

VII.—AGRICULTURAL CREDIT.—BY JOHN DAVIDSON, PHIL. D.,
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The great business of agriculture has generally shown itself conservative in character and slow to adopt innovations in the methods and organization which have been freely adopted in other industries ; and the result has not infrequently been an agrarian crisis arising out of the conflict of old established ways and new ideas. Such a crisis occurs when a nation or a people is passing from a natural economy to a money economy, that is, from a condition when each farm was almost a self-sufficing unit, to a condition in which rents and wages are paid in money. At such periods there has usually been a good deal of distress. To a smaller degree the same difficulties arise with every extension of the market and every improvement of transportation which separates producer and consumer, and brings in a greater competition. The farmers of Europe have, during the last half century, been experiencing such difficulties ; and apparently the farmers in the newest countries, whether in America or in the antipodes, have found that their enterprise in forcing an entrance into the European market has made a decisive change in their own conditions. Briefly speaking, the change is that farming has become a business requiring all the aids and assistance that modern businesses require. The days of the self-sufficing farmer have gone, never to return. Men will never again carve out homes for themselves in the wilderness. It is not that the men of to-day have not the grit and the energy and the perseverance of the heroic pioneers. It is simply that the farmer has become a producer for a market, and that his success is measured by his achievements in that market. He no longer measures himself by the old standard. He expects to buy, not to make, much of

what he needs to use. He does not fashion his implements, "knock together" his furniture, weave his own cloth. These things he buys, and is the better for buying. Nor does he look to consume in his own household most of that which his farm produces. He has become a member of another kind of society. He is a business man perforce, and produces for a market; and access to markets on the most profitable terms is as vital to him as to any other producer.

When it began to be perceived a quarter of a century ago that farming had become a business, many people, both practical men and theorists, jumped to the conclusion that the tendency towards production on a large scale would show itself in agriculture. But time has shown that production on a large scale is not so profitable in agriculture as in manufacturing, and many of the large farms which were started have been broken up. It was claimed for the large farmer, that he would have the very great advantage of being able to command the large capital which a business which produces for a distant market, as farming had become, required. Farming under the regime of world competition could be profitable to those only who could obtain credit and take advantage of the fluctuations of the market. This, the small farmer could not do, because he had little capital and less credit. The advantage of the large farmer has not been so great; but the disadvantages of the small farmer have not been less than is thus stated. And the world over, on the continent of Europe, in the Old Country, in the United States and in Canada, and in New Zealand and Australia, there is the same cry and demand from the farmer, that he is handicapped because of the high rates of interest he has to pay to obtain the capital and the credit his business requires. His occupation has become, and is daily more and more becoming, a business that depends on markets and marketing. The farmer has to measure himself by the business standard, and his complaint is that he is not provided with the necessary requisites for so conducting his business as a business. Various devices and proposals have been put forward to assist the farmer on easier terms to the two

requisites of business, viz., capital and credit; and to the examination of some of these, and to an investigation of the relation of the Canadian farmer to our existing credit institutions, this paper is devoted. The greater part of it was presented* as a report to a committee of the New Brunswick Farmers' Congress, which had been appointed to discuss the problem of cheaper money for the farmer. It was presented after a statement by the committee of the abuses and wrongs to which the farmer has to submit. In the opinion of the writer, the committee did not make out a very strong case, although some striking instances of usurious rates of interest and of the disabilities of reputable farmers in approaching a bank, were given. The negative character of the conclusions drawn in the report was thus, in a measure, justified by the failure of the committee to make out its case, and there is not, in the opinion of the writer, much room for general regret that schemes successful elsewhere are not adapted to our Canadian conditions.

The description of the difficulties in the way of the farmer obtaining the credit the modern conditions of his business demands, which has been given by Mr. Hubbard, naturally raises the question why it is that the farmer has not shared, to the full, the benefits which a developed banking system has conferred on other industries. Is there any reason in the nature of things, or has it been simply an accident, that the banks have not served the farmer as they serve the merchant or the manufacturer? Credit is just as necessary in agriculture as in commerce and industry, and it is therefore necessary to enquire whether agriculture and commerce, for instance, are so different in character that the credit they require cannot be provided by one institution. Only after coming to the conclusion that our present banking system is not suited to provide agricultural credit, as it provides commercial credit, need we take the trouble to consider remedies adopted in other countries to deal with a similar situation.

Broadly speaking, there is a marked difference. Returns in agriculture are slower than returns in trade and industry. The

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latter require, or should require, loans for short periods only ; the former needs advances for long periods which, however, and unfortunately, are too long for lending and too short for investment, if such investment were permitted by our banking laws. Generally speaking, capital is not turned over in agriculture in a period much short of a twelvemonth, and should the season prove unfavourable, and the crop fail, credit may be required for still longer periods than a twelvemonth. It is a maxim of good banking and good business that loans should be repaid, after earning a profit for the borrower, out of the property in which the loan has been invested.

When a bank lends to a merchant, it lends on the security of a stock of finished and marketable commodities, which both merchant and manufacturer have, using their knowledge of market conditions, considered to be marketable, the manufacturer because he produced these commodities to sell them, and the merchant because he bought to sell. The bank has, therefore, every reason to be confident that the goods on which it lends will, in this case, find a market, provide a profit for the merchant, and a fund from which the loan can be repaid. The manufacturer has not, other things being equal, quite such a good standing with the banks. The bank has one judgment only guaranteeing that the goods being produced will find a market. So far as the raw material is concerned, the bank may confidently advance, because what has found a market once will find it again ; but with regard to the commodities into which this raw material is to be converted, the bank has at the best the security only of the manufacturer's judgment that the goods will sell. It is true that the manufacturer has often a better standing than the merchant ; but this advantage arises from the larger amount of capital invested. The small manufacturer has not, as a rule, as good a standing as the merchant using the same amount of capital. The farmer, again, has not as good a standing as the manufacturer, for the simple reason that the normal basis of agricultural credit is raw material yet to be produced ; and the bank has the farmer's judgment only that the goods when

produced will find a ready market. It is true that they do find a market, for man must live on the fruits of the soil ; and there is a pretty sure market for the staple agricultural products. Except on staple crops, banks lending to farmers are making speculative loans, for the market is not assured ; and even with staple crops, there are greater risks in agriculture than in manufactures, owing to seasons, etc.

It is true that loans are sometimes made on other security than the property in which the loan is to be invested. The bank may lend on the basis of personal earnings from other sources, or it may lend on the security of character or of other property ; but such loans are likely to be small in amount, and the ordinary type of business loan is made on the security of the property in which the loan is to be invested, and on the judgment that the product of the investment will find a ready sale. When the producer is well known in business circles, and his judgment is accepted readily regarding market conditions, the producer even of raw materials may have little difficulty in finding accommodation at the banks. The lumber operator is not, in many respects, in a much better position than the farmer. He, too, requires advances for long periods, and he, too, has, as the security he offers, a raw product on which no judgment but his own has been expressed ; and his industry is to an even greater extent than the farmer's the plaything of the seasons. But the operator has little difficulty in getting the necessary advances, even from the commencement of his season's operations, and in getting larger and larger advances as his material product comes nearer to his market ; for he is generally a man of capital, known in the business community and accepted as a man on whose judgment reliance can be placed. But the farmer is not a man of capital, and the banks have no confidence in his individual judgment, for they do not know him. And so the poor farmer gets none.

It is perhaps hardly necessary to say that the banks are not animated by any hostility to the farmer. The dreaded " money power " is the creation of politicians and demagogues of the

wild west. The banks are ready for any kind of business that is profitable, and does not depart radically from their methods of doing business. Agriculture requires a kind of credit they have not been in the habit of giving. The farmer asks credit for too long a period, and above all, for an uncertain and indefinite period, if it is to be of the fullest advantage to him. Moreover, the banker knows little of the individual farmer, and has but very limited opportunities for watching the business proceedings of a farmer who borrows; and the ordinary process of everyday business does not bring the farmer debtor under the banker's observation as it does the merchant or manufacturer who borrows. When the farmer is ready to market his crop, the bank is more ready to do business, although the business is usually done by middlemen; but as a producer, as a farmer pure and simple, he has not, and in the nature of things cannot expect to have, the same credit facilities as the merchant. What may be the case when the government does fully what in Australasia and to a much less extent in Canada, governments are beginning to do, viz., to guarantee a market for the farmer's produce, and even to advance the price, or part of the price, is another question. In such cases the banks ought to be willing to treat the farmer on the most favourable terms; but in such a case the farmer is likely, having cash in hand, to be comparatively independent of bank advances. But till that time the farmer has not much to look for from the banks. It is true, as the Hon. Mr. Blake has asserted (Hansard, 1890, p. 4295) that,

“The moment a farmer can show that he can give the same prospect of a return, with the same advantage, with the same security that other competitors for the stock of available money can give, he will get all the money he wants; and to the extent he cannot show *that* he will never get it.”

But it must be remembered that the difficulty lies in the nature of the business, not in the honesty of the borrower. The problem of agricultural credit is not the problem how to supply money at low rates of interest to those who do not deserve to get it and do not know how to use it. That is likely to remain

a problem, but it is not of any interest to the community. The problem of agricultural credit is how to supply money at low rates of interest to those who are competent to manage it, so as to make it yield enough to repay the loan with a profit to the borrower. For it must always be remembered in this connection that what the lender wants is interest, not farms; and when, owing to incompetence on the part of the borrower, the lender runs a risk of getting a farm instead of his principal and interest, he will insist on being paid for the risk he runs. The farm may be just as good, but the lender does not want it, and does not care for the risk of having it left on his hands. Lending money is a matter of business, and a bank exists chiefly for this purpose; but the borrower must show that he has a legitimate use for the loan, and that he is competent to use it so as to provide for repayment at maturity. As business is, the farmer cannot satisfy these commercial requirements; and the problem for which a solution is sought is how the farmer can obtain the credit his business requires.

It is desirable, in order to promote an understanding of the situation, that we should distinguish carefully between the general and the special advantages which arise from an efficient banking system. Our banking system is designed primarily as an agent of commerce and of industry, but it confers great and undoubted benefits upon the whole community. It provides a sound and elastic money; it gives facilities to the investor and the depositor, and by affording real services to the merchant and the manufacturer, it promotes the interests of every member of the community. Fortunately it is not true that one man's gain is another man's loss, and we all reap some advantage, directly or indirectly, from the prosperity of our neighbours. Whatever general benefit a good banking system confers on the community at large, that the farmer shares with all his fellow citizens, and in our own case these benefits are large.

The farmer also has his share in the personal credit which the banks give, and this for him and for others under stress of competition may be of considerable amount. But this is not

really legitimate credit. It is consumer's, not producer's credit ; it is accommodation which is intended to cover expenditure already made, credit which is not intended to yield a profit. It is not a credit of which a man may be proud, and it hurts or ought to hurt the standing of a man to be known to receive it. This kind of credit the farmer may receive ; but it is precisely this fact that requires a remedy. He, a producer, should be entitled to legitimate or producer's credit, and should not be held down to that which non-producers, in an overdeveloped banking practice, may be given. The farmer's just ground of complaint is that, while he may share with the general public in the general benefits which a banking system confers, he is debarred, from one reason or another, from a perfectly legitimate producer's credit as a matter of business, although he may receive a limited amount of personal credit as accommodation.

Our banking system is not specially adapted to the needs of the farmer as farmer. In so far as agriculture is a branch of commerce, that is, in so far as the farmer has finished goods to sell, he may be specially benefitted. He is then in almost as good a position as the manufacturer, who, too, like the farmer, markets his wares at second hand ; and the whole process of exchange is facilitated by sound banking as much for the wheat from the farm as for the cloth from the factory. For commerce we have a most excellent system, eminently well fitted to assist in marketing goods of all kinds. It provides us with an elastic currency which makes money easy at the time when most business is to be done. It facilitates the moving of the crops in the latter end of the year, and it is doubtful if the farming community realizes how much it benefits in this way, and how much harder the case would be if our banking system was less perfect than it is. In a general way, there is a recognition of its excellence, because the banks have served the community so well that we have heard but the faintest echoes of a "silver question" in Canada.

But we have to consider the farmer, not merely as having something to sell, but, in his more important aspect, as a pro-

ducer. Like the manufacturer, the farmer benefits when he has to market his produce, but, unlike the manufacturer, he receives little or no assistance from the banks to assist him in production ; and it is precisely here that the pinch comes. Our banking system provides no credit facilities for the farmer as producer. Where, in other countries, farming is carried on on a large scale, and where the farmer is as well-known in the business world as the manufacturer using the same capital, the question of agricultural credit does not specifically arise ; and if all farmers were farmers on a large scale, like the typical tenant-farmer of Great Britain, who, because he operates with a comparatively large capital and is well-known, can command credit, like any other producer, on tolerably easy terms, we could trust the farmer to get what credit his standing warranted. But large tenant-farming is not common with us, and the farmer who is in a moderate or small way of business is not known in the business world, and does not obtain the credit he requires from the banks on anything like as easy terms as the small manufacturer or tradesman, or retail shopkeeper. Wherever agriculture is followed as a business, pure and simple, little difficulty has been found in granting the farmer the necessary credit for his business ; and as agriculture is coming to be pursued more and more as a business, with the market in constant view, it is possible that the farmer in the future may get more special benefit from our banking system.

Even as it is, the Canadian banks do more for the farmer than any other banking system does. Some eulogists of our banking system have applied the term agricultural to it, and this, at least, is true, that if ever a commercial banking system was entitled to the term agricultural our national system is. It is significant that where it is proposed to amend the banking system of the United States so as to afford better credit facilities for the farmer, the proposal takes the form of a system of branch banks such as we have in Canada. The only system which can compare with our own in this respect is the Scottish, where the famous " cash credits " had an enormous influence in developing

the industry and the agriculture of the country. One writer says enthusiastically :—" In the space of a hundred and fifty years it raised its country from the lowest state of barbarism to its present proud position," and "the far-famed agriculture of the Lothians, the manufactures of Glasgow and Paisley, the unrivalled steamships of the Clyde, are its proper children." This, as applied to agriculture, is no exaggeration, and it is not a little significant that the founders of the agricultural banks on the continent of Europe, to which reference will be made later, adopted from the Scottish Cash Credit System the idea of personal responsibility, which was its essence. We have not now the cash credit system in Canada, It was tried in the early days and had definitely to be abandoned because it was not suited to a country where the population was as migratory as it is with us. But the system of overdraft is quite as useful, and our banks are able to maintain the essential benefits of the cash credit system which did so much for agriculture in Scotland.

Our banks to-day do more for the farmer than the Scottish banks can now do. In Scotland itself, the cash credit as applied to agriculture is a thing of the past, and has been little used for half a century. The cash credit was partly, at least, a device for increasing the note circulation of the bank. An extra risk was taken on the loan to secure an extra profit on the notes which were thus got into circulation. When the right of issuing notes at discretion, secured only by the general assets of the bank, was withdrawn in 1845, the banks no longer had any motive for encouraging borrowers in this way, and the cash credit system was gradually withdrawn from agriculture and confined in a restricted way to commerce and industry. And it must be remembered that the farmers of the Lothians were already men of some financial standing, and that the benefits of the cash credit were never experienced by the small farmer and crofter of the north. Our Canadian banks, however, still practically retain the right and privilege of note issues at the discretion of the bank, and they are thus able to extend credit facilities to districts which would otherwise go unserved. They still have

the motive of seeking an extra profit on their note issues to induce them to take some risk on their loans. The Canadian public and the Canadian farmer are, when all is taken into consideration, the scattered population and the imperfect means of communication in particular, better served by the banks than the Scottish public and the Scottish farmer. The Scottish banks are praised because they assisted the farmer, and it was the peculiar feature of the Scottish system that suggested the European Popular Banks. The Canadian bank is in most respects like the Scottish, and has done even more for the farmer.

Our banking system is, like the Scottish, a system of branch banks, and the number of the branches is continuously increasing. By this means the banks are adapted to local needs, and it is their policy to extend their services to the remotest districts. In the eighties of last century there was considerable agitation which found expression in parliament, for a system of farmers' banks, and since that time the banks, having apparently become conscious of the danger in which the system was if more attention was not paid to the agricultural districts, have steadily increased the number of their branches. In 1881 there were 287 branches in Canada; in 1890 this number had increased to 444; and in 1900 there were 641, of which a large number are in purely agricultural districts. These branches are distributed all over the Dominion, and if the Canadian farmer has not all the banking facilities he ought to have, the reason is not here, whatever may be the case in other countries, that the bank is not at his door.

An attempt is sometimes made to show that our banking system confers a special benefit upon the farmer because it is calculated to equalize the bank rate all over the country, but that, at the best, is a blessing for which the farmer in the west has more reason to be thankful than the farmer in the east.

It is said that our system gathers up the surplus money of one district and uses it elsewhere where money is scarce; but the New Brunswick farmer who borrows is not likely to regard this as an advantage. For if the rate of interest is equalized all

over the Dominion, some districts must be made to pay more than others may pay less. If the surplus savings of the east are sent to the west, it is the western borrower and the eastern depositor who gain; the eastern borrower has to pay a higher rate of interest. Broadly speaking, the eastern, and particularly the maritime, provinces save more than the banks find local investment for at seven per cent. There are no figures published to show the relative discounts and deposits in the 105 banks and branches in the maritime provinces, but the Upper Canadian banks which are coming down here are seeking deposits, and the maritime banks which are seeking openings in the west are seeking a better outlet for their deposits. The Savings Bank returns are evidence, at least, of the relative instinct of saving in the different provinces. New Brunswick has \$27.35 deposited per head of population; P. E. Island, \$19.25; Nova Scotia, \$17.78; Manitoba has \$5.41; N. W. Territories, \$1.79. I do not desire to be guilty of sectionalism in any shape or form, and that is one of the prevailing political vices of the maritime provinces; but it is not difficult to see that the Canadian banking system does not work quite so much for the benefit of the maritime borrower as it does elsewhere. For the business man the slight disadvantage of slightly dearer money is more than made up to him by the advantages of membership in a great banking system; but for the farmer there is not the same compensation.

The great merit that is claimed for People's Banks in the continent of Europe is that they fix savings in the locality in which they are made. It is there felt as a grievance in the country districts that the savings of the people are drawn to the great money centres and help there to build up the towns at the expense of the country, and accelerate the drift of population to the cities. That does not happen with us; but we have our own difficulty. The savings of the east are taken for the development of the west, and this has been regarded by some who professed to speak for the agricultural interests as an evil to be remedied. During the eighties of last century several motions to introduce bills to adapt the banking system of the Dominion to the needs of the farmer were debated, and it was

then repeatedly urged that "a measure which would provide facilities for the establishment of local banks . . . would confer a great benefit." (Can. Hansard, 1885, p. 119.) And the advantage was supposed to be that savin^{gs} would by this means be fixed in their own localities, to the great benefit of borrowers, at least in such provinces as New Brunswick, which saves more than it can lend. Whether this difficulty can be overcome is another question. It is not overcome by any European system, for People's Banks were devised to provide a remedy for this evil. Nor is it overcome under the highly decentralized system of the United States. The Canadian banking system is not an agricultural system, and perhaps never has been any more fitted to supply agricultural credit than it is to-day; but it is a better system, even for the farmer, than any other that has been devised as an ordinary banking system. As a matter of fact, fixing local savings, which seems so desirable to the borrower who resides in a district that saves more than it invests, is not realisable under modern business conditions. Sooner or later, economically or otherwise, surplus savings will find their way to the district where there is demand for them. The distant borrower may be made to pay more, but the money cannot be kept at home.

There have been various proposals to amend our own and other banking systems in the interests of the farmers. So far as the Dominion is concerned, these proposals have been either to adopt the Dominion system of local banks or to establish land banks—neither of which promises any relief. The small local bank is not forbidden by our Canadian banking act, though new banks with less than \$500,000 cannot now be established with rights of issuing paper money. Such local banks do continue to exist, and chiefly in the maritime provinces. Of fourteen banks with a paid up capital of less than a million, ten are in the maritime provinces. None of the New Brunswick banks has an authorized capital of more than \$500,000, and the average is only \$293,000; one of these, the People's Bank, the smallest in the Dominion. Yet these small banks do not serve to fix savings

in their own localities. All of them have large deposits with other banks in Canada and elsewhere; and it is the Farmers' Congress of New Brunswick, the home of the small bank in the Canadian system, that calls for this report on Agricultural Credit.

The proposals to establish land banks are generally characterized by an entire absence of knowledge of banking conditions and of the history of credit institutions. If any principle has been established by bitter experience it is that land is not a satisfactory basis for a bank. One agitator declared in the House of Commons (Hansard, 1884, p. 213,) that money based on the landed property of a country is perfectly safe, whereas experience has shown again and again that money might as well be issued based on the rings of Saturn. To attempt to modify our banking system in this way would destroy all its present value, which is, however, commercial rather than agricultural. And the problem before us is not how to destroy the credit which the merchant and the manufacturer enjoy, but how to make that credit, or some credit, available for the farmer. In my opinion, the Canadian banking system is doing all it can do, and one might even venture the assertion that it is sometimes doing, by "liberal banking" in this province and elsewhere, and by undue concession of purely personal accommodation, more than it is safe for banks to do. For the farmer, as a seller of produce, it does and can do much; for the farmer, as a member of the general public, it does and can do much; for the farmer, as a farmer, it can do but little; and it is strictly forbidden by law to attempt more than it does do. The banks are forbidden to lend on mortgage or the security of land. They may, and do, to a large extent, I believe, evade this prohibition by making land the basis on which personal accommodation is given. But the prohibition stands. Further, the wording of the act was amended so as to stand in the way of the bank making advances to a farmer as a "producer." This was done professedly to protect the interests of the farmer. It was pointed out that the general credit of the farmer "with merchants and others rests on the visible possession of certain personal property, such

chattels as grain, cattle and implements. An assignment of these, according to the form prescribed by the act, would not, like a chattel mortgage, become notorious, and the basis of a farmer's credit would be badly impaired, no creditor being able to know whether the ownership of property is in the person whom he is asked to trust or in some bank." (Breckenridge, p. 348.) The principles of our banking system are so well established and its practice so well approved by experience, that the farmer has nothing more to hope for in that quarter. He has still less to hope for from any tinkering and amendment of that system which might destroy its present perfect adaptation to our commercial and currency needs without being able to improve the farmer's position in the slightest degree.

But the problem still remains how the farmer is to be accommodated with the capital and the credit his business require. We may acquiesce in the political wisdom of rigidly confining the banks to their proper function of providing commercial credit, but must we acquiesce in the absence of credit facilities for the farmer? Agriculture is in all countries the most important, and in most the dominant, industry, and its progress cannot be hampered and hindered without national loss. We may ask, therefore, whether it is not possible to develop credit institutions, under government regulation, it may be, to supply this need, or whether it is possible for the government of the country to supply the lack directly. Such attempts have been made, and we now turn to a description of what has been done, and is being done, in other countries, or among ourselves, to meet the demand. There are two great methods, people's banks and government loans. Both are of comparatively recent origin, and both have the same aim of providing the farmer with what the banks have not, and, in my opinion, cannot adequately provide.

The People's Banks of Europe were established to provide farming credit, and it is difficult to realise the amount of business that is done through them. They are of two classes: one better adapted for providing credit to small merchants and producers, the other distinctively agricultural. They aim at making

the principle of self-help productive as well as provident. They are not mere savings banks instituted to encourage habits of thrift; they endeavour to supply credit to their members. This they do by one of two methods. They may issue shares of small amounts to form a capital of guarantee and then borrow on the security of this capital and lend out to their members. This first class is co-operative in character, but they often manage to combine co-operation with high dividends on shares, and the dividend earning instinct may influence their business to a greater extent than their co-operative principle. These are known as the Schulze Delitsch banks, after their founder, and are mainly industrial in character. They have not been found peculiarly well adapted to agriculture. The other type is peculiarly suited for the needs of small farmers and cultivators, and they do a very large and a very safe business. They are entirely co-operative in character, and are almost invariably managed by an unsalaried committee, and confine their operations to a very small area, such as the parish. They borrow the money they lend again to their members; but this money is not secured by any capital of guarantee. The members are jointly and severally liable to an unlimited extent for what they borrow to lend again. To put the matter in another way, they borrow on a joint note, to which every member is a party, and the money so obtained is loaned out to individual members. This unlimited liability makes members very careful about the character of those admitted or retained, as a man is careful about the character of a man whose paper he endorses. The loans are made for specific purposes to individuals known to the committee who are able to ascertain whether the loan is applied to the purpose for which it was borrowed. As there are no expenses of management worth mentioning, the bank is able to lend to its members at a very small advance on what it pays, and every member shares in the joint credit of all, and the system has been well characterized as the capitalization of character and honesty. The system is well developed and it has not resulted in loss. Not a penny has been lost to any one in all the forty-seven years' experience of these

Raffeissen banks, as they are called. They do not lend on mortgages, but on simple acceptances, and yet their business has proved not only safe but much safer than the ordinary business of the commercial banks. It has been estimated that at least \$750,000,000 is made available for the small producer, farmer and merchant, by these popular credit institutions, and the gain is not economic alone. Germany, Austria and Italy have thousands of these co-operative banks in operation.

The movement has extended to Ireland during recent years. It had to meet not only the opposition of ignorance, but the political prejudice of the mass of the people who saw in people's banks nothing but another device for killing Home Rule by kindness. The man most directly responsible for the establishment of these co-operative people's banks is Mr. Plunkett, who was defeated in the recent election by Col. Lynch of the Boer army. Yet, in spite of prejudice in Ireland, in five years since the movement was started, 75 Raffeissen banks have been established. Last year these banks loaned out \$45,000, on which the loss amounted to \$7, and what is more remarkable, there are no overdue accounts. One of the objections which the commercial bank has to the farmer as a borrower is that he is not punctual in his payments. In these co-operation banks, whether in Ireland or on the continent, punctuality in payment is universal. In one of the Irish banks 536 loans were made last year, and in twelve cases only was there a week's lateness in making payment. This is the more remarkable when it is remembered that these loans are made for strictly productive purposes, and that the borrowers are strictly held to their declared purpose. Loans are made for short or for long periods, though generally for three months with the privilege of renewal in full if the purpose is still approved and the borrower's character remains good.

Within the Dominion at least one attempt has been made to establish People's Banks on a co-operative basis to assist the farmer to obtain cheaper agricultural credit. British Columbia has legislation on its statute book authorizing the formation of and offering a subsidy to such agricultural credit institutions.

But so far the law is a dead letter, and the British Columbia Department of Agriculture explains the absence of interest in the scheme by the lack of the co-operative spirit. As a matter of fact the legislation seems to be of almost a pure academic character, answering to no popular demand and inspired by the instinct of revelation which leads people to suppose that an institution that has succeeded elsewhere must be needed and do good here. British Columbia is probably the least agricultural of all our provinces, and is likely long to remain so; and British Columbia is very well supplied with what banking facilities our system can provide for the farmer. The failure is not due to the absence of the co-operative spirit, but to the absence of any great need for co-operation. All that is secured so laboriously and so painfully by co-operative production and co-operative banking in European countries, is without effort secured for us in the natural organisation of business. America has few examples of co-operative enterprises, because the spirit of co-operation is already largely embodied in our every-day business institutions, and we enjoy in Canada very largely all the benefits which co-operative banking secures in Europe without any of the inconveniences which accompany conscious co-operation. In Europe, co-operation affords scope for the latent abilities of men who have little hope of rising above the class in which they were born; in America there is a free career for the latents, and the born co-operators become independent managers of men. Briefly, the Canadian banking system may be said to do as much for the farmer as the European system of popular banks accomplishes there, and it is very doubtful whether, among men of our race, co-operative banking would accomplish any good result. Our areas are too vast, our population is too much scattered, our people too migratory and too anxious to rise to positions of command, to make co-operation a success. We have tried and abandoned the Scotch Cash Credit System as not well adapted to our needs; and as we have already noted the cash credit system originally suggested the European co-operative banks.

It must not be forgotten that there are two distinct questions involved in the use of the terms Agricultural Credit, and I do

not know which of these was in the mind of those who moved for the committee which asked me to report. There is the question, which is rapidly becoming a very important question, of credit for carrying on the business of farming, with which question I have been dealing. There is the entirely different question of loans for the improvement of property. Last fall there was a great drought on the North Shore, and farmers had to sell their cattle because of lack of fodder to carry them through the winter. Co-operative banking is designed to meet just such cases as this, and positively to enable the farmer to extend his operations wherever there is a prospect of profit. These banks are not mortgage banks, though some of them do lend on mortgage—a position which the apostles of the movement regard as illegitimate. There are in Europe, in addition to these popular banks, many institutions which exist for the purpose of lending money on mortgage for the improvement of land. These banks have more than a century of successful history, but their operations are confined to the landlord class, and do nothing for the business of farming as such. We have had similar institutions in America, and in Canada in particular, although they are here called by another name. We know them as Loan Companies and Trust Companies, which do a very large business in lending money on mortgage, particularly in the province of Ontario. These are purely private undertakings, and are not backed, as in Germany, by the explicit approval of the state. In 1899 there was real estate mortgaged to these loan companies to the value of 216 millions for loans amounting to 111 millions, or 51 per cent. of the value. These companies are said by a very competent observer, Professor Shortt of Queen's College, to provide an efficient and not very costly credit instrument for the farmer. Such institutions, however, are making loans for improvement, not for making the business of farming profitable. It is true that money is often borrowed on mortgage for other than improvement purposes, but such "calamity loans," as the United States Census of 1890 called them, are not made to promote the business of farming. "People mortgage their real estate to get married, to obtain divorces, and to pay alimony;

to pay their taxes, to pay rent, and to pay the money lender. They raise money by mortgage in order that they may travel, and that they may expend it in extravagant living; they speculate with it, and they relend it. Politicians pay their political debts by means of mortgages. Wives pay the debts of their husbands and educate them for the ministry. Men mortgage their real estate to pay their physician, their undertaker, and their lawyers, to help their friends and relatives to make good their defalcations, to educate their children, and to support their parents." (U. S. Census, 1890, Mortgage Vol., p. 279). But after all, loans for such purposes form but a small part of the whole, not 6 per cent. of the number, not 2 per cent. of the amount in the United States; and probably this proportion holds true of Canada, although we have no definite information. Most of the mortgages are incurred to effect improvements of a more or less permanent character.

Information is lacking regarding the rate of interest which is paid on mortgages in Canada. There is no doubt that it is high, although in New Brunswick, at least, the rate is falling, and corporations which have money which they must invest in first-class securities are being forced to consider whether it is worth while to invest in mortgages which now bring a grudging six per cent. only, with a prospect that five will soon be all that is obtainable. It is because the rate of interest is high that there is a demand in some quarters that the state should place its credit at the disposal of the farmers to enable them to borrow at less than the present market rate. Such a proposal is regarded with great alarm in some quarters, but there is ample and conservative precedent for it. The English Royal Commission on Agriculture, recognizing the demand for "increased outlay on improvements necessitated by changes in agriculture," recommended state loans to farmers, for which they claimed rightly that there was ample precedent in English agrarian legislation. The gist of the evidence laid before this commission brings out, according to Mr. Wolff (People's Banks, p. 54,) that "wherever in agriculture there is ample command of money for working a

farm, for manuring, feeding, cultivating, and holding over produce, just as circumstance may dictate, without stint and without limit, the effects of distress are very much mitigated ;” and it was to afford such a mitigation to all, that the commission recommended a system of state loans.

In English and in Scottish land legislation to a slight extent, and in Irish legislation to a very great extent, the principle of using the state credit to improve the position of the farmer has been adopted and carried out. The chief object is one which has little meaning under Canadian conditions, but the same principle is involved in using state credit to create a class of small land-owners as in using it to reduce the rate of interest on mortgages. Irish land legislation has advanced far from the tentative proposals in the Bright clauses of the Land Act of 1870. This first act proposed that the state advance two-thirds of the money required to convert the tenant into owner, to be repaid, capital and interest, in equal instalments of 5 per cent. in 35 years. The famous Land Act of 1881 incidentally made it possible to advance state money to the amount of three-quarters of the purchase price, repayable in 49 years. But the outstanding pieces of legislation are Conservative in origin. The Land Purchase Act of 1885 permitted the advance of the whole purchase money, repayable, capital and interest, with 4 per cent. interest, over 49 years. Under this act purchases were made on behalf of 13,700 Irish tenants, at a cost of about 45 million dollars, and the Irish tenant could, and did, become the owner of his farm by making, for that period, annual payments 41 per cent. less than his former rent had been. “This great boon,” says Mr. Shaw Lefevre (*Agrarian Tenures*, p.142.) “is due to the use of money borrowed from the state at 3 per cent. to purchase the landlord’s interest on the very low terms of 17½ times the rent.” Mr. Balfour’s Land Purchase Act of 1891 went still further in the same direction. It involves the use of Imperial credit on a very large scale, and was distinguished by an effort to provide some security to the Imperial Government for repayment of the loans—a provision not unlike the process by which

the Dominion Government can deduct allowances from the Dominion subsidies to the provinces. And still further legislation is demanded by the Irish party.

The Irish land question stands by itself, and perhaps it were as well not to quote Irish agrarian legislation as a precedent; but there is no such objection to the precedent established in our sister colonies of New Zealand and Australia. There the principle of using state credit to assist the farmer has been carried out on a very large scale. The policy has still to stand the test of experience, and particularly the experience of hard times. At present the policy is still popular. The New Zealander, according to his eulogist, Mr. Lloyd, uses his national credit to get money in London to lend again in advances to settlers and free the farmer from the high rates of interest he is paying the private bankers. (Newest England, p. 151.) New Zealand began this policy in 1893, and since then its example has been followed by New South Wales, South Australia and Victoria. The system is described thus by Mr. Lloyd :

“ The world over, one of the greatest obstacles in the way of the small farmer, and the large one, is the difficulty of getting capital. Often there is no money to be borrowed in the district where he lives, or if there is, it is in the hands of rich neighbours or banks, who know nothing but their bond and the pound of flesh. But in New Zealand the settler has only to go to the nearest post office to get into communication with a money lender who charges no commission or brokerage, and no fees, except for actual expenses, never exacts usury, offers no cut-throat mortgages for signature, will let him have any amount from as little as \$125 to as much as \$15,000, has never foreclosed, does not try to induce him to borrow more than he really needs; if he has no freehold, will lend on leasehold and good will and improvements, gives him thirty-seven and a half years to pay the money back, and accepts it from him in small instalments of principal with every payment of interest, so as to make it as little of a burden as can be, will allow him if he happens to have \$25 to spare, to pay it in at any time to reduce

his indebtedness, and when it finds itself making a profit out of the business, instead of accumulating a fortune, gives him the benefit by reducing his rate."

New Zealand charges interest at the rate of 5 per cent., and up till 1900 had made about 7000 loans, amounting to more than ten million dollars, and it is claimed that not a cent has been lost, and that in 1900 there was not a penny of interest or principal due which had not been collected. The entrance of the government into the business of lending money, brought rates down all over the country, and not only those who borrowed from the government, but all borrowers, had the benefit of a reduction in the rate of interest of something like two per cent. One supporter of the New Zealand government claimed that "the action of the state in entering the money-market has made an average reduction of 2 per cent. on £32,000,000 of landed indebtedness, and £32,000,000 of other debts." The benefit may not have been as great as this and yet have been very great in its immediate effects.

The state advances money to the Australasian farmer at both ends. It advances money on his farm, and then lends him money on its produce and helps him to market it at the best terms. With this latter activity of the state on behalf of the farmer we are more familiar in Canada. Neither Dominion nor provincial governments have yet found it necessary or advisable to lend its credit to its farmers. Ontario is a slight exception, that province, I believe, making slight advances for purposes of drainage. But the Department of Agriculture, with all its manifold paternal activity on behalf of the farmer, has not advanced money for improvement or for cultivation—at least to the native farmer. To some classes of immigrants small advances have been made by another department. The Mennonites received a loan of nearly \$100,000, which has all been repaid with interest; the early Icelandic settlements received some \$30,000, which, owing to adverse circumstances in the settlement, had to be written off as a bad debt, the security being destroyed by disastrous floods; and similar small advances have been made to the Dcukhobors

and to individual Galician settlers, the loans being secured by liens on the land. Beyond these, I know of no direct lending by the Canadian government.

Yet the Canadian governments, in their own way, are doing a great deal to make the business of farming profitable. The provision of cheap credit is not the sole condition of success, and many of the other conditions are provided. I need not say anything about the assistance which the government gives in establishing and maintaining creameries and cheese factories, or of the instruction how to make the best use of his opportunities offered the farmer by means of the agents of the departments. From one point of view, this assistance might be regarded as a system of technical education for farmers; from another point of view, as the *quid pro quo* given to the farmer who has borne the chief part of the burden of the attempt to build up industries by protection. These, however, are but the beginning of what the government does, and when one contemplates the vast projects upon which we, as a people, have embarked, or are likely to embark, it seems almost necessary to call caution. Practically, the agricultural departments have made it their aim to remove all obstacles in the way of finding a market. It uses its vast power and machinery to form an intelligence bureau in the interests of the farmer. It has improved the means of transportation; it has insisted on coal storage on train and steamer, and it has erected cold storage facilities in farming districts and at seaports; in some cases it insures the farmer against some of the ravages of nature; it has brought the best of all markets to his door; it buys eggs and butter and poultry from him at a fixed price, and pays over to him any surplus, and events may force it to buy the fruit crop in so far as that is intended for export; it buys oats from him on account of the imperial government, and when it succeeds in making a better bargain than anticipated with the steamship companies, hands the profit over to the farmer. And as I write, my evening paper comes to tell me that in order to encourage poultry-raising in the maritime provinces, the Dominion Department of Agriculture has decided, in the event of cold storage facilities not being forth-

coming on any steamer from St. John or Halifax to Liverpool during the year, to pay all freight charges on poultry shipped to Montreal in excess of one dollar per hundred pounds. On the other side of the Atlantic, almost equal care and anxiety is shown by the agents of the department that the produce of Canadian farms shall receive the best price and gain the best reputation that can be obtained.

It is no wonder that the president of a Farmers' Supply Association in the old country, with whom I had some correspondence in relation to this report, should declare that in the provision of facilities of all kinds the Canadian farmer is a full generation ahead of the farmer in the motherland.

But it may be asked why should the Government not go one step further and adopt the Australasian policy of assisting the farmer in producing as well as in marketing? Why not lend the credit of the state to the farmer to enable him to borrow money more cheaply to make improvements or simply to make the business of farming profitable? It is true that we need not trouble ourselves much about words, for if state lending on mortgage is socialistic, what shall we say about the manifold activities of the agricultural departments? The New Zealander has not been frightened at the word, and indeed declares that the epithet is misapplied. The essence of socialism is state ownership of the means of production, and the effect of this kind of state activity is to establish individual ownership more firmly. The New Zealander is of the opinion, according to Mr. Lloyd (Newest England, p. 375) that his action simply amounts to "the state giving its principal efforts to the stimulation, as a silent partner, wise counsellor and democratic co-operator, of the enterprise and industry of the individual." It may, moreover, be easily argued that in a democratic country, government aid is simply a highly organized form of self-help, that the people are using the machinery of the state for the ends for which it was devised, viz., the good of the citizens.

This is true. At times we may look at things in this way,

yet the usual way is to regard a government as an external benefactor who favours us, or our district, at the expense of others. It is true that it is our own money that constructs our roads and our bridges, builds our railways and executes our public work, yet when some protesting writer or some opposition candidate points this very fact out to us, we feel instantly that he is talking not of things as they are. As a matter of fact, we do not regard government aid as a highly organised form of self-help, but rather as a highly organised form of helping ourselves at the general expense. And it is not well that we should come to look too much for government aid in the management of our business. There is already too much reliance upon government and too little individual initiative. There are, for instance, too many men wasting time looking for government jobs, and too many people who think that five dollars of government money is worth ten dollars offered by any one else. There is some danger to national character in too great a reliance upon government assistance.

Nor can we regard the resources of a government as illimitable. A state can borrow cheaply because it borrows moderately and with discretion. It is true that a government may borrow at three per cent. or a little more, while the private borrower has to pay six or a little more. Why should not the government of Canada or the government of New Brunswick lend again to the farmer? For the very good reason that, if it did to any extent, it would not long be able to borrow at three per cent. and the whole community would be burdened. New Zealand's experience is not quite conclusive, because it has not continued long enough. We have had in our history some experience of lending the state's credit. The legislature of Canada passed in 1849 a guarantee act, guaranteeing the interest on railway bonds, as Manitoba is doing to-day, and the result was that the credit of the colony was quick to show the effects, and the guarantee system had to be withdrawn. New Zealand, during the first depression of trade, may have an even more disastrous experience.

Nothing need be said regarding the political aspect of the proposal, though that is the first which occurs to most people. What would be the relation between the borrower and the government about election time? Would concessions be made to partizans, in the matter of time, if the interest was not ready? It must be admitted that there is no evidence of similar discrimination in other business conducted by the government. After extensive enquiries, of Liberals regarding Conservative administration, and of Conservatives regarding Liberal administration, of the Intercolonial Railway, I have heard of one instance only of discrimination in freight rates in favour of a partizan, and that was in the shape of a tacit permission to overload a car. That is rather remarkable, and along with it we must take the fact that advances to settlers are generally repaid in full—though this is not so remarkable, for these men are not voters. Still there remains the general impression that politics would inevitably enter into the question of government loans to farmers, and politics are already so complicated that both parties would fight shy of such a measure.

To sum up:—The farmer need not look to any amendment of the banking system to provide him with cheaper credit, though possibly an improved banking practice might help him a little. The European system of agricultural credit on a co-operative basis could not be adopted in this country, and need not be, for our farmer is not as helpless and as much subject to the usurer as the continental peasant. The results of this co-operative system do not place the European on as good a footing as the Canadian farmer now has. No government will ever attempt the task of lending money to make the business of farming profitable. The action of governments in relation to agricultural credit has been confined to lending on mortgage. This is, in my opinion, not desirable in Canada, either for the Dominion or for the provinces. The safe line is to develop the present activities of the government on behalf of the farmers, for cheaper credit is only one of the conditions of success.

If we trace the farmer's activity from start to finish, we can see at a glance what is being done :

- I. Agricultural education for adults at present—for the young in the immediate future; this includes lectures by experts, continuous experimentation, etc.
- II. Assistance in certain kinds of production—creameries and cheese factories, etc.
- III. For improvements—practically nothing. The Canadian governments do not lend on mortgage, nor is it desirable that they should. But something might readily be done to cheapen law costs and to facilitate the transfer of lands; perhaps, also, to encourage local agricultural societies to form themselves into local co-operative mortgage banks, borrowing on mortgage bonds to lend on mortgage.
- IV. For the provision of credit to carry on the business of farming, the government does nothing and can do nothing, though here, again, it might encourage the agricultural societies to greater practical usefulness as co-operative supply associations.
- v. Markets. This has been assumed by the government in so far as export is concerned; and since the government advances the price, it may thus assist the farmer more than by providing cheaper credit. With a practical government guarantee of a market, indeed, the banks might safely advance to the farmer almost as fully as they do to the lumber operator and the manufacturer; and if this were to prove the case, the demand for cheaper money for the farmer would no longer be heard.