Farm debt crisis means food shortage

by Marcia Merry

The "restructuring" of agriculture that Washington think-tankers and congressional aides are mapping out is now reaching the stage of mass farm bankruptcies and close-outs so extensive that the nation's food production potential is threatened.

One measure of the degree of collapse, is the failure rate of farm banks. On April 9, three bank regulators (from the Federal Reserve, the Federal Deposit Insurance Corp. [FDIC], and the Comptroller of the Currency) presented a summary picture to the House Banking Committee on Financial Institutions.

According to FDIC figures, the number of "problem banks" nationwide has increased from 481 in June 1983, to 1,156 in February 1986. Of these, farm banks—those with at least 25% of their loans related to agriculture—account for more than 40%. There were 120 bank failures in the United States last year, with about half of them being farm banks. In the first three months of 1986, there have been 24 farm bank failures.

What these failures represent, is the inability of the agricultural borrower to pay the debt service from his plunging "market price" income, and the reduced value of his collateral, in particular the farmland valuations.

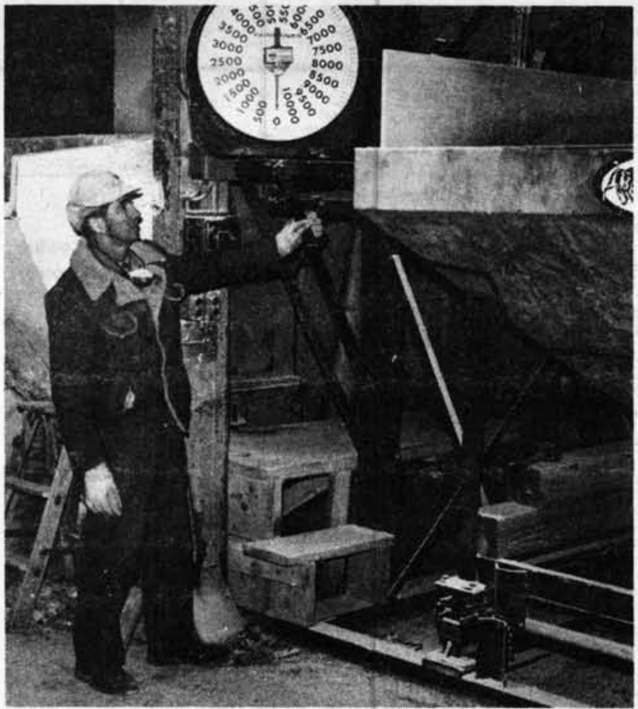
In the past two to three years, the food cartel-serving policies in Washington have driven down the prices received by farmers, domestically and on a world scale, by as much as 25%. Even figures for the last six months show a decline. In January this year, there was a drop of 3.1% in prices received for raw farm products. In February, there was a 1.6% fall, and in March another drop. By mid-March, prices were 9.7% lower than a year ago.

Plunge of farmland values

Figure 1 shows the depth of the drop in farmland value over the last five years. The only region in the country where farmland has increased in value is in the New England states, where the land has been in demand for high price-tag estates and developments—not a base of economic activity.

In the core farm belt states—the cornbelt, the Delta region, and others—farmland values have plunged a full 50% in only five years.

Overall, U.S. farmland values fell by 12% last year, for



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A New Jersey dairy farmer.

the second year in a row. The national index of farmland values has fallen by 29% since a 1981 peak. In dollar terms, the average price per acre of farmland was $596 on Feb. 1 of this year, compared with $679 on April 1, 1985, and a peak of $823 in the early 1980s.

The 12% declines for each of the past two years were the sharpest annual drops since land values fell by 27% in 1932 and by 19% in 1933.

Iowa, with some of the richest soils in the nation, experienced the deepest five-year plunge of 59% in farmland value. Since last year, Iowa land values have fallen 21%.

This crisis is hitting all sources of farm credit. The commercial banks hold about 17% of the national $210 billion farm debt. The Farm Credit System (FCS) holds about one-third of the debt, or over $70 billion, and the Farmers Home Administration (FmHA), a division of the Department of Agriculture, holds a loan portfolio of about $28 billion, or 13% of the national agricultural debt.

The situation with the FmHA—intended to be the government lender-of-last-resort—reveals the scope of the crisis all across the farmbelt (**Figure 2**). About 65,000 of the FmHA's 321,000 farm borrowers are delinquent. Almost half of these delinquent farms are located in the states running from Texas and Louisiana up through to the Canadian border—the heartland of U.S. food production.

Mississippi has 4,595 loan delinquencies, the next-highest only to Texas, which has 5,818. A farmer in northern Mississippi described the situation in his county: "The tractors are in the sheds. The fields just sit empty. Last year in my county there were 85 farm operating loans through the

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FIGURE 1
The change in the value of farmland

Region	Change in value from 1985 to 1986 (%)	Change in value from 1981 to 1986 (%)	Current value ($ per acre)
Cornbelt			
Iowa	−21	−59	841
Missouri	− 8	−43	606
Illinois	−13	−49	1,143
Indiana	−16	−50	1,058
Ohio	−10	−49	1,013
Lake states			
Minnesota	−26	−55	609
Wisconsin	−16	−41	711
Michigan	−11	−31	936
Northern Plains			
Kansas	−17	−41	387
Nebraska	−18	−55	364
South Dakota	−14	−42	215
North Dakota	−12	−30	317
Delta states			
Arkansas	−17	−33	705
Mississippi	−10	−26	752
Louisiana	−20	−28	1,005
Mountain states			
Colorado	−18	−22	357
Montana	− 8	−22	204
Wyoming	−13	−21	154
Utah	− 7	−15	478
Nevada	−13	−21	199
New Mexico	−18	−25	134
Arizona	−13	−21	231
Idaho	−14	−23	644
Southern Plains			
Oklahoma	−15	−31	481
Southern Plains (continued)			
Texas	−17	+20	541
Southeast			
Florida	− 6	−12	1,435
Georgia	− 5	−21	822
Alabama	− 1	−13	761
South Carolina	− 3	−14	872
Appalachian			
Virginia	+ 5	− 1	1,146
West Virginia	− 3	−13	537
Tennessee	+ 1	−12	992
Kentucky	− 4	−19	870
North Carolina	− 9	−17	1,130
Northeast states			
Maine	+16	+50	993
Vermont	+16	+50	1,180
New Hampshire	+16	+50	1,646
Massachusetts	+16	+50	2,752
Connecticut	+16	+50	3,721
New York	+ 2	+4	824
Pennsylvania	− 4	−15	1,450
New Jersey	+11	+27	3,913
Delaware	+ 7	−13	1,757
Maryland	−10	−24	1,887
Rhode Island	+16	+50	3,867
Pacific states			
California	− 9	− 9	1,571
Oregon	−10	−29	521
Washington	−12	− 9	812

FmHA. This year there are only 4, and they haven't been approved yet. The local farm supply stores that are still open will only take cash, no credit. This is a disaster."

The "solutions" circulating in Washington are no help at all.

Addressing the problem of the collapse of the commercial banks, Preston Martin, outgoing vice chairman of the Federal Reserve Board; William Seidman, president of the FDIC; and Robert Clarke, Comptroller of the Currency; asked Congress to pass emergency legislation authorizing interstate acquisition of failed banks. They urged the committee to initiate renewal of the existing authorization-expiration date on April 15, with liberalized rules. They requested 1) that out-of-state takeovers be permitted, of banking institutions smaller than the current size of $500 million in assets; 2) that the acquiring institution be permitted to open up branch offices of their own in the new state; and 3) that failing banks—not only failed banks—be approved for takeover.

Besides the drawback of the monopolization of credit by the few "mega banks," the fundamental questions of the preservation of the independent, productive farm sector, and the security of the national food supply, are not even addressed in these proposals.

In the case of the Farm Credit System, a request has been made for a multi-billion-dollar federal bail-out. In the meantime, the FCS has had congressional authorization for sweep-

FIGURE 2
Farms with active FmHA loans and delinquent loans
(as of Jan. 10, 1986)

Region	Active	Delinquent
Cornbelt	47,102	10,202
Delta states	29,692	10,203
Northern Plains	37,527	7,587
Southern Plains	24,096	7,525
Southeast	19,879	7,241
Appalachian	33,317	6,789
Lake states	23,320	5,382
Mountain states	14,886	4,137
Pacific states	8,426	2,603
Northeast states	15,154	2,952
Puerto Rico	2,855	694
Total	321,581	65,323

Source: Farmers Home Administration

ing powers to merge and shut down whole sections of the farm credit system, at the discretion of a newly created entity called the FCS Capital Corporation.

The FmHA has been proceeding in 1986 to attempt to collect delinquent loan payments and to foreclose. A meeting has been tentatively set for May 1-2 in Minneapolis, at the instigation of attorneys representing the 65,000 delinquent loan farmers nationwide, in order to go over the procedures by which the FmHA is proceeding on collections and foreclosures. The FmHA sent out notices on delinquencies and foreclosure intentions in February this year. Attempts to forestall this legally have not succeeded. Federal Judge Bruce Van Sickle, who ordered a foreclosure moratorium over the past two years, ruled on March 3, that he would not grant an injunction to halt FmHA foreclosures, saying the new FmHA regulations provided adequate notice to farmers. He ruled only that farmers have a right to appeal FmHA denials of requests for family living and farm operating expenses.

The foreclosure process carried out by the FmHA, the Federal Land Bank and Production Credit Associations—part of the Farm Credit System network—and the commercial banks, is removing huge amounts of land from production, and closing down farm communities. For example, in the dryland farm region of Yuma, Colorado, the Federal Land Bank has foreclosed on 19 farms in the area in the past 50 days, comprising 30,000 acres of prime farmland.

The president of the local Federal Land Bank, Mike Harvey, said, "If you restructure refinance, who is going to pick up the difference? If we get government assistance, we can have some latitude to do that. But right now, there's not much I can do."

Government kills off 10% of milk herds

by Marcia Merry

For those who thought the 1983 Payment-in-Kind (PIK) program for shutting down farm production was a lulu, look at the latest disaster from the USDA: the Dairy Herd Termination Program. The federal government is now implementing a plan to liquidate 14,000 valuable milk herds. Debt-strapped dairy farmers were solicited to submit bids to the government, during the first quarter of this year, on how little each would accept for his herd. Farmers owning nearly 40,000 herds applied for the program, and the government accepted 13,988 for liquidation.

The 14,000 herds represent an estimated 1.5 million cows, heifers, and calves that will go to slaughter. About 10% of the national dairy inventory will be eliminated!

The plan will throw millions of tons of meat on the market, bankrupting many cattlegrowers. The government has been scrambling to make a show of contingency plans to buy up about 400 million pounds of the slaughtered dairy animals. However the details of the plan are worked out, the result will be the same: drastically reduced milk output, a temporary increase in meat supplies, then a plunge in stocks, and liquidation of some of the most precious blood-line breeding stock in the world. It takes years to develop a prime dairy herd.

A leader of the nation's largest farmer-owned milk cooperative warned, "If any emergency again came upon this nation, as in 1940, there will be nothing we can do."

There have been some hasty political skirmishes by farm, church, and civic organizations, to divert some of these animals into export programs so they can at least be of benefit somewhere for the world's milk supplies. But most of the cows, which can produce up to 20,000 pounds of milk a year, will wind up in the grocery meat case. The former dairy herd owner is then obliged to stay out of milk production for five years.

What dairy 'surplus'?

The rationalization for this crazy program is that there is a "surplus" of dairy products and production capacity. In turn, so the story goes, the dairy products are a glut on the