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Agriculture by Susan B. Cohen

Farm sector solvency threatened

Farmers are wrestling with high costs and low income. The Fed and FmHA could push them over the brink.

On July 17, the American Agriculture Movement called on Agriculture Secretary John Block to "implement procedures set forth by law and regulation for loan moratorium relief for farmers unable to repay loans due to circumstances beyond their control." The AAM action concerns the disposition of outstanding loans provided by the Farmers Home Administration (FmHA), the farm sector's "lender of last resort." An increasing number of farmers "have lost their land, farm equipment, or homes through the foreclosure of FmHA loans or through liquidations forced by FmHA's refusal to refinance" the loans.

At issue is the department's apparent failure to carry out provisions of both the Agricultural Credit Act of 1978 and the Housing Act of 1949 authorizing a loan-payment deferment in cases where the borrower is unable to make payments without unduly impairing his standard of living "due to circumstances beyond his control."

AAM investigation has found that while most of the foreclosed farmers meet the eligibility requirements for these provisions, they were never told about the moratorium option. In most cases the effects of the Soviet grain embargo and other government policies—including the Federal Reserve's high-interest policy—have determined the producer's inability to meet payment schedules.

Growing numbers of farmers have been forced into the arms of the FmHA to begin with. Over the past five years FmHA's market share of non-real-estate farm loans outstanding has more than tripled, from 5.7 percent to 18.9 percent. During the same period, the share of the non-real-estate farm loan market held by private commercial banks has dropped from 60 to 43.8 percent. Since October 1979 especially, when Volcker suddenly made thousands of farmers "uncreditworthy," the FmHA's rolls have swelled.

Though the high-interest policy has hiked production costs—interest ranks as producers' largest fixed cost, and will total more than $20 billion in 1981—it isn't just the cost side that is being affected. The policy simultaneously acts to push down farm prices and income.

In the first place, it discourages producers from removing their grain from the market. Producers will tend to be hesitant to lock up their grain at a going interest rate on Commodity Credit Corporation loans of 14.5 percent. That translates into more than 50 cents a bushel on wheat and 35 cents on corn, a stiff price to pay. But *not* utilizing the reserve will put added downside pressure on the cash markets, undercutting prices.

Secondly, the high rates act to reduce export prospects by throttling economic activity generally. More direct, but not often mentioned is the downward pressure high rates exert on farm prices by increasing the cost to mills, grain companies, exporters, etc. of handling and carrying grain inventories.

As Tommy Willis, president of the Tennessee AAM, explained to Senator Melcher's Policy Forum on High Interest Rates in late June, these "commercials" switch to a "hand-to-mouth" mode of operation to avoid inventory buildup. They widen their basis—the difference between the price they will offer local farmers for new grain and the price of the nearest maturing futures contract—to cover the increased interest and carrying charges on the grain for the six to nine months they figure they might have to warehouse it. Producers can hand over their grain for a song, or store it themselves.

Last year on June 24, Willis said, at the Continental Grain Company elevator on the Mississippi River at Gold Dust, Tennessee, for example, the basis was 30 cents under. This year on June 24 the basis was 75 cents under—almost entirely due to increased interest rates.

But in the volatile arena of the Chicago Board of Trade where farm prices are set, the widening basis acts as a signal to speculators that there is no great commercial interest in the commodity, and they will sell the market, driving prices lower in strident defiance of the so-called law of supply and demand. Last fall, for example, wheat on the Chicago Board of Trade was in excess of $5 per bushel. Today it's about $4 on the Board, and with a basis of about $1 on average, producers are barely getting $3 per bushel—despite the fact that the world carryover of wheat is 15.8 percent of total usage, the lowest figure in a number of years.

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