The cost of production swindle

Although most farmers don't know it, USDA is decoupling price supports from actual costs of production.

The Cost of Production Standards Review Board, an institution few farmers or farm organizations even know exists, held a quiet meeting in Washington, D.C. Feb. 11 to discuss current changes in USDA accounting procedures that will have drastic effects on the heavily indebted farm sector.

The board was reviewing the contents of papers written by two members of the USDA's Economic Research Service. The papers documented how USDA accounting methods for setting price supports have been "decoupled" from what it costs the farmer to grow food and maintain his ability to keep producing.

A spokesman for the House Agriculture Committee admitted to *EIR* in a late-February interview that, under the new methods, determining price-support levels would be "totally arbitrary and haphazard."

Price supports were first established in the 1930s, when farm earning had totally collapsed in the world depression. The term "parity" was first explicitly used in the Agricultural Adjustment Act of 1938. Parity originally meant that base prices were set at a level guaranteeing that farmers could keep pace with the industrial sector of the economy.

Until the 1977 farm bill, the parity concept was used as the base of all price supports—i.e., farmers were guaranteed at least that some percentage of their costs, including machinery, fertilizers, and the costs of credit, would be taken into account when the government set baseline prices below which commodities cannot be sold. But the 1981 farm bill, which is just now going into effect, stated that even cost of production—any consideration of keeping farms profitable—was no longer a criterion for price supports. This bill set up the review board now determining what, if any, steps the government will take to ensure that farmers can keep growing food.

Undoubtedly the most devastating aspect of the new accounting methods will be the fact that debt service will no longer be considered as a "production cost" for farmers. Debt service—which amounts to as much as 30 percent of their overall costs for farmers in some states—is "too vague" a figure, too dependent on levels of inflation to be taken into account by the USDA, according to David Harrison and Dr. Milton Erickson, the authors of the review board papers.

No member of the board, which includes seven farmers, three government officials, including the head of the Kansas City Federal Reserve, apparently made any objection.

Harrison and Erickson's recommendations are made on the basis of the fraudulent claim that setting price supports on the basis of cost of production had led to serious "over-investing" by farmers in the recent past.

In the early 1970s, farmers made heavy investments in both land and machinery on the basis of readily available credit. Land values rose as a result, causing farmers to invest even more—using their inflated-price land as collateral. Farmers were guaranteed higher prices every year, the report authors argue, as their debt service costs rose.

It is this "over-investment," not the contracting world market and the explosion of interest rates since Paul Volcker took over the Federal Reserve in October 1979, which is the cause of the current cash-flow crisis in American agriculture, according to Harrison and Erickson.

With land values declining as depression sets in, farmers are unable to get the loans they require to keep operating throughout the year, to say nothing of any new investments in land or machinery. Given that they must maintain debt-service costs, whether the USDA recognizes this operating cost or not, more and more farmers will be driven to bankruptcy.

"The farmer will just have to find another way to get increased price supports. Producers can no longer use the cost of production to justify increased support prices," Harrington told *EIR*.

One of the most serious aspects of this situation is that so few farmers are aware of what is going on. Another spokesman for the review board admitted that "most producers don't even realize that the cost of production is no longer linked to government price supports."

A Georgia farmer told *EIR* that most farmers in that state had no idea that they did not get their annual price increase for the 1982 crop because of the new accounting methods. Indeed, only price supports for milk, tobacco, and peanuts are still officially linked to any assessment of farmers' production costs, but even for these farmers, costs are largely being ignored by the USDA. Thousands of farmers, taken unawares, could face economic disaster.