AGRICULTURAL REPORT

IMMINENT BANKRUPTCIES THREATEN FOOD SUPPLY

Dec. 25 (IPS)--American agriculture is right now teetering on the edge of a cliff. Before U.S. farmers looms the abyss of wholesale credit collapse and massive bankruptcies. The 1975 bill for $60 to $5 billion in principal and interest payments on farm loans due between November and December is not and cannot be met. Farm cash receipts, cheerfully anticipated at the start of the year to add up to some $94 billion, have been drastically slashed by a combination of record crop destruction due to weather, the steady steep rise in production costs, and the wholesale rout of livestock production and prices followed closely by a steady downturn in wheat and other grain prices, especially corn.

Farmers confront this predicament with the full knowledge that virtually every source of new credit has dried up. Without the implementation of an emergency farm debt moratorium, not only are large-scale bankruptcies imminent, but next year's food supplies themselves are directly threatened.

A sampling of commercial as well as federal farm credit system bankers confirmed that as of this month virtually no new operating loans are being extended to farmers. At the threat of the Rockefeller-dictated credit squeeze, corporate retailers and insurance companies, the traditional suppliers of short-term year-to-year operating credit, have pulled out of the farm credit market in increasing numbers. What will happen during the next three months as farmers are forced to make decisions about their commitment to next year's harvests is, as these sources acknowledge, "anybody's guess."

Although the brunt of the attack has centered on the livestock and related dairy sectors, without a drastic policy change, as a spokesman for the Minnesota Department of Agriculture put it, "Grain farmers' obituary is coming down the line--and they know it."

Temporary Gloss

The drastic implications of this crisis have been thinly papered over by the widely cited fact that while new credit has been cut off, there have not as yet been widespread foreclosures. This fact masks the actual reality. In the beleaguered dairy sector, for instance, thousands of farmers are selling out rather than declare bankruptcy. As a spokesman from the Minnesota Agriculture Department put it, "There are auction posters all over Minnesota--everywhere you turn--it's unprecedented." The state commissioner's office anticipates that this January's census will show, for the first time in 35 years, a drastic decline in the total number of dairy operations in the state. Minnesota is the nation's major supplier of manufactured dairy products--cheese, powdered milk, etc.

Farm creditors are attempting to keep their clients afloat by accepting partial payments and extending repayment deadlines on the basis of securing additional real estate collateral. But there are distinct limits to this type of holding action. As the spokesman for a major Colorado Production Credit Association (PCA) --also members of the FCA system--that handles livestock financing admitted to IPS reporters, "This can't go on much longer--it's about at the breaking point now." Cattle producers have been operating at a loss of $176 per head, or losses of approximately 60 per cent! Ranchers are getting $7,000 for a 100-head herd that costs them $25,000 to produce.

A Game of Hot Potato

In many cases, farmers are attempting to consolidate their mass of short-term obligations to retailers, insurance companies, and commercial banks into long-term mortgage debts, transferring them in particular to the Federal Land Banks. During 1974, real estate debt held by the Federal Land Banks jumped by 20 per cent. The result of this type of maneuver is not the tapping of new financial resources, but merely the consolidation and shift of accumulated outstanding debt from the private sector to the public sector.

As a gambit to ward off immediate mass bankruptcy this "solution" is virtually useless. It is analogous to playing a game of hot potato with a time bomb. The Federal Land Banks, part of the largely farmer-owned, government-controlled Farm Credit Administration (FCA) umbrella, are dependent for their funds on the major national bond markets. There FCA financing agents are in direct competition with other federal agencies, in particular the U.S. Treasury, which has already announced its intention to market a record $3 billion in bonds in the month of January alone --a drop in the bucket of the $35 billion Federal deficit that needs to be financed.

Something Has To Give

FCA spokesmen have told IPS reporters that the agency expects to borrow $23 billion on the bond markets in 1975, and that all but $4.5 billion will go to payments on past bond issues that are falling due. With the present gutting of the bond market, where only the top Rockefeller corporations are able to borrow without extraordinary costs, the FCA has in fact little prospect of actually marketing its enormous debt. Considered alongside the Treasury's $35 billion deficit, it is apparent that something will have to give.

What's more, there are indications that the FCA is already feeling a severe pinch. Last week the agency announced plans to market a series of short-term discount notes early this year "to provide interim funds between [regular] bond sales."

New Credit Essential

More importantly, transferring the powder keg of farm debt to government-related agencies in no way addresses the urgent question of the necessary new credit to finance the next production cycle. Private bankers admit that the planned 12 to 15 per cent increase in commercial loans during 1975 is not enough to cover farm operating costs. With the retailers and insurance companies withdrawing from the market for producer credit, the burden falls increasingly on the various Production Credit Associations, who are not surprisingly "loaned up" in most areas. As reported in the last issue of IPS, the FCA was warned by the Federal Reserve Bank several months ago to cut down its "inflationary lending."

Continued astronomical production costs underscore the threat to next year's food production represented by Rockefeller's credit squeeze. Confirming the urgency of cheap new credit, a PCA banker who worked in livestock financing during the Great Depression told IPS reporters that while in the 1930s when farm creditors had to tell a farmer that they could grant him no new loans but would not foreclose his present debt, that farmer could go back to his land and eke out a living producing "something." This time around, he continued, there is no such possibility.