NOTES

AN ASSESSMENT OF THE CREDIT RECOMMENDATIONS OF THE FEDERAL TASK FORCE ON AGRICULTURE

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The Federal Task Force on Agriculture has made its report.[1] Included were a number of recommendations concerning the extension of credit to farmers. These recommendations will be receiving attention in coming months as follow-up discussion and perhaps enactment of some of the recommendations takes place. This assessment has the purpose of stimulating discussion on the proposals.

First, let me compliment the Federal Task Force and those who provided working papers and other professional assistance. The report does a service in describing the variability, complexity, and importance of Canadian agriculture. Yet its overall concern with issues, problems, goals, and policies makes a contribution well beyond simple description. The report exhibits a breadth and depth of understanding of agriculture.

Summary of Credit Recommendations

Let me quickly summarize the recommendations concerning credit. First, the Task Force recommended establishment of a Federal-Provincial Agricultural Credit Board (FPACB) to head up a Federal-Provincial credit system. Capital would come partly from Provincial Governments but primarily from the Federal Government. This Board would develop an insured mortgage credit program to induce other lenders to enter farm credit, and it would develop a loan guarantee program such as exists under the Farm Improvement Loans Act. Veterans Land Act and F.I.L.A. programs would be transferred to this new agency.

Another recommendation was that commercial banks continue to provide operating credit to farmers, that they establish agriculture departments, loan more on repayment capacity and less on security, and that they work more closely with the government credit programs and farm management extension personnel.

The Task Force favoured establishment of a subsidiary Rural Development Credit Agency under the Federal-Provincial Credit Board for the purpose of serving credit needs of the low-income sector of agriculture.

Finally, they went on record as favouring agricultural extension courses on credit, accurate statement to borrowers of interest rates on loans, and CANFARM (the electronic data processing of farm records). The Task Force opposed subsidization of interest rates on farm loans.

While these were the recommendations, a number of other issues and points were covered in the credit chapter. For example, the forced savings trap in agriculture was discussed. An argument was presented to

[1] Report of the Federal Task Force on Agriculture. *Canadian Agriculture in the 1970's.* Ottawa: Queen's Printer, 1970.

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remove maximum loan limits on several government lending programs. The credit chapter should be required reading for anyone involved in financing agriculture.

I agree with many of the credit chapter recommendations, particularly the need for educational work and the statement against subsidized interest rates. My comments will be mostly on disagreements or problems that I see for some of the recommendations.

Establishment of a Federal-Provincial Credit Agency

The attempt to eliminate duplication of government credit services is in the right direction. The various Provincial and Federal Government farm credit programs could well be combined under one agency. However, I question the report's apparent willingness to have the new government agency specialize in intermediate and long-term loans while the commercial banks would specialize in operating loans. Don't make the mistake the U.S. did of specializing by terms of credit, that is, by long-term credit agencies and short-term credit agencies. In my estimation, viable future farms will need a credit package consisting of short, intermediate, and long-term credit with total repayment terms fashioned for that farm unit. This credit package should be available from a single lender, causing fewer problems in securing the loan with mortgage. It would justify more time spent in setting up the credit package and in periodically checking on borrower progress for a single lender than if the credit were split. In short, I believe there would be merit in both a Federal-Provincial Agricultural Credit Board and commercial banks providing a complete financing package tailored to farmers' needs. Some people might call this duplication, I prefer to call it competition.

While many banks already offer a form of credit package through a demand note with real estate security, this still leaves something to be desired. Many farmers object to the insecurity of a demand note. Yet a formal credit package, consisting in part of an amortized real estate loan with repayment terms spelled out, would be accepted. Further, one might question whether the practice of backing demand notes with real estate security is misleading with respect to actual bank liquidity.

Also the Task Force recommended that FPACB capital be supplied by the Federal and Provincial Governments. Presumably this means parlaimentary appropriation from general tax revenues. Perhaps it means the sale of government bonds to raise the funds. Either way, within the next few years, this agency, even without making operating loans, could be extending $750 million per year. Who will make the decision on how much goes to which provinces? Will historical ratios be the guidelines? It seems to me a safe bet that there will not be enough capital to go around, and the politics of distribution could be a headache.

May I suggest an alternative? Rather than having the government—or governments—provide the capital, let the FPACB sell bonds on the money markets as needed to raise funds. If desirable to insure marketability, these could be guaranteed by the Federal Government so that they would sell at a prime rate. In this way funds could be obtained at regular intervals and disbursed wherever the demand existed without provincial quotas. Furthermore, it would tend to tie their interest rates to market conditions.

Establishment of an Insured Mortgage Program

Another recommendation was that the FPACB develop an insured mortgage credit program to induce other lenders to get into farm credit. I question the incentive for FPACB to develop the insured mortgage credit program. Is this not a bit like asking one supplier to develop a program to encourage his competitors? To the extent the insured loans were successful, FPACB would lose business to other lenders. Perhaps it would make more sense for the Central Mortgage and Housing Corporation which insures housing loans to set up a program for insuring agricultural real estate loans. If not, there are others who could undertake it.

While I question who will set up the insured mortgage loan program, please do not misinterpret me. Such a program, in my opinion, if properly set up, could well be one of the most significant recommendations in the chapter. Suppose for a moment that such a program is set up. The standardization of loan application and lending procedures along with the insurance could well justify a secondary market where investors, trusts, and others looking for safe investments could purchase the securities. Commercial banks could safely extend a package of credit including long-term real estate credit knowing full well that they could, in turn, sell the mortgage and retain the liquidity so important to banking. The complete package of credit consisting of $40,000, $60,000 or, in many cases, $100,000 or more, would likely encourage banks to add agricultural departments and specialists. They may have been hesitant to do so in the past, in part, because they felt the loan sizes and total amounts involved did not justify an agricultural department. At least those banks who wish to have an agricultural business would have their hands strengthened with an insured mortgage program and a secondary market.

Credit for Low-Income Farmers

At several places in its report the Task Force stated that credit policies suitable for the top farmers were not suitable for the low-income farmers. As a result, the report recommends establishment of an agency to make loans to low-income, non-commercial farmers. This recommendation deserves further careful discussion and consideration. Should special credit terms and management help be given to those in agriculture least able to produce? Should the objective be to help low-income farmers to grow into agriculture rather than to move out of agriculture? Should costs of this program be included in the agricultural budget when in fact the program is more nearly of a welfare type? These are not easy questions to answer. One can question the desirability of a program which puts additional people into agriculture when the Task Force itself argues that there are already more people than needed. Yet one can also support the proposition that every human being should contribute to society with whatever potential he has or can develop. Certainly, it is preferable to provide credit to such people to make them productive in some capacity rather than to have them become non-productive, welfare cases. Perhaps more emphasis should have been placed on providing these people with skills to move out of agriculture.

An Overlooked Problem

Finally, I believe the report overlooked a critical situation on which it might have spoken, that is, the financing implications of inheritance and estate transfer taxes. The report does suggest that many people feel the family farm is a desirable structure for agriculture, and it also recognizes such farms will represent larger capital investments in the future. Present estate transfer taxes represent a severe drain of capital out of farming. It will be most difficult for large family farms to be passed on to the next generation as going concerns. If existing farmers are not able to provide substantial help to sons or sons-in-law in getting started in farming, I suspect the family farm will die out much sooner than most of us had ever imagined. It will be rather difficult for a young man to accumulate $125,000 to $150,000 of farm capital without some help in getting started. As an absolute minimum, research and extension programs are needed to help farmers understand what can and cannot be done to minimize estate transfer taxes. Even then the tax laws on estate transfer put the family farm at a distinct disadvantage compared to the large corporation whose management does not have to recapitalize from internal savings each generation.

In summary, the Task Force Report has a number of desirable recommendations concerning provision of credit to agriculture. However, there are several changes needed to improve the recommendations or to avoid future problems. Also attention should be given to the problems of estate transfer of farms.