

(November 5, 1934)

The Farmer and His Debt

BY HON. M. A. MACPHERSON,

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ACT.

PRESIDENT JAMES:—Gentlemen, today as guest speaker it is my pleasure to present Mr. M. A. Macpherson, the Administrator of the Farm Creditors' Adjustment Act. The defeat even of a Conservative government may have its compensations—I am not referring to Ontario, but to the defeat of the Anderson government in Saskatchewan two years ago, which left our guest of today free for other fields to conquer. Those fields since have undoubtedly proven vastly more extensive than he thought at that time. When Premier Bennett put through parliament the Farm Creditors' Adjustment Act, he cast about for someone to administer this act. It was no mean compliment to our speaker that he was the one chosen for that work. An Easterner by birth, Westerner by adoption, and former Attorney-General and Provincial Treasurer of Saskatchewan, Mr. Macpherson brought a wealth of knowledge to this work.

The two big problems of the west today, farm debts and the rehabilitation of the drought areas, are two subjects which should be of immense interest to the members of this club. The second of them will be dealt with three weeks from today by the Hon. Mr. Bracken. Today Mr. Macpherson will take up the question of the farmer and his debts.

MR. MACPHERSON:—Mr. President and gentlemen, I appreciate very much indeed the privilege of speaking to the Canadian Club of Toronto.

The subject "The Farmer and His Debt" on which I

am to speak to you today is admittedly one of *paramount importance to Canada*. I quite realize the consideration I will give the subject will be inadequate, none the less, to one vitally interested in the solution of the problem of agricultural indebtedness it is most encouraging to find that Canadian Clubs desire it examined, and a candid scrutiny of the farmer's difficulties before such a Club as yours may very well provoke further discussion which will tend to ultimately provide solution.

Lord Chatham once said:

"Trade increases the wealth and glory of a country; but its real strength and stamina are to be looked for among the cultivators of the land."

In no nation is that more true than in Canada. Since that Dominion Day when, with due provision for the entry of other provinces, four provinces of British North America were bound together to found the nation, agriculture has been recognized as the basic industry of our country.

True, there has been in Canada, as in all countries, a trend of population from rural to urban.

The census figures indicate that in 1891 the rural population of Canada was.....	3,296,141
the urban population.....	1,537,098
In 1931 the rural population was.....	4,804,726
and the urban population.....	5,572,056

In 1931, for the first time in the history of Canada, the census figures indicated a larger urban than rural population.

This definite trend in population at first may cause alarm yet it must be realized how in agricultural development the last one hundred years has been truly a century of progress. It must be kept in mind that there was but little advance in the science of agriculture or in mechanized farming until the last forty years. At the beginning of the Christian era it required 90 men on the land to furnish enough by way of foodstuffs and wherewithal for apparel for themselves and 10 others. These same figures

would about apply well into the 19th century. The relative figures proceeded to vary towards the end of that century and they have varied completely in our day. By virtue of the advance made possible by the engineer and the scientist, and as a direct result of the fertility of man's mind and the skill of his hands during the past quarter century, *10 men on the land today will produce enough for themselves and 90 others in foodstuffs and wherewithal for apparel.*

Naturally there was a trend from the land; naturally, perhaps, there was a tendency to use the machine, improved seed and fertilizer; to abandon subsistence farming and consequently there was a reasonable, commendable inclination for the farmer to surround himself in his work with the latest appliances, tools and materials provided by his fellow men. In naturally following this perfectly normal course there developed the debt structure which today is causing so much alarm.

When you take the Western Provinces of Canada, as the newest part of this country, when you consider the schools, churches, institutions, highway systems, power systems, elevator systems, railway systems, that have been built in an almost unbelievable short space of time, it can be readily seen how most certainly this could be done only in the face of, to some extent, mortgaging the future. As it was with the country, province or the municipality, so it was with the individual. The product he produced was good; he could compete because of the excellence of that product in the markets of the world; the price was fair to good. Nature generally was kind, and from one end of the country to the other the farmer kept buying chattels and land; the manufacturer kept pressing his wares upon him, and the lending institutions, banks, corporations and individuals advanced money on the basis of farm credit being sound, safe and secure.

There were periods of temporary difficulty, setbacks in small districts or in individual cases but generally the advance was maintained and the debt load was increased. Then suddenly, with the coming of the greatest economic depression known to man, commodity prices collapsed.

Coincident therewith in large areas Providence was not as kind as it had been and immediately a situation of great difficulty developed. Embarrassment for the farmer whose liabilities were generally short-term liabilities which became due and were in default. Difficulties developed for the rural municipalities which were providing local services at the will of the farmer. This meant high taxation, necessarily imposed to provide the services, now hard or impossible to collect. Difficulties as well resulted for the creditor class who had sold their goods on credit; who had loaned the money of their shareholders, their policyholders, their depositors or those for whom they had acted as trustees. In practically every province of Canada in some form or another moratory legislation was provided. It was not satisfactory. It did not remove the farmer from his position of default. It hindered the creditor and his operations, unsettled him and he, as well, was dissatisfied. Confidence did not exist. *Confidence and credit being synonymous terms meant that farm credits were at the lowest possible ebb.* Month by month the problem became more acute, and as it became more acute naturally there developed on the part of the farmer, in some instances, a *sentiment of suspicion and distrust as against the creditor,* and with the creditor, *a feeling of suspicion and distrust in so far as the farmer was concerned.*

I do not suggest that this is true in respect of all creditors or all farmers, but I do suggest that a situation was fast developing where, on the one hand the farmer as debtor, and on the other hand the creditors were getting further apart and any sympathetic understanding as between them was fast disappearing.

I submit to you with all confidence that that school of thought which teaches that every man's hand is against everybody else is not fundamentally true in so far as Canadians are concerned. In the final analysis everyone—almost everyone—in this country, be he debtor or creditor, is anxious to help the other fellow out if the other fellow is in distress. This is fundamentally correct, but however fundamentally sound and true it is it will avail us nothing if there is permitted to exist through misun-

derstandings as between the two groups, clouds of suspicion and distrust which should be and can be dissipated.

According to the last census figures we have in Canada 728,000 farmers on the land. Of this number 586,000 are full owners, 68,000 part owners and part tenants, and only 74,000 tenants. That is, today in Canada *90 per cent of our farmers are in the category of home owners.* This is an interesting, encouraging, stimulating statement of fact. With the psychology and philosophy of our people what it is, it can be pretty well accepted that in the final analysis the greatest measure of happiness and contentment of our rural people will be experienced by them, if that *splendid high percentage of home-owning farmers is maintained.*

Accurate definite figures for agricultural indebtedness cannot be given, but the tabulated result of the census figures shows that 244,201 farms, or 33.61% of the total farms in Canada report mortgages to the value of \$677,000,000 or 16.75% of the value of all farms as given, and 49% of the value of owned farms to which inquiry was restricted.

In addition to the actual mortgage indebtedness, there are many forms of *obligations* which have been incurred by the farmer. Obligations for permanent improvements to his land, such as lumber, for machinery and equipment, for stock, for labor, for taxes, for sustenance, for feed and fodder, and for many other forms of goods and services. As indicated already, most of this indebtedness was on a *short-term basis.* The majority of mortgage loans were for a period of five years, providing in most cases for some payment of principal in addition to interest each year. I need not remind you that the depression came in '29, the real collapse in prices in '30, and that rural Canada felt the force of the depression with increasing fury in '31, '32 and '33.

It must naturally follow, therefore, that the great body of farmers involved as debtors in this tremendous debt load find themselves today almost entirely in default in respect of practically every item in the debt catalogue. Mortgages are past due, accounts for goods and services are past due, loans to the bank are long overdue, taxes are

in arrears. It can readily be seen that the mental attitude of rural Canada as a result of these financial difficulties is not complacent and by the same token the mental attitude of the creditors is just as uneasy, and just as worried. Much has been done by the individual creditor by way of rearrangement and readjustment, but the undeniable fact is that in the great, great majority of cases, that condition of default still remains with its consequent tendency to impair the morale and impair, as well, the substantial fibre of our people, debtor and creditor alike.

Given these facts, and they are facts as I have given them to you, and having drawn certain conclusions I submit are reasonable then does it not seem that the rational, proper course to pursue is that *that Legislature* which has the power, under the Constitution to enact *should legislate and provide machinery whereby opportunity can be afforded for a rearrangement of obligations*, a substitution of a new set of contracts for that set which, unfortunately, is now in default? The mere fact that there has been a rearrangement on terms capable of fulfilment of obligations would be in itself of inestimable advantage to debtor and creditor alike, but I submit to you that much more important even than the actual accomplishment of rearrangement would be *the changed mental attitude both of the farmer and his creditor*; the restoration of understanding, with it the restoration of confidence and, following directly therefrom, the restoration of credit.

There was thus raised at once the question as to which was the proper legislature to enact laws in this regard. Under the Constitution, was it the Legislature of the Province or was it the Federal Parliament? As already indicated, Provincial Legislatures had passed moratory legislation, the effect of which was not satisfactory. Under the Constitution, definitely, there was assigned to the Federal Parliament the right to legislate on bankruptcy and insolvency. Insolvency, as every legal man knows, means inability to meet one's obligations as they came due, and insolvency might exist where assets were sufficient and more than sufficient, but where cash was not available. It seemed clear then that the law should be enacted

by the Federal Parliament, and this was made abundantly clear in a decision of the Supreme Court last June dealing with the Companies' Creditors Arrangement Act passed in 1932. The Federal Parliament, at the last session, passed *the Farmers' Creditors Arrangement Act*. Since it was not controversial, politically, I feel that I can discuss it with a greater measure of freedom.

Parliament kept in mind the fact that there was a natural pride on the part of our people which caused our farmers to hesitate when the term "bankruptcy" was used. Parliament realized that there were many in financial difficulties for reasons not of their own making, who would shun taking advantage of legislation involving what might be suggested as *the stigma of bankruptcy*. Parliament, therefore, passed this simple Act, set up this simple machinery, keeping in mind that there were two types of farmers in difficulties—the man who was so hopelessly involved that only through the Bankruptcy Court could he get relief and a fresh start, and the other man, technically insolvent, with sufficient assets but in default and in the position where rearrangement of his debt was necessary.

The law passed at the last session of Parliament provides for assistance for both types of men. To the man who is hopelessly involved the benefits of bankruptcy legislation are brought to his very locality. Instead of seeking the Official Receiver under the Bankruptcy Act in the populous centres at an expense which he cannot afford, he can go to an Official Receiver in any county or judicial district of Canada who can take his assignment and deal with it summarily and inexpensively.

To the other man, the man who is in difficulties but who simply requires rearrangement to get out of his position of default, this same official can call together the creditors, can endeavor to make a rearrangement or a readjustment of the debt load and if he is successful, as in so many cases we have actually found from the short experience of the Act that he is successful, start both debtor and creditor off on a new basis calculated to ensure success both to the farmer and to his creditors under the obligations newly created.

The Official Receiver, at the stage that the matter is

before him is simply a conciliator. He has no power to dictate to creditors or to the farmer; he uses his good offices, he exerts his powers of ingenuity and persuasion in an effort to get the parties together. If he succeeds, then his success is incorporated by resolution in the Minutes of the meeting, which are approved by the court, and this approval means that the farmer, under his new contracts, proceeds to carry on without supervision from the Official Receiver, unless and until he is in default for reasons within his control, when he may be petitioned against. That is to say, the farmer has restored to him his individual freedom in the matter of dealing with his fellows, and with a measure of hope that he had not had before, and is in a position to proceed with his work on the land with confidence.

If, however, attempts at conciliation fail and the parties do not get together before the Official Receiver, is that the end of it? The answer definitely is "No." The farmer or any one of his creditors may request that the matter be heard by the Board of Review. In each province there is a Board of Review, consisting of a Chief Commissioner, a judge of the Supreme Court, and two other Commissioners. This Board gives consideration to the farmer's difficulties, may hear evidence, if necessary, and can definitely and absolutely formulate a proposal which will be binding on both the debtor and the creditors.

You can see, therefore, that *the legislation provides for some measure of finality through proposals formulated by the Board of Review*, but to my mind this legislation can be termed successful and will be successful only when in the majority of cases the farmer and his creditors, around a common board, discuss their difficulties and settle them without resort to that tribunal which make arbitrary rulings.

In times of great financial difficulty we are likely to hear much more about the rights of individuals and classes of individuals than we hear about their obligations. Consequently, you hear stressed on the one hand the rights of the oppressed debtor and on the other hand the rights of the oppressed creditor. Much is made by the debtor of the fact that he is being pressed by his creditors and by

the creditor that he is hindered from protecting his security by moratory legislation.

It is perfectly true that both classes—debtor and creditor—have their rights and it is equally true that they have their obligations. The State expects that within reason their rights shall be obtained and as well within reason that their obligations should be observed. The State is concerned primarily with the happiness and contentment of all its people and consequently is vitally interested in seeing that that is done by way of legislation which will promote the greatest measure of happiness and contentment.

In Canada low commodity prices and adverse climatic conditions, in certain areas, have very seriously affected the financial standing of the farmer. Those to whom he owed money were also seriously affected and the time has come when by compromise or arrangement both will be put in a position where their mutual rights and obligations can be recognized. Parliament has sought to do this through the Farmers' Creditors Arrangement Act which provides the meeting ground. It is based on the belief which Parliament has that people of this country, whether they owe or are owed money, will be reasonable and fair and that they all recognize, whether owing or owed, that some sacrifice must be made by everyone before normalcy can begin to obtain.

We are fortunate in this country in that we not only have the traditions of our own land but the traditions of the Mother Land as well to guide us, and it always has been and still is characteristic of the British people that when difficult or dangerous situations develop, then, by applying that reason with which a benign Providence endowed us, we can sit around a common table and in conference by compromise and rearrangement settle those difficulties that appeared insurmountable.

To date almost 400 applications have been received by the office of the Superintendent of Bankruptcy under this Act—and it has hardly started. Reports have come to me of settlements most cheering and most encouraging. Vendors of land are recasting their agreements with their purchasers, reducing the principal sum, reducing the yearly

payment and reducing the interest rate; farmers who had become involved in more land contracts than they should have had are being relieved from some of them and returned to understandings which they can handle; mortgagees are rearranging their mortgages, providing substantial bonuses for payments to be made in the future until arrears of interest are wiped out and in many instances voluntarily agreeing to reduce the interest rate.

May I say here, from my own knowledge of Eastern Canada, my own acquaintance with the difficulties of the Western farmer, that perhaps the most important and the most necessary relief that he can obtain is to have the cost of money reduced. The rate which he so generally has contracted to pay is, to my mind, placing on him a burden which in these days of low prices he is inviting disaster in attempting to pay.

Reports from meetings of creditors are cheering for this reason as well: the farmer may have gone to that meeting with a feeling that his creditors were all opposed to him. They sit down around a common table, they discuss their mutual problems, the farmer finds that he is not alone in difficulties and finds that all his creditors wish to help him. Good advice is given, advice which the farmer feels in many instances he can follow, and when the meeting adjourns—in so high a percentage of the meetings that it is most heartening—the farmer indicates that he has taken on a new lease of life and that his attitude towards life, as a result of the meeting, of concessions made and expressions of opinion uttered, has resulted in his returning to his home with hope and a spirit of contentment which is more important than anything else.

The Act became effective in the three prairie provinces on September 1; in Ontario and Quebec October 1; the Maritimes and British Columbia November 1. There are both encouragements and discouragements. It is discouraging in cases to find farmers are asking for too much by way of concessions. It is discouraging to find in cases that the creditors do not attend the meetings; discouraging to find some creditors who insist there is only one side to the question when there are two sides to every question even farm debt. It is discouraging to find in

some cases, through lack of experience, mistakes will be made by the men in the field; that is all discouraging. But let me show you by way of instance what there is by way of encouragements.

Last Saturday morning in Ottawa a gentleman called me up at my office and asked if he could come and see me. He came over and he wanted to tell me he was representing a second creditor. A meeting was being called out in the eastern part of this province. He attended it on behalf of that creditor. He went to that meeting with the creditors and the farmer was down-hearted and the proposal which the farmer made in the first place they felt could not be accepted. But they proceeded to discuss the situation. And he came to tell me that that meeting to him was the most stimulating thing he had experienced since the depression started in Canada. Before they were finished a settlement was arrived at and the term used by this gentleman was that the farmer went out of the meeting "with his tail over the dash board." When they came there was distrust and suspicion. Before they finished as this gentleman told me one of the creditors said, "why John you need an extra team of horses to make good on that land." That is the spirit that made Canada in the past and will make it again. Here are a couple of letters that I want to read to you from Western Canada.

"Mr. Wilhelm W. Martens did on the 21st day of March, 1928, purchase from Amedee Lethiecq the above mentioned land at and for the price of \$18,000 which sum also included the chattels on the farm. At the time of purchase there was paid the sum of \$3,000 cash and two \$700 payments have been made since that time.

"Mr. Martens called to see me relative to the Farmers' Creditors' Arrangements Act and instead of taking the usual Statement of Affairs and proposal; I discovered that he was prepared to quit claim the property to the vendor, providing the vendor allowed him to retain ownership of the chattels. I then proceeded to get the vendor and purchaser together and the quit claim was accepted as above outlined and Mr. Martens has saved himself the obligation of having to pay approximately \$15,000 together with interest at 8 per cent, which said amount has

been entirely cancelled and he has been given possession of the chattels."

And I have another here exactly the same way where a man was relieved of \$10,000 arrears. I could recite you one from Rosetown in Saskatchewan where a farmer and his son were carrying on a three quarter section of land. In 1926 they were going to extend. They bought additional land and got a couple of hired men to help them. Then came hard times and the result was in 1934 the farmer found he was in arrears in respect to mortgage. The farmer had let the hired men go and was trying with his son to farm it all. The settlement was reached whereby the vendor of the land takes back the half section of land for a period of 6 years. The vendor is paying taxes on that land in arrears \$800. He is going to farm the land for 6 years, take all the crop, paying taxes, and keeping the land cultivated and buildings in repair, and at the end of 6 years he is going to return the land back to the farmer free of all encumbrances. The result is that farmer has an insurance policy on half a section of land payable in 6 years without having to pay premium.

And here is one I want to give you. In Manitoba a farmer owed \$125 to a man from whom he had bought a mare. In his proposal he said, "I will give Bill Smith \$25 and let him take back his mare." At the meeting of the creditors the \$125 was wiped out; \$25 was paid and Bill Smith took the mare back and that debt was ended.

I want to read another letter that has to do with a case. The man who wrote it never thought I would see it. It was a report from the manager to one of those so-called soul-less corporations in the City of Toronto and this is what the manager said of the meeting:

"While the debtor has received nothing like what he had proposed he was at the end of the meeting entirely satisfied; indeed thankful, for the concession proposed by the bank and our company and went away in a much better frame of mind."

Legislation that will do that sort of thing is worth while.

As a complementary measure to the Farmers' Creditors Arrangement Act certain amendments to the Canadian

Farm Loan Act were passed at the last session of Parliament. The Canadian Farm Loan Board has been operating in Canada since 1929 and in that time has advanced over \$8,000,000 in rural credits. Under the amendments of last session legislative provision is made for the advance of a total of \$40,000,000 including what has been advanced by the Farm Loan Board. Actually \$10,000,000 has recently been placed by the Treasury of Canada at the disposal of the Farm Loan Board.

The amendments to this Act increase the credit facilities of the Board, enable it to advance up to \$7,500.00 in any one case, enable it further, in the proper case, to advance up to 65 per cent of the value of the land, taking in such cases a second mortgage where the amount is over 50 per cent and taking chattel security as well, this being done for the purpose of consolidating the indebtedness of the farmer and for the purpose of putting him in a position where with cash in hand he can treat with these various creditors and secure concessions from them. It has also provided for a method of intermediate credits by the hypothecation to the Farm Loan Board by the mortgagee of his mortgage where advances can be made for current expenses to the farmer.

It will be seen readily that *the Farm Loan Board cannot of itself begin to take care of the agricultural indebtedness of Canada, but it can also be seen that it will make a substantial contribution towards rehabilitation.* The rate of interest charged on first mortgages is 5½ per cent and on second mortgages 6½ per cent. The first mortgage advances are to be paid in one or two years, being regarded as intermediate credits.

The Farm Board can now function in six of the Provinces of Canada. In three of the Provinces—Ontario, Saskatchewan and Prince Edward Island—it will be necessary for the Legislature of these Provinces to enact enabling legislation before the Board can operate, and further, in the Province of Quebec it will be necessary for the Legislature to enact legislation providing for chattel security before money can be advanced by the Board on the second mortgage plan.

Official Receivers under the Farmers' Creditors Arrangement Act are now exceedingly busy, particularly in Western Canada. One Receiver reported to me that from the 15th of September to about the 25th of October he had interviewed over 400 farmers, the great majority of whom will make proposals under the Act. It is common to receive from Western Canada reports from the Receivers to the effect that they have interviewed over 200 farmers, and that the majority of them will make proposals.

My position in the matter is very interesting. I am only temporarily engaged in the work, getting the organization set up, and in this position I am daily getting reports from farmers to the effect that the creditors are unreasonable, and likewise reports from the creditors that the farmers are asking for too much. I have endeavored, and am endeavoring, to bring the two together. When it was suggested to me during the past two weeks that the creditors were but giving, as the statement said, "lip-service" to the Act, I countered by indicating evidence of what I thought was the *very real desire on the part of the larger creditor interests to make settlements.*

I have indicated to you that the census figures suggest 90% of our farmers as home-owning. But these figures also tell us how many actually in that 90% are under obligation to an extent that unless the situation is well handled the 90% will be decreased and the 10% increased. Canada and Canadians are justifiably proud of the high percentage of home-owners. We do not want the 90% to become 80% or 70 or 60 or 50, all of which is possible and even probable if the situation is not met. The legislation stresses the necessity of assisting the "efficient producer" and the history of our people *proves the most efficient producer is that man who possesses and uses his own land.* As Emerson put it:

"The first farmer was the first man and all historic nobility rests on possession and use of the land."

We have this problem with us, it is one that vitally affects Canada as a nation. The plan this legislation pro-

poses is a plan that should succeed if reason is left in us. If it does not succeed then what is the alternative? Legislatures, Provincial and Federal, will be faced with the necessity of considering further legislation, possibly legislation which will undertake to deal with the problem by *rule of thumb.* And may I say to you, in my opinion, for what it is worth, such legislation should be legislation of last resort. *There is no such thing as the "Farm Debt Problem."* *If you deal with ten thousand cases you have ten thousand different problems.* This legislation provides the mechanism for dealing with each individual case on its merits. I have pleaded with the farmers and farm leaders when I have met them to put into practice, in an endeavor to solve this major national problem, that spirit of co-operation which they have sought so much to incorporate into their business undertakings.

I have urged on the creditor classes the absolute necessity of giving this legislation the chance it deserves. If the creditors attend these meetings the farmer will be there, the Official Receiver will do that job which is his, to conciliate and endeavor to get the parties together. If the legislation succeeds then with satisfied farmers on the land proceeding to till the soil with renewed hope, with satisfied creditors as well, Canada and Canadians can face the future unafraid.

PRESIDENT JAMES:—Mr. Macpherson, may I on behalf of this large audience express our pleasure and sincere thanks for your interesting and also most encouraging address. I do not know anything about your creditors but I do know you have added greatly to your debtors today.