There are no "cure-alls" for farmers in severe financial difficulty but a start must be made to tackle the debt financing issue and help prevent its recurrence. The Committee hopes that its suggestions will be received in this light: not as supplanting the fundamental changes which must occur if farms are to remain viable and competitive, but as providing farmers with a means to respond to changing economic circumstances with better options for strengthening the capital structure of their farms.

1. The Farm Credit Corporation's Equity Financing Proposal

Owners of farm business have three types of financing they can use to establish, maintain, or expand their farm businesses: they can use their own equity; they can use the equity capital supplied by other individuals or institutions; or they can resort to debt financing.

As noted earlier, from the mid 1970s to the early 1980s, low real interest rates, rising farm asset values and favourable commodity markets enticed farmers, their advisors, and creditors to rely increasingly on debt financing as the means of purchasing farm assets. Yet, evidence before the Committee demonstrated that an industry so capital intensive and vulnerable to production and market variability as agriculture could not afford to rely as much as it has on debt financing. The testimony suggests that governments should consider policies to assist farmers in acquiring equity capital of their own. Alternatively, farmers could acquire such capital from other sources.

The precarious position of farmers relying on debt financing was made abundantly clear to the Committee by the evidence of the Western Canadian Wheat Growers Association. In an address to their seventeenth annual meeting, Dr. Daryl Kraft, Professor of Agricultural Economics at the University of Manitoba, provided some useful insight into the current financing crisis facing Canadian farmers. During the 1960s, when commodity and input prices were stable, a farmer could be reasonably assured of meeting his fixed obligations if he had 25% to 30% equity in his operation. The increased volatility of prices and costs throughout the 1970s resulted in a requirement of increased equity, in the range of 50% to 60% in order to be sure of covering fixed costs. According to Dr. Kraft, based on today's situation and intermediate-term market projections, a farmer must have between 70% and 80% equity in order to be reasonably assured of meeting his fixed obligations.

Equity financing has been used extensively in agriculture for many years through partnerships, farm incorporation and leasing. There is a growing consensus, however, that sees a need for an institutional structure for farmers to utilize outside equity capital if they so choose. Much of the interest has been centred around a proposal on equity financing by the Farm Credit Corporation. This interest has been bolstered by witnesses' corroboration that impediments to equity financing are now less relevant; the spectre of losing control of their farms is for many farmers already apparent.

The FCC's intent is to establish a company to purchase farm assets from farmers and lenders, lease and administer these assets, provide extensive management support and counselling to farmers, and offer investment opportunities to investors. The company would provide a means through which farm debt could be replaced with outside equity. The farmer would give up some or all ownership but would retain control and management decision-making power in the existing operation.

A federally-chartered holding company would facilitate the development of provincial investment trust subsidiaries and would provide them with investment and merchant banking facilities. The objectives of such a provincial subsidiary would be:

(1) to restructure the financial position of farmers who have viable farms and intend to continue farming;