The actual level of farm income per farm must concurrently be assessed to understand the financial position of Canadian and U.S. farmers. Figure 2.4 compares income per farm between 1970 and 1990 making no adjustment for exchange rates or difference in purchasing power. Income per farm in Canada was lower than for farmers in the United States until 1973. After staying comparable until 1979, U.S. average farm income remained below Canada's through 1983. Since then, U.S. net income has grown steadily while Canadian growth has been more modest.

There are several implications resulting from this graph. First, the lower levels of U.S. farm income in the early 1980's encouraged farm adjustments to occur earlier in that country. Those adjustments included the repayment and rescheduling of debt, the insolvency of a greater number of farmers and the effective writing-off of debt, which together lowered farm debt. Further, the reduction in debt in the United States has allowed for a recovery of net farm income, as interest expense has declined. Canadian high debt levels serve to dampen the recovery in net farm income.

The ability to sustain the relatively high levels of asset and debt values in Canadian agriculture will be directly dependent on the ability of the government to maintain high levels of subsidization and on the level of market income.

2.0 Interest Rates

The analysis of interest rates is enhanced by distinguishing between the effective rate[5] (actual rate paid) and the stated rate[6] (rate on loan contract). A comparison of Canadian and U.S. agricultural interest rates provides a compelling rationale for the higher levels of farm debt in Canada and its resistance to downward pressures.

5 Effective rate is the actual interest paid relative to debt outstanding. It is calculated by cash interest expense over debt outstanding.

6 Stated rate or accrued rate is that rate written in the loan contract and represents the amount which should have been paid.