emergency measures had to be taken to dispose of the heavy crop which for the most part could not be taken overseas. The largest producers across Canada met hastily at Ottawa and drafted a plan to cope with the situation. The country was roughly divided into zones to provide a small but assured market for each section. The aim of the scheme was to keep the low grade fruit off the market altogether, and thus keep up the price level for the No. 1's and Domestics. The five apple-producing counties in Nova Scotia; Kings, Hants, Annapolis, Lunenburg and Queens were put under the jurisdiction of the Nova Scotian Marketing Board. This body has been regulating the distribution of the apples on a pooled basis and deciding which fruit was to go overseas and which to be sold within the province. The great bulk of the apples were to go to the dehydrators, where the federal government guaranteed a stipulated amount for the product.

That is roughly the scheme. It has not been in effect long enough at time of writing to say whether it has been successful or not. Natural conditions supplied a solution during the last war by creating a shortage of supply both at home and abroad. The large crop of the present season will not permit a similar answer to the problem. A short time will disclose whether the present method is successful or whether more drastic means will have to be applied.

Farm Credit in Prince Edward Island

A Historical Survey

By J. T. Croteau and
A. M. Linkletter

SELF-SUFFICIENCY has always characterized agriculture in Prince Edward Island. An agricultural credit system, in the proper sense of the word, has never existed in the province. A brief historical outline will show the self-sufficient nature of the industry, the beginnings of mortgage lending only in the last quarter of the nineteenth century, the long dependence upon merchant credit, and the relative newness of incorporated lending agencies.

French regime.

As far as can be determined, no credit arrangements of any consequence existed during the French regime. The Acadian settlers seem to have been neglected by the administration in Paris and for the most part had to shift for themselves. Trade was conducted through barter and the initial capital expenditures were provided by chartered companies or by the crown. Plagues and misfortunes of various kinds led to relief measures, such as supplying of seed grain, but, as would be expected, there was little occasion for the granting of credit to the farmers of this primitive community. Possibly merchant debts existed, but it is doubtful if they were of any great significance to the agricultural life of the colony.

English regime—Mortgage debt.

For well over a century after the expulsion of the Acadians in 1758, agriculture continued to be self-sufficient and primitive. Mortgage credit was rare, due to the difficulty of securing titles to the land. In 1767 the whole of Prince Edward Island had been given to 67 British proprietors. Although on a few estates the land was sold to island farmers in the 1850's and 1860's, the proprietors in general were reluctant to sell their lands, and an organized opposition called the Tenant League arose to protest

EDITOR'S NOTE: The above article is the first chapter of a study on the operation of the Farmers' Creditors Arrangement Act in Prince Edward Island, undertaken during the summer of this year on behalf of the Institute of Public Affairs. The authors, J. T. Croteau, Ph.D., and A. M. Linkletter, M.A., are both on the staff of Prince of Wales College, Charlottetown.

against the payment of quit rents and aimed at securing freehold for the tenants. This question was finally settled in 1875 when the island government received a grant from the Dominion government, bought the lands from the absentee proprietors, and sold them to their occupants in freehold.

The agreement required the purchaser to pay the Provincial government 30 per cent of the purchase price at once and the balance in two years, although these terms do not seem to have been rigidly adhered to. In many cases mortgages were placed on the land to enable the buyer to pay his debt to the government. The money was supplied by private individuals and was usually handled by lawyers who had funds of their clients to invest.[1] Until recently practically all mortgage borrowing in Prince Edward Island was from private individuals, usually placed through lawyers. Mortgages were usually placed for a term of five years and were then left to run indefinitely. Trust Companies and other incorporated loan agencies have never bulked large in Prince Edward Island mortgage operations.

Short term credit—nineteenth century.

Short term credit was largely merchant credit during the whole of the nineteenth century. Under the system of agriculture prevailing at that time the merchant would "carry" the farmer throughout most of the year, supply all necessities which could not be produced on the farm, and then at harvest time effect a settlement by taking the farmer's surplus produce. This was open-book credit and for a large part of the year the farmer would be in debt to the merchant. Grain was the most common article of trade and large quantities of lumber were sold to the shipbuilders. The trading system might properly be described as a barter system with money as a measure of value. At times, after a poor harvest, the debt might carry over into the next year. Occasionally, to make some needed improvement, a farmer might borrow cash from a merchant, or have a merchant back his note.

Needless to say, the merchants, who were frequently shipbuilders and exporters, occupied a dominant position in the economy of the island. Their economic power was further enhanced by their political control. Under the system of open voting, abolished only in 1913, it would be a rash debtor who would cast a vote against the political candidate favored by the merchant. Merchants frequently served in the legislature. The credit system, then, was simple, direct and personal. Probably at times it was abused. Probably the personal relationship of creditor and debtor prevented the worst forms of exploitation.[2] Stories are told of the kindness and generosity of certain wealthy merchants. Credit control was in the last analysis however, in the hands of that class which had political and economic control of the province.

During the first half of the nineteenth century the island merchants secured most of their goods from Halifax firms. The Halifax dealers would "advance" the island merchants and after harvest would receive in payment either produce or cash.[3] Cash was greatly preferred as it apparently was easier to handle, and lower prices were customarily given when cash was paid.[4] Money lenders existed, but, probably because of the harsh laws of the day, it would seem as if loans were made only on occasion of extreme need.[5]

The island suffered from a chronic shortage of cash. A number of currency experiments were tried, with devaluation

(1) An examination of the registry records reveals that the island banks and the Credit Foncier, which operated on the island during the 1880 and 1890's, loaned some money on mortgages during the latter part of the nineteenth century. The bulk of lending, however, was by private individuals.

(2) At one time a firm in the Western end of the island attempted to farm with hired labour over 2,000 acres of land which it had seized in payment of debts. This experiment in large scale farming was not a success, however, and the land was again sold to individual farmers.

(3) Prince Edward Island Currency, "*The Colonial Herald* , *No.* 136, Feb. 21, 1841; No. 193, April 10, 1841.

(4) *The Colonial Herald*, Nos. 179-36, 1841-1844. The advertisements usually state that lower prices will be charged for cash.

(5) *The Colonial Herald*, No. 190, March 20, 1841; No. 193, April 10, 1841. The law providing for imprisonment for debt was repealed only in 1879. *Acts of the General Assembly of Prince Edward Island*, 42 Victoria, Cap. 15, 1879.

as their ultimate purpose. Coins were made legal tender for more than their face value so that they would not be exported.[6] There were perennial complaints that merchants were draining the country of cash and sending it to Halifax.[7] All this is characteristic of a new country which has the two-fold task of securing the capital necessary for its development and at the same time caring for its day-to-day needs.

In the 40's and 50's the government encouraged the organization of agricultural societies and promoted the holding of exhibitions. Assistance was given in the form of small grants.

From 1856 to 1871 five banks were incorporated in Prince Edward Island. Agriculture continued to be self-sufficient, however, and probably few farmers borrowed directly from the banks until well into the twentieth century. During the third quarter of the nineteenth century island merchants tended to break away from their Halifax connections, and traded directly with England and the United States. As time went on, island products were exported to these countries in increasing quantities.

Change in credit practices after 1890.

Credit practices changed with the transition from self-sufficient farming to cash crop farming which began with the establishment of cooperative cheese and butter factories in the 1890's and the promotion of the poultry industry in the early 1900's. The fox boom beginning in 1908 and the large scale planting of potatoes during and after the war accelerated the change.

With cash returns for farm products the old practice of running up large store accounts was to some extent abandoned, although it has persisted to the present day. Store credit, with its two prices, one for cash and one for credit, tended to decrease during the twentieth century. The coming of automobiles and better roads brought the city store in direct competition with the country merchant, while the mail order business competed in many lines of goods. The charge has frequently been made that the farmer pays cash in the city or sends it away to mail order houses, but when he wants credit he goes to the local merchant. During the last few years a number of local merchants, probably because of limited capital, have been attempting to enforce a cash policy. A farmer with fairly good property, however, has no trouble in getting credit, even today, although there has been a curtailing of credit to some of the poorer risks. At one time almost any farmer was considered a good risk. If he did not settle his account in a reasonable time he would sign a note. Later a mortgage might be taken as a result of continued non-payment. During the 1930's the growing of potatoes on a large scale brought in a new form of farm finance—the crop mortgage.[8] This has since declined in popularity, however. A credit union law was passed in 1936, and 40 credit unions, most of which serve rural areas, have been organized since that date.

Farm Credit agencies in Prince Edward Island—1939.

At the present time the traditional method of farm finance, merchant credit, with merchants relying upon their own capital and upon bank loans, still predominates in the short term field.

Certain changes have become increasingly important, however. Cash buying practices are tending to become the rule rather than the exception. Direct borrowing from banks during the 1920's was practised, but seems to have declined somewhat since the depression. Installment buying of agricultural implements, of course, continues, but in a greatly decreased volume. Crop mortgages are occasionally used. Credit unions have been organized to take care of short term loans, but are yet hampered by a lack of capital. Personal loan agencies and pri-

(6) *The Colonial Herald*, No. 186, Feb. 20, 1841; No. 191, March 27, 1841.

(7) *The Colonial Herald*, No. 188, March 6, 1841; No. 191, March 27, 1841.

(8) *Acts of the General Assembly of Prince Edward Island*, 20 Geo. V, 1930, Cap. 10. This was used only with potatoes and was never very popular, probably not more than $50,000 a year was ever loaned on crop mortgages. It had the unfortunate effect, however, of increasing production at a time of low prices and further depressing the price.

vate lenders are probably of no very great importance in the short term productive loan field.

In the field of long term credit, mortgages placed with private lenders still account for the bulk of the loans outstanding. The Canadian Farm Loan Board, however, is taking an increasingly large share of new mortgages. Just at the present time farm mortgages are not held in the highest favour with the private investor or the incorporated company.

There is no agency organized to take care of the intermediate (six months to two years) credit problems of Prince Edward Island. As a matter of fact the lack of an intermediate credit agency is felt all over Canada. The nearest approximation to intermediate credit in Prince Edward Island is found in bank loans, which are made nominally for three to six months, but which are renewed in practice so as to make them in reality loans of an intermediate term. Needless to say, these must be well secured.

Debt Situation—1931

It is difficult to make an estimate of the total long and short term debt in Prince Edward Island. According to the census, in 1931 the total mortgage indebtedness in the province was $4,632,700. Interest rates on farm mortgages ranged from six to eight per cent, probably averaging around seven per cent.

Estimates of the short term debt in the province can be no more than a rough guess. The opinion is held that the short term debt was probably as great as the mortgage indebtedness. Interest rates on short term debt were high; for example, seven per cent charged by agricultural implement companies and a nominal eight per cent (actually higher) charged on over due store accounts.[9] Moreover, it was customary to charge a higher price for credit than for cash, so that even if an interest rate were not stated, buying on credit would usually cost the purchaser more.

Probably, then, the total indebtedness of the farmers in the province in 1931 was between eight and nine million dollars. Estimating an average interest rate at about $6\frac{1}{2}$ per cent, the total interest cost paid by the farmers of the province was probably over $500,000.

The value of farm products in Prince Edward Island in 1930 was $10,700,000. Thus the interest charge took 4.6 per cent of the total product. The value of farm products fell sharply after 1931, and the condition of the farmers continually grew worse. Interest charges during the worst of the depression probably took between eight and nine per cent of the total product.

Prices were falling all over Canada and there seemed no hope of effecting a payment of outstanding debts. Three alternatives faced the nation: inflation, bankruptcy, or partial cancellation. The middle course was chosen and the Farmers' Creditors Arrangement Act came into being. It was proclaimed in Prince Edward Island on November 1, 1934.

---

(9) Actually the rate was higher as the eight per cent was calculated on the total debt, whereas parts of it might have been outstanding for less than a year. Practices differed, however, and certain of the larger firms would charge a true seven or eight per cent.