'Creative accounting' won't save farms

The Farm Credit System has been authorized to keep "secret books," but no help is on the way to farmers.

By the end of November, the giant Farm Credit System is scheduled to have put the finishing touches on its procedures for keeping two sets of books—a "creative accounting" gimmick quietly authorized by the outgoing Congress to keep the FCS afloat until the 100th Congress opens in January.

During the closing days of its last session, a radical plan was authorized to allow the FCS to spread farm loan losses over 20 years, and do some other fancy bookkeeping not so far permitted to any other sector of the economy. One set of FCS lending agency books is to reflect the true disastrous condition of loans; another set can be altered to stretch out FCS loss write-offs, so that FCS debts can be paid.

In 1985, the FCS lost a whopping $2.7 billion. This year, the rate of losses is running even greater, exceeding any internal emergency loss reserves. The FCS holds about $75 billion worth of national agriculture debt, accounting for about one-third of all farm debt. At present, an official $8 billion of the FCS debt is not being serviced at all. Billions more are significantly delinquent.

In December 1985, Congress passed legislation permitting the FCS regulators to move money out of more solvent districts, into districts in financial crisis (called "capital sharing"). Other sweeping powers were granted to create a new entity, FCS-Capital Corp., to dispose of foreclosed farmland. These operations have not shored up the system, but only caused more hardship, further jeopardizing future food supplies.

Court actions have been filed to prevent the shunting of money around the system, and farmers have been lobbying to demand that the FCS restructure loans and offer lower interest rates to keep farms in operation.

The FCS is nominally farmer-owned, but in reality, it has been run for some time by bankers who advocate the austerity policies of the Federal Reserve and International Monetary Fund austerity policies. IMF officials state that a large part of the U.S. farm sector is "redundant," and should be shut down.

The FCS is a government-mandated entity that commands privileged borrowing terms, but it must raise money on the public market. In an attempt to maintain public confidence, FCS chairman Frank Naylor has maintained forced optimism in his public statements. At a meeting of FCS regulators in late October, Naylor told reporters, "We are not in any imminent crisis, and we do not intend to move forward without some deliberate care. We do not intend to move forward in a 'shoot-from-the-hip' mentality, if you will." Naylor insists that the accounting gimmicks will be useful to "buy time."

Most farmers know otherwise. Farm prices are falling to unprecedented levels relative to costs and debt servicing. According to the latest USDA figures—which always paint an overly rosy picture—farm prices are now 1.6% lower than last year at this time. For feedgrain crops, the October index was 96, based on 1977 prices being 100. Corn prices are at their lowest point in more than 20 years. At some places in Iowa, corn has been selling for less than $1.00 a bushel.

Although feedgrains are cheap for livestock use, meat animal producers cannot afford to operate, despite the fact that farm meat prices have risen by 9% over last year. Hogs and cattle herds are decreasing drastically.

What is required from Washington is a package of emergency measures to freeze and reschedule farm debt, pump low-interest farm credits through the agriculture lending systems, and implement a food exports "boom" policy based on development project needs in target zones of the West—Africa, Central America, and so forth.

Instead, a sham set of help-the-farmer procedures is to be followed by the FCS. Naylor, who has become famous for euphemisms about the FCS disaster, likes to call them the "bill of rights." These rules are to go into effect by the end of November. They call for guaranteeing the release of full data on interest rates and full access to loan documents. They define procedures for dealing with farmers who seek forbearance on delinquent loans and for fast review of loan rejections. FCS lending agencies will be able to set their own interest rates, without approval by regulators. Farmers have been demanding low interest rates to continue their operations.

However already, within weeks of congressional action, the FCS regulators warn that they will not permit "excessively low" interest or misuse of extended loss write-offs, if these result in "unsafe and unsound" financial practices.