## AGRICULTURE

# What the Volcker policy will mean

Only the depth and resiliency of the U.S. farm sector precludes it from being the first economic sector to give the lie to Mr. Volcker's recent reassertion of financial and economic lunacy by means of a spectacular blowout. If the Volcker interest-rate hiking operation is pursued for long, that blowout could indeed occur in the farm sector—but first is has to really be "Brazilianized," and that's just what the Volcker policy will do.

Barring the possibility that the Volcker measures succeed in touching off an uncontrollable panic, sparking a flight of deposits from rural banks—not by any means an unlikely "scenario"—the impact of the hike in the discount rate and related measures announced Oct. 6 on the agricultural credit structure will center on interest rate looting.

The threat of a drying up of funds that would otherwise be associated with this sort of "crunch" has been warded off by the widespread introduction over the past year of money-market Certificates of Deposit among rural commercial banks, an instrument which allows them to compete successfully for money-center funds—providing that they are willing and able to parlay the cost of funds into their loan rate structures.

Now, too, the cost of using the "seasonal borrowing privilege" at the Federal Reserve, another alternative to total dependence on deposit funds which was not only an assured source of funds but one whose cost—the discount rate—traditionally remained fairly stead, has taken a sharp 1 percent jump.

### Like the rest of the banking sector

Typically, the farm loan interest rate structure at rural banks has been very steady over long periods of time, with rates running higher than those at large, money-center banks during loose money periods and lower than those at large, money-center banks during tight money periods. During the 1969 and 1973 credit crunches, when short-term prime commercial paper rates, for instance, went from 5.6 to 8.8 percent and from 4.7 to 11.7 percent respectively,

## GOLD

# Crisis of confidence lifts gold

The crisis of confidence set in motion by Federal Reserve Chairman Paul Volcker's credit crunch package has pushed gold through the ceiling once again. Aggressive bidding at the latest International Monetary Fund gold auction on Oct. 10, where successful bids ranged from $412.51 to $420.80 an ounce, could signal further upward moves.

The shut-off of credit availability to productive sectors of the economy has resulted in a generalized collapse of the dollar and of dollar-denominated securities and a flight into gold—precisely the opposite of what monetarist doctrine had promised. The key question now is whether Western Europpan governments will take this opportunity to salvage the world economy by mobilizing their upvalued gold reserves to finance Third World development projects.

Perhaps the most positive indicator was the Oct. 4 editorial in the French financial daily *Les Echos*, which stated that the revaluation of official gold reserves should accomplish three goals: 1)"sterilize," or mop up, idle dollars which have been contributing to worldwide inflation, 2) create a new gold-backed liquidity to annul "unbearable" Third World debts, and 3) lay the foundations for "a new Bretton Woods," in which gold would play a major role. Most important, *Les Echos* categorically rejected recent American and British proposals that gold remonetization be linked to austerity, stating that any return to the "gold standard such as it functioned before the First World War" was "unthinkable."

In sharp contrast to *Les Echos* commentary, a top spokesman for John Connally's GOP presidential campaign stated that "the U.S. should go through a depression so we can get back onto gold." Also, on Oct. 10, New York's Senator Jacob Javits called on the Carter Treasury to terminate its monthly gold auctions, presumably as part of this "progold" deflationary scheme. Ironically, both Connally and Javits played prominent roles in the decision to unlink the dollar short-term farm loans typically fluctuated by a mere 1 to ¼ percentage point from 7.4 to 8.4 percent and 8.1 to 9.1 percent respectively.

Data from 1976 to the present, however, shows that with a sharp increase in rates in the fourth quarter of 1978 and the first quarter of 1979, farm loan interest rate increases already rival the total increases recorded for the farm banks during each of the two preceding cycles. And, as the latest Volcker gambit emphasizes, there is no "peak" yet in sight.

A sampling of short-term farm loans in the Ninth District and feeder cattle loans in the Seventh District, showed that the average of most common rates jumped sharply in late 1978. Rates on short-term farm loans in the Ninth District held steady at 9.2 percent from 1976 through the first quarter of 1978, jumping to 9.4 and 9.5 percent in the second and third quarters respectively, and to 10.2 percent in the fourth quarter. Feeder cattle loan rates in the Seventh District were similarly steady at 8.7 and 8.8 percent through 1977, jumping to 8.9 percent in the first quarter of 1978, and then to 9.1, 9.4, and finally 10.1 percent in successive quarters.

A comparison of interest rates on non-real estate farm loans at large banks (with assets over $400 million) and at all other banks during the same period, from the first quarter of 1977 through the first quarter of 1979, shows that the large banks reflect changes in money-market rates more quickly, jumping just over a percentage point from 8.3 to 9.4 percent during 1977 and then catapulting 2.4 percent from 9.3 to 11.7 percent in 1978, to land at 12.5 percent in the first quarter of 1979. By contrast, non-real estate rates at rural banks went from 8.9 to 9.0 percent over 1977, to 10 percent by the end of 1978, and hit 10.4 percent in the first quarter of 1979.

**Bucking state usury laws**

But the price of getting a sure supply of funds, via for instance the new six-month, money-market CD, is that the interest rate trend for rural bank farm loans—80 percent of all farm loans—will increasingly resemble that for the so-called large banks.

While the rate hikes will work their way through the farm credit structure, the process is likely to take some time. In part, it will depend on the extent to which loan demand remains strong or even increases significantly (a prospect which is not inconceivable given the kinds of transportation and other bottlenecks that could snarl what is otherwise an extremely buoyant marketing picture). The rate of increase of new farm loans outstanding—up 19 percent over one year ago—will tend to push rates up across the boards as greater volumes of new funds must be brought into the farm sector.

The Volcker moves will also set the farm credit structure on a virtual collision course with usury laws in many states—a dramatic measure of the "Brazilianization" process of inflationary austerity. Faced with statutory interest rate ceilings, banks will be forced either to cut off funds, or to get the state legislatures to change the laws. In South Dakota, for instance, where the average interest rate for short-term farm loans in April was 9.95 percent, the statutory interest rate ceiling for all agricultural loans is 10 percent. In Wisconsin, the ceiling is 12 percent for all farm loans under $150,000. In many other states, it seems, the laws are somewhat more restricted in impact.

Finally, the wholesale transfer of speculative borrowing costs to the farm borrower, being given a giant boost by the Volcker moves, will tend to put a wild card in farm production expense sheets. Interest charges already ate up a full 10 percent of farm production expenditures this year, and knowledgeable observers think the Volcker moves could easily push that to 15 percent over the 1979-80 production year.

*—Susan Cohen*

from gold in August 1971.

Meanwhile, European efforts to establish a new gold pool, where the central banks would regulate the market and fix a new official price, appear to have stalled. The Italian daily *Corriere della Sera* reported that formation of a gold pool and dollar support were the two main items under discussion at the IMF meeting last week. In my view, the gold pool is unlikely to succeed in the present crisis-ridden environment unless placed in the context of an aggressive "out front" European and Arab commitment to large-scale investment in the Third World.

*—Alice Roth*

## Who has the gold?

The table entitled "Who Has the Gold?" which appeared in our October 2-8, 1979 issue *underestimated* the amount of gold reserves held by the European Monetary System member countries. The table did *not* include gold which individual European countries, as part of the EMS, have pooled in the European Monetary Cooperation Fund (FECOM). With gold valued at $350 an ounce, total EMS gold holdings (both those held by individual countries and those held by FECOM) are worth $147.48 billion. Country totals should read (in billions of dollars): West Germany - 41.52, France - 35.70, Italy 29.09, Belgium - 14.91, Netherlands - 19.17, and Other EMS (Denmark and Ireland) - 7.09. Updated figures for countries outside the EMS are: U.S. -93.33, Switzerland 29.15, United Kingdom - 8.00, and Japan - 8.39. The world total (including individual country holdings and holdings of the IMF, FECOM and other official institutions) is 396.55 billion. Thus, the EMS controls well over one-third of the world's monetary gold.