Agriculture by Susan B. Cohen

Farm equipment markets devastated

Between high interest rates and collapsed farm income, International Harvester faces bankruptcy.

International Harvester, one of the nation's leading farm equipment manufacturers, is waiting for a favorable response from its 225 lenders worldwide to its latest proposal for a financial bailout. The new plan, presented several weeks ago after in-house fourth-quarter forecasts of a more than $500 million annual loss blew apart the previous package, is a $4.15 billion refinancing due Dec. 15, 1983—a change from the three-year terms of the earlier proposal.

"The company's situation is so serious now that it has to get something done soon," one banker at the meeting told the *Wall Street Journal.* While IH Senior Vice-President for Finance and Planning James Cotting told reporters that company officials had not told lenders their choice was between quick acceptance of the plan or bankruptcy, the disclaimer is academic.

Already one bank, the First National Bank of Commerce of New Orleans, has refused all consideration of refinancing proposals and sued for recovery of $3.5 million due for repayment. Harvester refused, claiming it couldn't repay any single lender until the restructuring was complete, an argument rejected by the federal district court. The decision is now on appeal.

The possibility of a bank panic and stampede to call loans has not escaped the attention of observers like Larry Hollis, Vice-President of the investment firm Robert W. Baird in Milwaukee, who views the plan as workable but doubts that an early agreement can be reached. "If you get another two or three banks that start pulling out," he told the press, "the thing could start coming apart rapidly, because other banks would want to protect themselves and might also call their loans."

Farm equipment manufacturers readily acknowledge that the single best development for their industry would be reduced interest rates.

So far this year, farm equipment sales are down about 10 percent from the depressed levels of last year, when sales plunged 30 percent during the first half and only recovered enough to end the year with a net 15 percent drop. The soft demand results from depressed farm prices and plunging farm income—now expected to come in in real terms at the lowest level since the Great Depression and 45 percent below the annual average of the 1970s.

The squeeze has touched off bitter competition for the dwindling markets between the major farm equipment producers. Allis Chalmers apparently intends to hold its own with the help of its edge in the pioneering no-till equipment field. Massey Ferguson, the Canadian-based giant, recently concluded a $700 million bailout package with the Canadian government.

Over the past year, John Deere, the largest U.S. producer, has increased its market share by a respectable 10 percent. While IH has laid off thousands and consolidated dealerships, and while Massey Ferguson, for example, is suspending production at three Detroit area plants this fall for the second time this year, Deere executives will maintain tractor production at last December's high levels. Deere's first-half sales of $1.47 billion were only off 4 percent from a year ago, while earnings of $128.6 million were off 17 percent.

Observers attribute Deere's dynamism to its relatively sound financial condition and the fact that the company's management has undertaken an ambitious capital expansion program over the past decade. For the past six years Deere has increased its annual capacity by 5 to 6 percent on average by spending $1.4 billion on plant and equipment additions and improvement. The company plans to spend another $325 million this year.

By contrast, IH is seen as having "dug its own grave." As *EIR* noted in June 1980, the digging began with the arrival of Archie McCardell from Xerox to the position of Chairman and Chief Executive Officer of the firm in 1977. McCardell, upholding his reputation as a kind of McNamaraesque "tiger on costs," instituted a new "high-profit regime," at IH. In addition to a long list of high dividend payouts and a low level of re-investment, McCardell's new regime included such clever practices as provoking and prolonging strikes. *EIR*'s conclusion that he is part of the Fortune 500's predominant "post-industrial" faction has been all too amply borne out.