CHAPTER TWO

RECENT HISTORICAL REVIEW

This chapter will review a limited set of variables which serve to explain the current financial structure of agriculture. Comparisons will be made with U.S. agriculture where appropriate. Changes which occur in the United States often become leading indicators of eventual adjustments in Canadian agriculture.

A. CHANGES IN CAPITAL AND DEBT

1.0 Farm Capital

Farm capital is defined as the sum of the investment in real estate, buildings, equipment and livestock.

Amounts of capital investment have varied considerably between Canada and the United States. Figure 2.1 shows the relative change in both Canadian and United States capital values between 1970 and 1989. Relative to a base represented by the average capital values between 1970 and 1972, Canadian values increased four-fold by the peak in 1981-82. Significantly, U.S. capital values increased at a much lesser rate of just over two times over the same period. Since 1981, both Canadian and U.S. capital values have shown the same relative pattern of a decrease, followed by an increase at the end of the decade. U.S. values began a recovery in 1986. Canada followed with a recovery beginning in 1988.

This figure makes the following important points. Canadian capital values are currently at a higher relative level than across the border. This implies that depending on the future level of farm income and other factors, there is the potential for further decline. Subsequent discussions in the chapter will help to explain the relative divergence between capital values in the two countries.

Land values, a component of farm capital, are important in assessing the economic status of the industry. The changes which have occurred in land values have been well documented by many studies. Overall, land values rose in Canada at a compound