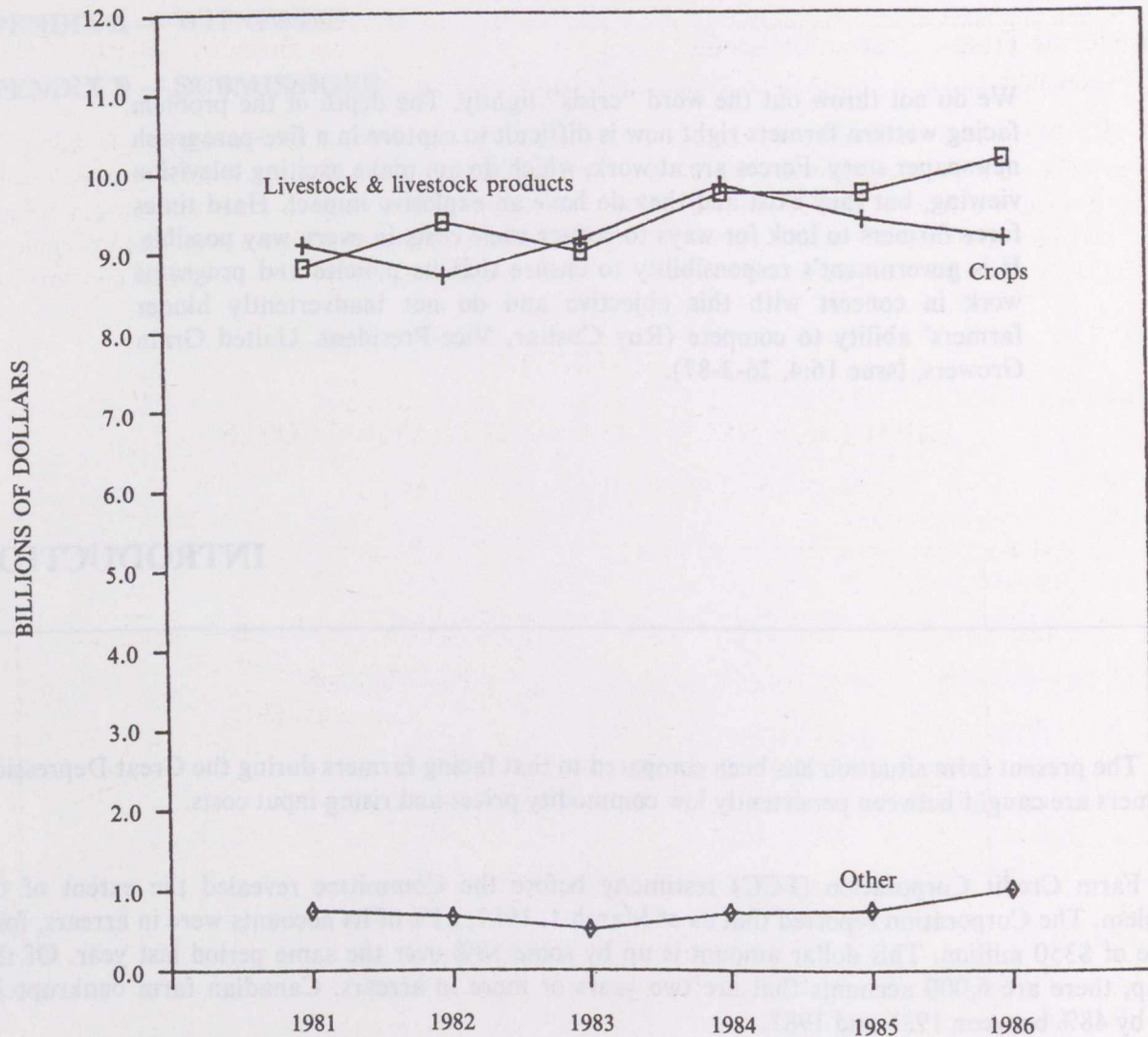


FIGURE 1.1
FARM CASH RECEIPTS
 By type of product



Source: Statistics Canada, *Agriculture Economic Statistics* (21-603), Ottawa, 1986.

The present predicament is most serious for farmers who invested heavily in farmland in the buoyant period of the 1970s and have seen their original investment dwindle between 1981 and 1986 by half in terms of 1981 dollars. It not only represents a loss in farm wealth but also provides no residual equity to assist with any financial difficulties. Since land values are tied to the capability of the land to generate returns, the present cycle will tend to keep land values in a downward spiral.

From what the Committee heard, the equity erosion problem is serious. In the late 1970s and early 1980s there was a surge of prices, including prices of many commodities. The rate of increase of the Consumer Price Index rose above 10% for the three years 1980-82, leading to a sharp rise in long-term interest rates during a period of heavy farm acquisition. Commodity prices subsequently dropped off, with livestock prices declining in 1983 and grain prices in continuous decline since 1984 as a result of the world-wide buildup of grain surpluses. Land values, which increased sharply in the years 1978-81,