Now, Mr. Chairman, I am prepared to make a statement which I suppose will take ten or eleven minutes about a matter that was raised by many hon. members, that of the prescribed interest rate in the Farm Improvement Loans Act, if hon. gentlemen opposite would like me to do that. I have to say that this very comprehensive statement was prepared by the Department of Finance and by the Minister of Finance. However, much of it was contained in the remarks that I made the other night at the close of the resolution stage and I would not like to deprive hon. members of the time we have left today, if they would rather not hear the statement.

Mr. Horner: Let us have it.

Mr. Olson: Mr. Chairman, I would like to make these few remarks on a point that is of real concern to members on both sides of the house, namely the proposal that the statutory interest of 5 per cent on farm improvement loans be changed. But before commenting on the interest rate itself it may be useful to recall the circumstances in which F.I.L.A., as farmers and bankers alike have come to call it, was first established.

The origins of F.I.L.A. are rooted in the great depression. Financial disaster had then overtaken a large number of farmers, and relationships between borrowers and lenders were strained, to put it mildly. In the years that followed farmers had to rely for credit for the most part on people with whom they dealt in marketing their products, like merchants, and from whom they bought their equipment. But this was very expensive credit, apart from the fact that it often prevented farmers from dealing freely with whomever was going to give them a favourable price.

It was in this setting that the government introduced the Farm Improvement Loans Act as an incentive for chartered banks to enter the term lending field in rural areas on a major scale. This incentive was a twofold one—the government guarantee, and a rate of interest that afforded the banks a reasonable return. It may be interesting to recall for hon. members what was said by Hon. Mr. Ilsley, who was minister of finance at the time. He said in part:

> The rate of interest is to be limited to a maximum of 5 per cent simple interest per annum, which is considerably less than rates generally obtaining for this kind of accommodation to farmers from merchants, dealers or other present sources and is, I believe, somewhat less than the average rate charged to farmers by banks on short term loans. It is reasonable that the rate should be lower since an important part of the risk is being borne by the government. Nevertheless, earnings must be sufficient to cover the banks' costs of operation and to give them an incentive to go out after business.

I submit, Mr. Chairman, that this principle is essentially the same as the one we have to look at today if we want this program to be again as effective and useful as it had been until recently—and when I say recently I mean until interest rates in the market went substantially above 5 per cent.

When the 5 per cent under F.I.L.A. was established, yields on government of Canada five year bonds were 1.92 per cent. The bank rate, the rate at which the Bank of Canada lends to financial institutions, was 2 per cent. The rate at which banks were then making loans to their prime customers was $4\frac{1}{2}$ per cent, that is, half of one per cent below the F.I.L.A. rate.

I mention the banks' prime rate because reference was made to it during the debate. It relates of course to interest rate levels generally, and an even better measure of this is yields on government of Canada bonds. I would therefore prefer to look at changes in interest rates more in terms of changes in yields on government of Canada bonds. And if we really mean it when we say that F.I.L.A. should be reactivated, then we must take into account changes in the level of interest rates.

F.I.L.A. loans are made by private lenders from funds placed on deposit with them by other customers, and if they are not afforded a return that is commensurate with their costs, then they are just not going to make loans. What we have to aim for is a rate level for F.I.L.A. that is sufficiently high so as to give lenders "an incentive to go after the business", in the words of Mr. Ilsley, and that is at the same time sufficiently low so as still to represent a cost factor to farmers that is appreciably less than what they would have to pay without the guarantee program.

Perhaps I should emphasize that the cost of credit is not the only consideration in the interests of farmers. I have in mind in particular the small farmer. Farming generally has come a long way in the last two decades, and there are many farmers today who run highly successful commercial type operations for which they can get credit quite readily, and at rates probably not much above those that will prevail under a reactivated F.I.L.A. program.