

CHAPTER ONE

INTRODUCTION

A. NEED FOR STUDY

In July 1988, the Standing Committee on Agriculture published its report, "The \$22 Billion Problem: Options for the Financial Restructuring of Farm Debt". The central issue in that study was the level of debt, its impact on the viability of farmers, and what alternative policy options could do to reduce the debt or its costs.

Although agriculture has seen many changes during the two years since this report was prepared, the level of farm debt in Canada has remained stubbornly high. Total Canadian farm debt outstanding was \$23.2 billion in 1987. This decreased marginally to \$22.8 billion at December 31, 1988. The recent Farm Credit Corporation (FCC) Farm Survey reports total farm debt to be \$22.2 billion as of January 1, 1990.

The debt situation in the United States has shown a remarkable departure from trends in Canada. Between 1985 and 1990, U.S. farm debt declined from \$166 to \$129 billion, or by 22 percent¹. Over the same period of time, farm debt in Canada remained over \$22 billion.

Understanding why agricultural debt remains high in this country and what is influencing its current levels will help reveal the direction farm debt may take by province or region in the future. This is especially important in view of the economic uncertainty farmers face as farm income for 1991 and 1992 has been projected downward by Agriculture Canada and private sector forecasters. The level of future income subsidization is in doubt. Income support levels will depend on the outcome of the GATT discussions and the financial positions of federal and provincial governments. The recent higher energy prices could impact at least on 1991 farm operations in the form of higher fuel, fertilizer and chemical prices. These factors and others will affect the future financial conditions of farmers, their risk levels and the manageability of farm debt.

¹ U.S. Department of Agriculture, Economic Research Service, *Agricultural Income and Finance: Situation and Outlook Report*, August 1990, p. 9. Throughout this report, monetary values given for the United States are in U.S. dollars except as noted in direct comparisons.