

British Columbia Student Won the Royal Bank Prize

His Essay on "Does Canada Need a Federal Farm Loan System" Was Considered the Best By the Judges—58 Students, Including 3 From the U. N. B. Submitted Essays.

The fellowship of \$1000 on the best essay on one of four subjects chosen has been won by Mr. Dermot A. Davies, a student at the University of British Columbia. Mr. Davies selected the first of the following four subjects:

Does Canada Need a Federal Farm Loan System?

Canada's Optimum of Population and How it May be Obtained.

The Potential Development of Canadian Trade in One of Canada's Foreign Markets.

Economic Possibilities of the Maritimes.

The plan of this competition received the wholehearted support of the Department of Economics at each Canadian university. Fifty-eight students from all parts of the country prepared essays for the competition. There were 26 from McGill; 3 from the University of New Brunswick; 7 from the University of Toronto; 3 from Bishop's University; 2 from the University of Montreal; 1 from Dalhousie University; 2 from the University of Alberta; 7 from the University of Manitoba; 3 from the University of British Columbia; 3 from Loyola College; and 1 from Queen's University. One or more of the best papers on each subject are to be published in a booklet during the coming month.

The Right Honourable W. L. Mackenzie King, Dr. Oscar D. Skelton and Dr. Adam Short consented to act as judges for the competition and their co-operation did much to increase the general interest. By the award of the judges, the fellowship was granted to Mr. Dermot A. Davies, a student at the University of British Columbia. Mr. Davies stated that he will undertake graduate work in Economics under this fellowship during 1928-29 at McGill University.

The Winning Essay

Mr. Davies essay in full is as follows:—

DOES CANADA NEED A FEDERAL FARM LOAN SYSTEM?

(By Dermot Davies)

In studying agricultural credits we are faced by two aspects of demand. On the one hand the call for long term loans to run for a period extending anywhere from three to thirty years or more. And on the other hand the demand for immediate credit, running anywhere from three months to two years, although more generally of one year's duration. It is superfluous to elaborate the reasons for the demand for these various terms here, since they are sufficiently well known to everyone. The two phases will be separated, beginning with a discussion of long term credit.

Mr. Tory has given us a very lucid and condensed description of the history and working-out of the credit systems in many parts of the world. Unfortunately for us, our conditions, both economic and psychological, are entirely different from those existing in the European countries mentioned. Of the two it is perhaps the psychological difference which is greatest, so that we can not expect remedies which suited the French and German peasant with his peculiar temperament to suit the diverse characteristics of the Canadian farmer. The application of this will be seen below when we notice the working of the People's Bank in Quebec.

The United States

The country which most nearly approaches our conditions is the United States. Her peoples are similar, her crops are somewhat similar (having large one-crop areas) and her climate in the northern states is not very far removed from ours. We could not do better then, than to obtain some information as to the working out of the Farm Loan Board in the United States. In this connection I have found it advisable to get the latest available information, so that

Tory's Report will be, of necessity, of little help.

It may be stated briefly that it has been estimated that the necessity arose in the United States for a Federal Board due to the disappearance of cheap lands and the consequent rise in value of all other farming land. This is of interest to us, because it is a condition which we must expect to face in the next ten or fifteen years.

Prairie Land Bank

From a financial point of view it is undeniable that the Federal Land Banks have paid. They are operating on a 1 p. c. basis, and are accumulating a very satisfactory reserve fund. They have also lowered the rate of interest to the farmer. To those who offer the criticism that they are forcing private enterprises out of business, a few figures may be of interest. The Federal Loan Board can authorize private individuals with a certain paid-up capital to form joint stock land banks in any district, in competition with the Federal Land Banks. In 1921, 21 joint stock banks closed \$81 loans for a total of \$9,334,900, and 12 Federal land banks closed 27,153 loans for a total of \$91,029,976.

In 1922, 43 joint stock land banks closed 15,916 loans for a total of \$138,884,776, 12 Federal land banks closed 74,055 loans for a total of \$224,301,400.

In 1926, 57 joint stock land banks closed 100,199 loans for a total of \$727,748,388. Federal Farm Loan Board closed 409,570 loans for a total of \$1,274,855,66.

These figures indicate the early phenomenal growth of the loans made by the joint stock banks and the subsequent steady growth.

Extension of Credit

There has been some confusion on the subject of the extension of credit by the land banks. There are those who say that they have failed because they have not made credit master. That, of course, shows little reflection upon the part of the critic, since it is generally recognized that it is not easier credit that the farmer wants, but cheaper credit. "The best farmers in Saskatchewan today are not asking for easier credits, they are asking for lower rates of interest, based upon real security which they are willing to give." The land banks, then, will not lend unless the farmer can offer adequate security, but on the other hand they are sufficiently interested in the farmer's problems to make sure that he has not the security before they refuse, as witness the very careful survey made when an application for a loan is received.

The Federal Farm Loan Board has also forced the adoption of the amortization scheme for the repayment of loans. This may or may not be a bad policy (there has been much violent controversy on both sides) but it has certainly been beneficial to the farmer, and has been adopted widely by the commercial concerns.

Was a Failure

There is one criticism which has been levelled at the banks which is substantially true, and that is that their introduction has not materially altered the number of foreclosures. This criticism has been offered to prove that they are therefore a failure. But we are all to prone to think that a measure must be either a panacea for all ills or it must be a failure. On the contrary, no measure which can be devised can be devised can be fairly expected to put all the farmers on easy street. The best that can be expected is that a large percentage of the more efficient will be able to make it pay. It is therefore worthy of note that there has been a decline in the number of foreclosures. The reason for the small decrease will be brought out below.

To sum up the main points which have been brought out by the Federal Banks. They have not been a loss to

the government. They have not advanced easier credit. They have encouraged rather than prevented the growth of private land banks. They have adopted the amortization scheme. And they have not materially affected the number of foreclosures.

Conditions Analogous

The conditions in Canada are, as has been stated previously, somewhat analogous. And yet we have one very important factor which is different and that is the density of our rural population. There are in Canada vast areas of unoccupied territory yet. The farming communities are for the most part small and scattered (speaking of Canada as a whole). And for that reason we are, as Mr. Tory points out, in the stage that America was in thirty years ago. That is one very serious difficulty about trying to institute any sort of national organization for credits in Canada. Thus scattered condition of the farming population would in all probability lead to a condition that was prevalent in the United States at first under the Federal scheme, namely, that the volume of business done was not sufficient to allow for a profit on the 1 p. c. margin.

In Canada (and generally speaking for farmers as a whole), it has been estimated that the farmer's return upon his investment is 4 p. c. to 4½ p. c. There are, of course, many who are making a great deal more than that. But the average return may be taken at that figure. With a return so low, it is manifestly impossible for the average farmer to borrow and pay 8 p. c. or more. Incidentally, a reduction in the interest rate to even 6 p. c. would not enable all the farmers to borrow even if they had the security. It is for this reason that the Federal Farm Board in the United States has failed to materially alter the number of foreclosures.

Experiences of Provinces

A brief glance at the experiences of some of the provinces in Canada may reveal some information that is helpful. Mr. Tory has gone into the details of the working of the various schemes, so it will be necessary here to take his findings only, verified, where possible, by more recent information. In one particular this information is interesting. That in every province where the scheme (where operative at all) has proved a burden on the public, we find that the largest proportions of the loans have been made for the purpose of clearing previous encumbrances.

In Ontario, where the idea is considered successful, 47 p. c. of the loans have been made for the purchase of new lands.

In Quebec we have a unique situation due to the unity of nationality, religion and habits of the people—a condition met with in European countries but nowhere else on the American continent (on a scale of similar size.)

In Saskatchewan, the undertaking is considered sound, and the greater number of loans have been made for farm purchase. In other words, borrowing for production purposes is a sound proposition. In British Columbia certainly, the scheme has been a financial burden on the tax payer, and here we notice that the majority of the loans, have been to clear off previous debts.

Some Conditions

So much for a study of conditions in the past. What, if any, are the conclusions to be drawn? The first is that any system of government controlled credits cannot be run as a philanthropic enterprise to the detriment of the tax-paying public. It must be on a sound financial basis. The second conclusion is that if, as in the States, the interest rate is lowered, it merely means that a number of farmers who are now unable to borrow because their returns upon investment are too low, will be enabled to obtain credit for the greater efficiency of management of their farm. In other words, more farmers will be able to borrow for increasing their production. The system will undoubtedly bring a number of borrowers into the field whose security is adequate but who will be unable to make good. This evil is not confined to farmers

alone, as will be clear if we reflect on the number of optimistic enterprises which are started in commercial lines when credit is cheaper.

What of the Future

Looking ahead into the future we are on less sure ground, and, it behooves us to be all the more careful in our statements. It will, however, be conceded to mean that Canada will in the future face a marked increase in population, which means a rise in land values, and a probable situation analogous to that in the United States. We have not, however, reached that state as yet, and still we are in a condition in which the farmer's position is of sufficient importance to merit our serious endeavour to alleviate his lot.

Frankly, I do not think we are immediately justified in organizing a Federal Farm Board for long terms, because the scattered conditions of the farmers would not enable it to advance credit in competition with private enterprises at a sufficiently cheap rate to be beneficial to the farmer, and yet yield a margin of reserve to the Board. The time will undoubtedly come when it will be feasible to do so, but it has not yet arrived.

The Farmer's Problem

There is one question which must the inevitably occur to anyone who has made a study of the farmer's problems, and that is, why is he in this position of "utter bankruptcy," as some exponents have expressed it. Prevention is certainly better than cure, and if we can get at the root of the matter we will not need to subsidize the farmer. Many arguments have been advanced extending all the way from the fact that he buys in a protected market and sells in a "world market" to the fact that he works only three or four months out of the year. Some of the arguments have a grain of truth, and others are just propa-

ganda. The real cause has been stated in part above, that the average return on investment is only 4 to 4½ p. c. Thus, while credit is an important factor in any business enterprise, that business must be on a paying basis before it can make use of the credit.

Intermediate Credits

The matter of intermediate credit is one which concerns the bank immediately. In this respect the Canadian banks are in a very favorable position because their branch bank system allows them a facility of money circulation to meet extraordinary demand, and also the possibility of small turnover at any one branch, the latter advantage being more and more recognized in commerce generally by the organization of the "chain store."

There have been many charges levelled against the banks. The main one made by Mr. Tory is to the effect that their charter will not permit them to lend on other than liquid security, and as the farmer's needs extend anywhere from three months to two years, with the preponderance of needs being about six to nine months' duration, the banks are therefore somewhat chary of lending, or else they have to call their loans in at an inconvenient time for the farmer.

To this the banks reply that they do and are willing to lend for harvest of crop, seed and live stock, etc., and that they do, and are willing to renew the notes. Both statements are true under certain conditions. In periods of good prices or good harvest the notes are renewed. But since the local manager is responsible for the loan, he is very liable to call it in at the first sign of poor conditions, which of course does not help the farmer.

To the charge that interest rates are exorbitant, I have never been unable to uncover any definite information that they are so (even in the West). It is true in some isolated cases that

the rate has been 9½ p. c., but that was under exceptional circumstances, and not a general rate. Incidentally, "store credit" is very much higher, reaching as high as 20 p. c., only as it is not announced the farmer is apparently does not feel it.

Co-Operation Organization

I think that undoubtedly the recent trend in the direction of co-operative producer's organizations will prove the salvation of the farmer if properly organized. They do not lessen the personal security of the farmer, on which bank loans are so largely made, and at the same time they will enable the farmer to repay his loan more promptly (in the case where they advance a certain percentage of the price to the farmer on delivery of his crop) and the added security to the bank, of knowing that the farmer will get a high enough price to cover the loan, will tend—or should tend—to lower the interest rate. Incidentally, if the farmer can pay his loan off sooner, and get along without it, he is saving the interest.

To sum up the whole situation briefly, I would say that while it is undoubtedly that the farmer is in a poor position, his basic trouble does not lie in credit. As regards long term loans he is entitled to a cheaper rate if it can be successfully secured, but in Canada, at present, this is not possible. As regards intermediate credit, the banks above done their share, but co-operation should be fostered, as it tends to give the farmer increased stability of price and credit.

HANDICAP

I cannot smell the daffodil
That poets rave about—
The tailor cleaned my old spring suit
And turned the lining out.
It's reeking yet of scorching irons
Evaporating gas—
Before I smell the daffodil
A week or two must pass.

Home made Candy

Treat the folks this Easter-time to candy of your own make! None tastes so delicious, none so perfectly satisfies, none so pure and good for all as the candy you make in your own kitchen. Use Borden's St. Charles when the recipe calls for milk—its creamy richness improves the flavor, adds to the food value of all candy. Here are a few tested recipes made with Borden's St. Charles—try them—they will delight you—

Three Layer Candy

PECAN FUDGE

2 cups granulated sugar
1 tablespoon butter
pinch soda
¾ cup pecans (broken)
1 cup Borden's St. Charles Milk

1 teaspoonful vanilla
1 tablespoon corn syrup
Place sugar, milk, syrup, butter and soda on stove. Boil until it forms soft ball when tested in cold water. Remove, whip, add flavor and nuts. When creamy pour in buttered pan.

Cream Peppermint Drops

½ cup Borden's St. Charles Milk
3½ tablespoonfuls water
Combine the first three ingredients in a saucepan and boil gently without stirring until a soft ball will form when a little is tried in cold water. Cool till tepid, then flavor, beat till creamy and quickly drop on oiled pans in small rounds from the tip of a teaspoon.

Butter Fondant

4 cups granulated sugar
1 cup corn syrup
¼ teaspoon salt
1 tall tin Borden's St. Charles Milk
¾ lb. butter
Mix sugar, milk, syrup and butter. Add salt. Place over slow flame, stir constantly and boil until it forms a soft ball when tested in ice cold water or 238 degrees with candy thermometer. Remove and pour on to a platter which has been slightly sprinkled with cold water. When cool to blood heat, beat with wooden ladle until the whole becomes creamy and firm.

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MILK

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