debt. In general the commission went in favour of the banks. It concluded that co-operative credit societies were slow to take hold because of the nature of the farmers themselves. There was extensive

farming instead of intensive. In European countries where the societies had worked out successfully, the farming was very intensive and the land very densely populated. The racial and religious differences were insuperable in the West. It was stated that the Western farmers were from pioneer stock, and for that reason alone, the societies could not be expected to form a very important part of the credit facilities of the province. Also the advantages of the societies were not great enough for the farmer to allow his business to be run by others. They could themselves go to the chartered banks and do almost as well.

The United Farmers of Alberta had made many suggestions for the improvement of credit. One was the development of a provincial Bank. The Commission states, due to the experience of other provinces, that this would be impractical if not impossible. The reasons are simple and easily seen. But after all this it was stated that the Chartered Banks were not suitable for loaning money to farmers. The Chartered Banks had been built up over one hundred years of trial and error. Farmers had been going to Banks for less than twenty years in a number comparable to commercial businesses, and the banks had not the facilities to take care of the farmers. It was suggested that the Chartered Banks would not be able to at any time do much for the farmer, and that there would arise a competing institution or government institution which would take care of the farmers.

In 1923 it was necessary to have a Debt Adjustment Service Act passed. There were nineteen prior claims before the claims for the mortgage companies. As the Farm Loans Act hadnot been proclaimed the mortgage companies were practically the only source of long term loans. Such a system, if such it could be called, was not in the least satisfactory. This Act protected farmers who could not pay in full, and dealt with defaulters who could have paid but would not. The crop was turned over to the adjuster who paid the different claims as equitable as possible.

Despite the legal tangle, in 1924, the societies as a whole had not lost a cent, and the banks were still discounting the societies' paper, even though they had threatened to discontinue doing so. In 1925, with nine hundred thousand dollars outstanding, and twenty eight societies, it was thought that there would be more possibility of developing the co-operative movement if the societies were more easily formed. With this in mind the minimum membership was decreased to twenty five members. In the same year the number of societies were increased to sixty.

Collections had always been difficult for the societies since the Debt Adjustment Act had been passed. There was an attempt to have this repealed, as well as the Land Titles Act, the Judicature Act, which restricted the remedies of a vendor or a mortgagee under the personal covenant, and the Extra-Judical Seizure Act, which calls for a sheriff for seizure.

The co-operative Credits Act was not a success, and it was thought that the best way to get back the money already invested was to carry the farmer farther. To do this it was necessary to improve the co-operation among farmers. To this end, the co-operative Rural Credits Act (26) was passed in 1931. Under this Act a corporation was formed to constitute a central company which applied to all the co-operative credits societies formed under the former Act except the sugar beet societies. The object of the corporation was to administer the capital of all the societies in order to pay off loans to the banks and municipalities. The government loaned the new corporation two hundred thousand to start. All the capital of the societies was taken over, and invested only in gilt edged securities.

Under the new plan societies could still be formed. A minimum of twenty five members with a paid up capital at the end of the year of three thousand seven hundred and fifty dollars was stipulated by the Act. The money borrowed could be used for seed, equipment, livestock, operation and cultivation costs, and for calls on shares. That last use is very peculiar. The farmer may join the society by paying twenty percent of the capital, and then borrow from the society the balance. If it works out properly, the company will have plenty of money. For a loan the society takes a lien on the property and chattels. The property can be seized in case of default in interest or principal.

(26) A.S. 1931, C. 66.

As in the case of the other Western provinces, Alberta has many special loans Acts. The payments on these loans are very poor. However, there is a Debt Adjustment Service which is more efficient than formerly, and without it the province would be hopelessly in debt. The big loans are the Seed Loans to Improved districts and Municipal districts. Besides these there are Relief Advances to both Improved and Municipal Districts, Accounts for Hay, Livestock Encouragement Loans, Extermination of Pests Loans, Fodder Relief, Drainage and Irrigation and many other small but important loans.

The co-operative Rural Credits Acts has so far done very well. The figures for the first three years are as follows. (27)

1932	$136,481
1933	142,820
1934	149,235

The new corporation is doing its best to pay off all debts of the former short term scheme. Last year seventy-five thousand dollars was paid and there remains yet eighty thousand to be paid.

Long Term

The Canadian Farm Loans Board has found a great demand for its loans in Alberta. There is a larger loan term loaning policy in Alberta however, so the type of farmers that get government loans had not previously been touched. The figures for the Canadian Farm Loans are as follows: (28)

1929-30	$1,324,418
1931	1,391,578
1932	555,869
1933	172,152

(27) Alberta Public Accounts.
(Annual reports of the canadian farm loans board.

The decrease in the amount loaned as the years went by is due to the policy changes of the Government. At first it was their policy to loan more or less freely to all. But later it was seen that some bad mistakes were being made, and the farmers were getting more credit than was good for them. The mistake consequently is that the farmers are getting too little. The loans are not large enough to let them get a good start. With the new Bill passed, the policy will doubtless change back to the original, and the amount loaned in 1935 will be quite as large as that loaned in 1931.

BRITISH COLUMBIA

The province of British Columbia has been loaning for a long time. The first loans were made in 1895, when the Fraser River overflowed its banks and flooded the surrounding farms, and loans for seed and general farm repairs were then made.

The next attempt at government lending was in 1915. The Agriculture Act of that year allowed the board to borrow fifteen millions for the purpose of loaning to farmers. This money could be spent to improve the farms by clearing or draining the land, erecting buildings, or purchasing livestock. Debts could be consolidated, but in this phase of the loaning very great care was to be exercised.

For the first year the activities were very encouraging, but after that, the Commission was practically inactive. In the first place the farmers were not benefiting by the Act, except those on the edges of the more civilized districts where it was easily accessible. In the second place more of the farmers taking advantage of the Act, were doing so in order to pay off old debts, and did not improve their farms sufficiently to warrant the expense to the government.

In July 1917 the Agriculture Act Commission ceased to be effective legally, and the Land Settlement Board took its place. It was under the supervision of the Department of Agriculture, and was supposed in this way to see better the needs of the farmers and stop, to a great extent the loaning for the purpose of consolidating old debts. The Board consisted of five members.

The Act provided that the necessary money was to come from the consolidated Revenue fund, to any amount authorized by the Lieutenant-Governor, who also set the interest rate. Receipts from loans were to be paid to the Minister of Finance and be applied to immediate payments. In order not to be inconvenienced by a scarcity of money to pay interest due on borrowed money, the Act authorized the foundation of a reserve of one hundred thousand dollars.

Loans, as in the Agriculture Act scheme, were to be secured by first mortgages on land free from encumbrances, which had been surveyed. If a prior claim had been registered against the land, and the claim and the application for a government loan did not overrun the loanable percent of the value of the land, the government loan could be made, or a part of it could be made up to sixty percent of the value of the land. The purpose of the loans was the same as in the case of the former Act,

except no money was loaned for consolidation of debts, and with the addition of enabling farmers to borrow money from the government to fulfil the objects of any association. The loans were limited in size to two hundred and fifty dollars for a minimum and ten thousand for a maximum.

The interest rate, as has been mentioned, was not rigid, but could not exceed the cost of the money by more than one and a half percent. The province of British Columbia is the only one to have any system of intermediate credits. Their system is rather novel. Both loan and intermediate credits are provided by the same Act, and in the same manner. Long term credits are considered to run for fifteen, twenty, or twenty-five years. These are paid off on the amortization plan. In this respect they are exactly the same as the previous act. Intermediate Credits are taken to run from three to ten years, but not amortized. In this respect also the two Acts are identical. The only difference in the loaning policy is that in the former Act, an individual could borrow up to the total exten of ten thousand dollars for the short period. In the new Act, Associations could borrow to this extent, but and individual could only borrow the total of five thousand. By this provision regarding Associations, we see a very easy manner of fostering the co-operative movement which was so hard to start with in every province except Quebec.

Yet with the improvements, the Land Settlement Board

did not exceed. In every way it failed to do what is expected of Government loaning. The mangement did not fulfil its duties, and loans were made in a very careless manner. The following table shows the activities of the Board.(29)

1919	$8,622
1920	250,000
1921	517,011
1923	572,799
1925	639,354
1927	603,566
1929	367,971
1931	394,192
1933	334,026

Besides these sums loaned there were large amounts spent for land and stock to give to returned soldiers. For the first few years this was over one million dollars, but after 1924 it did not rise much over half a million, where it has stayed ever since.

The interest payments have not been satisfactory, and principal payments practically stopped for the first two years of the depression. The government stood up to the question until 1926, when loans ceased being made. Except for restocking farms on which much m ney has been loaned there was no activity. For two years there was no type of government loan to farmers. In 1928 the province accepted the Federal Act, and has profited by it since. The following amounts have been loaned in the province-(30)

1929-30	$682,091
1931	411,645
1932	107,102
1933	103,038

(29) British Columbia Public Accounts
(30) Annual Reports of Canadian Farm Loan Board.

THE MARITIME PROVINCES

Until the Canadian Farm Loans Act was passed in 1927 the Maritim provinces had no government agricultural loans. The Provincial governments had done nothing in this field partly because they had not at any time had sufficient funds, and partly because the farmers do not cultivate on the large scale, and had not placed themselves in a vulnerable position.

Prince Edward Island has as yet not seen the need of the Dominion assistance. But both Nova Scotia and New Brunswish have accepted the Canadian Farm Loans. New Brunswick for several years before the inception of the Canadian Farm Loans Act had considered farm loans, but the need was never great enough to force the government to take the step.

The following is a table of the amounts loaned by the Canadian Farm Loan Board in Nova Scotia and New Brunswick. (31)

1929-30	$92368.
1931	105100.
1932	56071.
1933	37640.

New Brunswick

1929-30	$2861641.
1931	1147316.
1932	117149.
1933	85400.

The loans have not been a great success in the Maritimes,

(31) Annual Reports of Canadian Farm Loans Board

and payments have not been better than in the other provinces. This cannot be called a criticism however, because prices are at present so low, that the farmer has difficulty in even making his operation expenses, let alone interest on a debt. The New Brunswick Board was particularly slow in starting. It was thought that its chance of success was limited at the outset, and for that reason the government would not in augurate the Board.

CHAPTER V.

Summary and Conclusion

Short Term

We have now reviewed at some length the steps taken by the various governments in Canada to aid the farmers. In the first place the governments took as their example the attempts of the European countries. From that as a starting place, however, the Canadian and European schemes have diverged considerably in the field of short term credits. A short summary of the action of the Canadian governments is now in order.

At the outset it was seen that the Chartered Banks, although able to render the agriculturists valuable service, were not able to deal with them as well as was necessary. The period of the loan is too short, and the Banks are not able, except in cases specially set out in section eighty-eight to loan on the security of the farmers products. In most cases the Banks are able to have security for their loans only after the loan has not been paid when due, and in order to save what has been advanced the banks are allowed to take a chattel mortgage. Even then, the farmers' land cannot be taken as a mortgage, because the banks cannot loan on security of land. Except for

those special loans under section eighty-eight the Banks have only the personal integrity of the farmer to deal with in making a loan to him.

A short term government loaning policy is then perhaps necessary. But can the governments go into the field in the tremendous extent to which the banks have gone into it. That is where the difficulty lies. For example, as has been said, the Canadian governments looked to Europe. Here they saw the co-operative movements functioning, and it was concluded that if they would work in one place they might work in another.

The Caisses Populaires, in Quebec, which are not government offices, are the closest to what the European countries have, And in Quebec conditions are most favourable to this system. Amongst the farmers there is a great amount of racial and religious unity. It is quite easy to see that the farmers will be more willing to enter into mutual agreements with those of their own race and religion. Then again in Quebec there is in most of the settled rural sections more population to the square mile than in any other part of Canada. The Farms are small and close to the larger cities. That means their produce can be sold without the aid of co-operative marketing schemes, although there are co-operatives of every sort in Quebec. They have sprung up as the natural consequence of their homogeneity and economic conditions.

In Ontario, Alberta and Manitoba, these conditions do not exist. Racially, and religiously there is no unity. Nor is the population dense except in those few miles around each town. Here is where the co-operative system breaks down. Where the European co-operative could find one hundred farmers willing or able to take the co-operative loan, the Canadian co-operative can find ten. And a co-operative will not run on ten members, established far apart, of different racial origins and religions.

Yet the government considers this system is better than having no credit facilities for the farmer except Chartered Banks. The Chartered Banks in Canada have completely covered the country, much in the same way as have the co-operatives in Europe, and as the Canadian co-operatives can never do. There are offices in every small town. These are not being run at a profit in many cases, and may be closed up with the opening of the Bank of Canada, but to the best of their ability they give the farmer more and better credit than can the co-operatives. The co-operatives can only serve a very few of the farmers, only those in the districts where all the farmers are interested in mutual assistance.

And in those few districts the results have not been good. The co-operatives in Ontario did not serve successfully when times were good. Until 1931 the amount of the loans did decreased from the peak of a few years before. From 1931 on they have increased their loans, but only in cases where the

Banks would not loan. This is not an encouraging statement. The Co-operatives are loaning where the Banks will not loan. There is a lot to be said on both sides of this question, and the action of the government may be justified, but it is not economical, and may fall under its own weight.

In Manitoba the Co-operatives were a dismal failure. There was not a chance of them pulling through, but after they were once started it was considered better business to continue loaning, especially where loans had previously been made, in order to get out of the investment without losing too much.

The situation in Alberta is not much better, though there has not been the same trouble that has been prevailing in Manitoba. The societies are smaller yet more successful. But at the same time there has been money lost. The co-operatives have not been able to carry themselves. The Government has considered that it is important to give the farmers cheap money. It has been so cheap in fact that the farmer is not paying the administration charges. Undoubtedly if all farmers had paid their debts promptly there would have been money enough and too much, but in making loans cheap there was little or no provision made for an adequate reserve against bad debts, and if one farmer defaults his payments all suffer.

Long Term Loans.

We have already given the facts and figures concerning the long term loans by the government, with a little mention of

the work done by the trust companies. Of private loaning there is no mention, because it is not very great, and only systematized loans can be looked at with a regard to the whole.

Though the loan companies have done much their work has not been discussed, the concern here is more with the government loans with an attempt to discover if they are paying the country as a whole or should they, with the best interest of the country at heart, be discontinued, or should they be continued but under other principles.

The loan companies however have done most in the field of farm loans, and anything the government has done is more or less in competition with them. The figures placed before the Banking and Commerce Committee in 1933 show that the aggregate farm loans in Canada were less than seven hundred million dollars, (1) While the part of that total which has been loaned by the Canadian Farm Loan Board in British Columbia, Alberta, Manitoba, Quebec Nova Scotia and New Brunswick, and by the Saskatchewan Farm Loan Board, and the Ontario Agricultural Development Board, did not total one hundred and fifty millions. That places the total roughly at five hundred and fifty millions for the Loan Companies and one hundred and fifty millions for the Combined Government Loans.

When the Governments began to loan to the farmers the great cry was for cheap money. It was thought that the governments

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(1) Political Science Association, 1934. Page 177.

would be able to give the farmers their money at a rate that would appreciably reduce their costs below those paid to the loan companies.

Such has been the case. The Loan Companies have been able to borrow their money at an average of little more than five and one half percent.(2) Their overhead costs are larger than those of United States because their total business is not so great. Yet the actual executive costs of borrowing and lending the money runs on an average of one and one quarter percent.(3) Though the government has been able to borrow money more cheaply than the loan companies, there is no reason why there should not be some difference considering the security of one company against that of a province or the Dominion. But because of the record of the Loan Companies, they are able to get money for only one half of one percent more than the Dominion government. The figure of four and three quarters percent per annum is the average for the net funded debt in Canada.(4)

It must not be supposed that it costs the government any more in overhead than it does the loan companies. However, the costs vary with the provinces. The average rate charged by loan companies in the prairie provinces in 1933 was 7.38 percent. It stands to reason then that the government of Saskatchewan cannot loan at six and one half percent and make any profit. The Canadian

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(2) Can. Pol. Science Association, 1934, P. 184
(3) ibid., Page 185
(4) ibid., Page 185

Farm Loan Board at seven percent can possibly get through if all goes well - a thing which has not yet happened. Nor can the Ontario Agricultural Development Board Loan at five percent rate. The cost for Ontario would be considerably less than those of the Prairies, but there is only loss for the government when such a low rate is charged.

In the West especially both the Loan comapnies and the government lending agencies have had their troubles. The farmers consider that the government can wait for its money. It is quite a common occurrence for the farmer to spend his money on luxuries rather than pay back the government. That is when the farmer has any money. In many cases the farmer has not received sufficient from his crops to tide him over until the next crop.

In cases of great falls in price levels the loan companies suffer more than the governments. The loan companies have pioneered the loaning in every province. That means that on practically all farms there is or has been, a mortgage, taken by some loan company. But when the government stepped into the field it demanded first mortgages, and consequently the loan companies had to be satisfied with second mortgages where they had previously held first mortgages. Such is the case when the farmer needed assistance from only one type of government loan. If the government loaned to a farmer on more than one count, all the government mortgages or claims on the farmer came before the mortgage company.

This manner of doing business has accounted for the piling up of debts on the farmer. He has needed money and has been able to get it first from a mortgage company, and then when the mortgage company would not increase the loan, but would sell out the farmer, he has gone to the government and received not only the money to pay his back dues to the mortgage company, but also has increased his debt by an additional loan for farm processing. From this it may be deduced that the farmer in many cases has had too easy access to money.

One of the plans of the governments when they first began to loan was that they would be able to make loans to farmers who were not able to get money from the mortgage companies, and at the same time to loan to these farmers at a rate that would be lower than that demanded by the mortgage companies. This they have done in the majority of cases, if the farm was considered of sufficient value. Of course there are many requests for loans each year which have to be turned down. And in most cases the size of the loan is less than the farmer would like because the inspectors find that the farm is not paying sufficiently to allow the farmer to make the grade, even with the improvements. The loans are made on both the extent of the farm and production. Loans made where the loan companies refused to make them, have been very unsatisfactory. They have not been paid and will not be. In the "black-list" areas of Manitoba for instance the farmers cannot work hard enough to make their poor lands pay.

It has been the policy of the government to keep these farms occupied, and with this in mind there has been a great deal of money virtually given away.

To leave the farmer for a moment, and consider why the government loans have not paid as have the mortgage companies' loans, we see a great array of reasons. In the first place the money was lent for agricultural purposes and to consolidate old loans. The consolidation of old loans is difficult business. It is true that the mortgage company, or that of the municipality could be paid off, but at the expense of the government. There has not been this difficulty in the short term loans, fortunately, except in Manitoba when matters had to be taken over because of the dishonesty of the officials. With this fact, the fact that the farmers do not feel obligated to pay the government at once, makes loaning more difficult. The farmer has the chance of changing his loan from the mortgage company at say seven and one half or eight percent, along with three or four other small loans on which the rate is even higher, for one loan from the government at six and one half or seven percent. It is cheaper by far than what he was formerly paying, and if he is smart he will do so. Not only will he do this but on top of it all he will be able to get more money. All is very easy and his way is clear. But the government is now paying for the upkeep of the farm, and to a certain extent for the mortgage companies that were paid off when the debts were consolidated. That is, the government has been doing this for the past four years, ever

since prices fell so low that the farmer could not pay his interest.

This type of credit might be described as consumer's credit. It is not being used for farm production. It is true that there is no more credit extended to the farmer when he merely consilidates his loans, but it comes from a different source. And then when the farmer does not pay, the people of the country or the province, as the case may be, are really paying him to stay on the land. Many governments have seen this difficulty, and have ceased to loan for the purpose of paying off old debts. The farmer is in a bad way if he allows several loans to pile up and creditors must suffer even though adjustment service is given by the government, or else the government suffers if the loans are consolidated.

Ever since 1929 when prices fell, the farmers have not been able to make the farm pay. It is not their fault. The government reasons that they should be aided. In this case, that is in the time of a depression, loans to farmers are necessary. If the farmers are forced to sell out, the country will be faced with a decreasing supply of food and clothing, which it has been stated come from the farmer in the final analysis. That part of it is clear. But it does not take into consideration other years when the farmers were able to make their farms pay.

In those years, when all was well with the farmer, and prices were higher than normal, the farmer did not save any money. He invested it in more land, thinking that if his farming were more extensive he would have more change of getting through the lean years. That this idea is wrong can be proven.

In the Maritime provinces there were not long term loans by the government until 1929. Nor did the mortgage companies loan in the provinces in the proportion as they did in the Prairies. The reason for this is partly the closeness of the markets to the farms, but partly due to the fact that until lately there were no large farms. The farmers were making a profit on small farms, and had no desire to expand.

When a commercial undertaking expanded too far in 1928 what happened to it in 1934? In 1934 there probably was no such company. It had folded up under its own weight. There was too much overhead to carry. The same thing has happened to the farms, especially in the west. Extensive agriculture has not proved itself to be successful past a certain point. There is both an intensive and extensive margin of production. Unfortunately most of the Canadian farmers cannot follow intensive farming. In the West, farms have been supplied with money in regions where it is so far to market that the product would not pay for itself even in good times. Such farms should be put into ranges, or left unused. The Canadian West is sparely settled and

unable to support the great mass of farms that are now there.

But it is claimed that the Canadian West is kept alive by exporting wheat. It is to a certain extent, but not to the extent to which it is at present producing. There is not the market for it, at the price that has to be paid. At the same time the government encourages production by loans. These loans are for more production in areas where there is good and economical farm land, and also to pay farmers in unproductive lands. The unproductive lands are not able to pay for one of two reasons, either they are too far away from the elevators or the land will not yield enough bushels to the acre to make it pay.

This is indeed a very peculiar situation, and for which the remedy is difficult but not impossible. Extensive agriculture in the colonies overcame the food difficulties of England in Ricardo's time. But that period has passed. The best land of this country has been taken up, wealth accumulating from the rise in land prices has to a large measure stopped, and land mortgages based on growing prices are harder to carry. Instead of the agricultural development of the country expanding as the country grew, as was the case in the eighteen and early nineteenth centuries in England, the country has now to expand to make the agricultural development pay. Had Canada been the only frontier left on which extensive agriculture could be carried out, this situation might not have arisen.

The growth of a country is perhaps limited by the amount of food it can command, at a price its people can pay. But this growth does not depend on agriculture. It depends on the manufacturing and commerce of the country. Canada has not got these essentials in large enough proportions to support her vast prairies.

It can safely be said that the provincial administration of farm loans has failed. Not only has it failed financially but the farmers are in a worse state now than they were twenty years ago. While Canada was still more or less a colony, and had vast areas yet to be settled there was justification for the policies of the federal government. But the values of manufactured commodities have risen to more than double in many cases, and there is not the rapid rise in land values to be expected, that characterized the last few years. At the same time Canada is a producer of raw materials, the prices of which are the most unstable.

When the mortgage companies first started to loan to farmers, these loans were profitable. But the mortgage companies are profit-making institutions, and would not loan where there was no profit. This is where the government stepped in. Their loans were more a form of relief, and with this in mind we must not expect them to be profitable. The fact is that they have not been profitable, and the drain on the provinces has been more than their finances can stand. For this reason the government

has had to step in, to save Canada's largest industry from ruin.

The first federal loans were small and well managed, only those farmers who deserved credit receiving any. The relief end of farm loans was left to the provinces. With the depression, however, came a change in policy, or rather a proposed change. The provinces cannot remain solvent and pay the farmers at the rate they have been paid. Under the present policy the whole country is heading toward bankruptcy. On account of this, the federal government has a plan whereby the western prairies will be made more productive. It is a tremendous scheme for returning to the prairies the life that has been sapped out of them by poor farming methods.

Thus the new policy would mean more money to the farmers, who would be able to work on better land. The logical outcome of this is greater production. Greater production in raw materials in a country where their greatest industry is the production of raw materials for export into a world that cannot absorb them. That will land the farmers and the country nowhere.

There should be more to the policy than that. It is seemingly the pride of many Canadians that the Government has not interfered in marketing as much as has any other country, in the last five years. This is nothing to be proud of. If the state is to lend money for production, nothing can be said. But when the state gives money for production, that it places a bounty on agricultural production, a line should be drawn. That line should be drawn on the freedom of production and marketing.

If the state were to accept all the wheat produced in Canada at a set price, it would allow the farmer to advance scientifically to agreater extent than he is now able. But this is not all. It can be argued that the farmer, one farmer rather than another, could expand his acrage and produce not for the supply needed, but for increased returns. In the first place the farmers have been doing just this for the last twenty years. Their farms are becoming increasingly larger, until the returns are beginning to diminish per unti of capital outlay. In a period of depression these farms are more of a burden than a money-making proposition.

In the second place, the government could set a limit to the size of the farm which would be acceptable. Suppose the limit were set at one hundred and sixty acres, the size of the Homestead Exemptions in the West. The government would accept all the grain grown on a farm of this size, but would not touch that grown on one larger. This would have the tendency of reducing the size of the farms in Canada.

Again an argument arises concerning the unfairness to those who have large farms, and would have to abandon parts of them. There is again nothing unfair about this. The large farms to-day are not paying. Because they do not pay, the overhead of the co-operative credit institutions, and all other credit institutions for reserves against bad debts keeps the interest rates up, and consequently all farmers suffer. Also it is a fact

that the best lands in Canada have been taken up, and many of the newer farms are on land that should not be under crops, but turned into ranges or left alone. A move of this kind would tend to bring the extensive margin of production closer to the centres of population, and automatically increase production per acre.

There would be another beneficial result. The farmers would have a small farm, and a set price for their products. This does not take into consideration the huge cattle ranches of the west, where intensive work is impossible, but for other types of of farming, it would be more intensive. The farmer would perhaps not make such large profits when world prices were high, but he would make more money when prices were low. At the same time, the state would not necessarily stand to lose money. The rate of production could easily be increased if it were necessary or feasible, and at the present time the government is just giving away money, with no check on the ultimate outcome.

The suggested society would not be a true form of state socialism. Each farm of whatever size was set by the government would be self-sustaining other than the prices for products. Each farmer would own his own live-stock, implements and buildings. There would not be collective farming as seen in Russia, but the farmers would carry on in their accustomed manner.

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