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production are not covered, the farmer will not be able to continue to produce. When the cost of debt-service is added to declining income, and the fall in land values, the basis for credit, is added to that, the extent of disaster becomes clear. An increased "market orientation" has resulted in the bankruptcy of perhaps the most efficiently managed and productive sector in the world economy. Yet the enormous productivity increases achieved by farmers since the 1960s show that it is not our farmers who are responsible for the current crisis.

The fraud that such "market orientation" results in cheaper food prices is easily exploded by comparing the evolution of prices paid to farmers for products such as livestock and grains, with the prices for the same products paid by the consumer. Such a comparison will show, over the last years, an inverse relationship: As the price paid the farmer has collapsed, prices paid by consumers at the supermarket checkout counters have been zooming upward. Our so-called cheap-food policy is actually a no-food policy.

The policy that has been under attack by the U.S. allies of the identified Swiss interests, who are effectively led by Orville Freeman and his circle of grain company-connected, ex-Department of Agriculture officials, is known as **parity**, or price supports.

The free-market ideologues associated with President Reagan's disastrous economic policies, and the shapers of Walter Mondale's policies for agriculture, agree with the Swiss-based controllers of the grain-cartel families. Anyone who campaigns against the vestiges of the parity system, is in fact proposing an accelerating rate of increase in the price of food, food shortages, and starvation worldwide.

The "market-oriented" policy has dictated that exports of U.S. foodstuffs be increased, while production of food within the United States be reduced. The exports have either gone into storage in the Soviet Union, or have been dumped on world markets at so low a price that so-called competitors cannot maintain the capital investment required to develop their own food production capabilities. In this way, the world has been made increasingly dependent on U.S. production, while the basis for that production, the independent, technologically cultured farmer-producer, has been destroyed.

And now the nation's capacity to produce its food supply has been brought to a turning point. If we return to a policy of parity pricing for agricultural production, as Franklin Roosevelt did in mobilizing the U.S. economy for war, we can begin to safeguard our own supplies, and, if credit policy is revised accordingly, we can permit other nations to develop production capabilities which do not presently exist.

Such measures would have to be implemented as part of an overall emergency overhaul of the nation's economic policy. It could be done, and LaRouche, in his nationally televised broadcasts this year, has shown the way. To do it means to launch a war against the worst evil the world has yet seen, an evil which has turned food into a weapon for the destruction of human life on a scale unprecedented in human history.

Debt bomb set to

by Sylvia Brewda

The debt bomb is set to go off, and it's not ticking away only in Ibero-America, but also in the cornfields and cattle feedlots of the United States. American farms are being crushed under a $215 billion debt burden, and, adding to that the non-farm debt of rural banks and the state debt of farm states, the total far outpaces the $300 billion owed by the top four Ibero-American debtor nations.

The precipitous decline of farm credit and real-estate values is in turn jeopardizing the solvency of regional banks and state budgets in the worst-affected states, threatening a chain-reaction collapse of depression dimensions. The debt is forcing farm foreclosures on a scale not seen since the last Depression. And banks are unable to lend, since falling land values mean that their loans are not secure.

Dr. Neal Harl of Iowa State University reports that 10% of the farmers in the Midwest agricultural heartland have a debt-to-asset ratio of 70:100 or worse. These farmers carry 25% of the farm debt for those states, roughly $22.6 billion. They are not expected to receive loans for another planting, and are vulnerable if any sudden shock occurs in the banking system. An additional 18% of the farmers have debt-to-asset ratios between 40:100 and 70:100. These farmers are not facing an immediate credit cutoff, but they are all losing net worth. If any disturbance of the credit market occurred now, these farmers would have trouble getting loans for spring planting.

Fred Young, vice president of Scott State Bank in Illinois, estimates that "40% of the farmers here could fail in the next five years." Tom Olson, head of the Agriculture Committee of the Independent Bankers Association of America and president of Lisco State Bank in Nebraska, reports that 5% of the farmers face serious problems and possible liquidation this year, while an additional 10-15% are under stress to meet their payments this year. In Minnesota, the agriculture commissioner says that 14% of farmers do not expect to survive for two years.

Yet spokesmen for the Department of Agriculture insist, with Agriculture Secretary John Block, that "this is the best year ever"! USDA Deputy Undersecretary Kathleen Lawrence received considerable criticism in Iowa when she stated, "There will be some loss this year, but not significantly different from a normal year on a year-to-year basis." Don

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blow up U.S. farms

Paarlberg, an economic adviser to various Republican secretaries of agriculture, recently told a researcher that only 2-5% of the farmers are in real trouble.

Cashflow negative, equity shrinking

The problems of the farmers are complex, but two points must be understood. First, farmers in the Midwest are now operating, in general, at a loss. As of March 31, $2.2 billion, or 3%, of the loans held by the Farm Credit System (FCS) were overdue by 90 days or were in the process of liquidation. Last year, the grouping in the FCS which makes operating loans, the Production Credit Associations, reported loan losses of $237 million, up from $159 million in 1982 and $42 million in 1981.

Young reported that 6% of the long-term Federal Land Bank loans, the other major component of the FCS, were past due. "If they had been paying the interest out of profits, it would be 60%." Instead, he explained, farmers borrow additional short-term money to remain current on their long-term debt in a move which could be termed destructuring. The Farmers Home Administration (FmHA), the lender of last resort, currently lists 31% of its loans as delinquent, and an additional 10% of its borrowers with officially rescheduled loans. Commercial banks have not escaped. At the end of 1983, non-accruing farm loans totaled $2.6 billion, according to the Independent Bankers Association of America.

Second, the price of farmland, which grew rapidly during the 1970s, is now in a rapid downward slide, and in some areas a free fall. Olson estimates that agricultural land prices in the Midwest have fallen by 25-40%, and spot checks in other states indicate that this is no exaggeration. Many areas report accelerating declines and in places, a lack of buyers at any price. John Scott, a real estate salesman and professor at the University of Illinois, has seen "slippage" in the last 60 days, even in northern Illinois, where prices have hitherto been relatively stable. In southern Illinois, says Scott, "there aren't many buyers." In Minnesota, Robert Swanson of the State Agriculture Commissioner's office describes a farm which had sold for $1,400/acre in 1981. "When they advertised it for sale, they asked around $600 or 700, and there were no bids."

State Representative Gervase Hephner of Wisconsin has been watching the farm real estate market closely. He is on the board of a local bank, and on its loan committee, as well as owning a small farm himself. In a discussion with *EIR*, he supplied information on the castastrophic fall in value of Wisconsin farmland, a loss of 50% over three years, and a current rate of fall of 50% per year. His neighbors are quitting or being forced out. "Twelve years ago, I told my neighbors that we had seen the last generation of farmers. . . . Now they believe me."

While the price of land was rising, most farmers found themselves able to borrow more and those who wished to expand found borrowing necessary. Young farmers who bought their first land found that crop prices were not sufficient to lessen their debt load, but banks were willing to lend to those who showed competence as well as a reasonably healthy financial position. When land prices started to fall in 1981, banks found themselves in a quandary. The value of the collateral they held was decreasing, which would indicate that loan volume should be reduced. However, the process of loan reduction tended to place more land on the market, either through foreclosures or voluntary withdrawals, driving the price down further. The commercial banks, which had decreased their real estate loans by 4% in 1981, held steady in 1982 and increased real estate loans by 11% in 1983. But in 1984, time is running out.

In Nebraska, Olson reports, "Insurance companies are foreclosing. Traveller's is foreclosing on 10-12,000 acres in western Nebraska. In general, commercial banks are holding off." However, he told *EIR* that 10-12% of the banks in the Midwest are being watched very closely by the FDIC. The third farm bank failure in Iowa this summer took place during September. In Minnesota, a major dairy farm which had been held by one family for a hundred years, is being foreclosed by an insurance dealer. Bankers are not generally willing to describe the methods they are using to keep afloat, but a comment by Olson gives some indication. Asked about the slow pace of FmHA loans, he responded: "Part of it may be that they're different from commercial banks. They have a hard time making loans where there's negative cash flow."

FCA leads the retreat

Credit to farmers has historically come chiefly through the commercial banks and the cooperative lending institutions supervised by the Farm Credit Administration (FCA). In 1981, the cooperatives held 32% of the outstanding debt or over $65 billion, compared to 20% in the commercial banks, the next most important sector. As the farm situation has grown more difficult, the FCA has followed a consistent policy of tightening credit to the farmer (**Figure 1**). Net new loans made by the Federal Land Banks (FLBs) are now one tenth of their 1981 level, and the Production Credit Associations (PCAs) have been contracting their outstanding debt, withdrawing approximately $2.4 billion from farmers' credit since 1981. George Irwin, the FCA's chief economist and deputy governor, stated to *EIR*, "There's too much credit

. . . that's the problem. More credit simply makes it worse."

The effects of this policy are hitting hard. In Minnesota, Jim Nichols, state commissioner of agriculture, told *EIR* that the Federal Land Banks are "just not making loans." Many farmers, unable to make interest payments on their production loans, had been expanding their land-based loans to allow them to make up the difference with long-term, relatively cheap money. Now, that method of restructuring is being shut off, and the operating loans for each year contain the unpaid debt from the previous loan. To add to the problems of the financially strapped farmer, the PCAs have adopted a split interest rate. Although their average interest rate remains at 14%, a "good risk" now receives money at 13%, while a "bad risk" must pay 15%.

In this situation, the FmHA is overloaded and unable to meet the needs for long-term credit. The FmHA equivalent of the Federal Land Banks is the farm ownership program. According to reports of a survey done by the Minnesota commissioner of agriculture, these funds were insufficient throughout the Midwest. The Kansas FmHA reported that it had run out of money for the program in April, halfway through the fiscal year. Ohio had $10 million, half its yearly allotment, in qualified loan requests ready for fiscal 1985. North Dakota had more than its yearly quota already processed for 1985, and Minnesota itself had enough qualified requests to absorb its $30 million yearly allocation through 1986. While official nationwide statistics show FmHA continuing to expand its real estate debt, the expansion of $350 million in 1983 is tiny in relation to the demand for real estate credit.

Non-real estate loans by the FmHA, which include both operating and emergency funds, shrank in 1983, but an outcry from the farm states resulted in some increase in availability in the summer of 1984. Emergency transfers of $400 and $150 million were made into the operating loan fund in 1983 and 1984 to avoid running out of money. Still, half of the farmers who apply in Kansas are being turned down, according to reports from local offices.

The funds which are available are being targeted to guaranteed, rather than direct, loan programs. Starting with a funding level of $100 million for 1984, the program was granted an additional $100 million in transfer funds and a new allocation of $150 million. Guaranteed loans are made at commercial rates rather than current FmHA interest rates of 10.25%, and require higher standards for farmers to qualify.

A choice of detonators

There are several methods by which a shock could be administered to the tottering debt structure, should scenarios circulating among cartel circles for a blowout of agricultural credit proceed according to schedule. The most obvious is to use the FmHA itself. In May, Sen. Edward Zorinsky (D-Neb.)

valued at over $400 million, and that putting the farms up for sale would depress the value of farmland. In July, Secretary Block mandated the agency not to sell land where it would depress the market. This mandate could be reversed, under the pressure of a GAO study which Zorinsky requested, although such a reversal is unlikely until after the election.

Another method by which the FmHA could intervene to trigger the fall crisis comes through a recent court decision. From October 1983 until the present, the FmHA in Kansas has been under a court injunction forbidding it to institute foreclosure procedures against any farmer, based on a denial

Figure 1

The cutoff of credit for agriculture

Net new credit for real estate loans

(millions of dollars)

	Insurance companies	Commercial banks	FCS-Federal Land Banks	Gov't (FmHA)	Other
1977	1,419	999	2,936	325	2,471
1978	1,659	777	3,228	139	2,303
1979	1,687	66	5,023	2,990	4,242
1980	763	122	6,303	604	2,300
1981	146	−358	7,619	1,029	1,590
1982	−272	54	3,616	341	230
1983	−81	934	770	345	320
1984 (1st Q)	−172	341	−30	85	N.A.

Net new credit for non-real estate loans, except CCC

(millions of dollars)

	Commercial banks	FCS-Prod. Credit Assoc.	Gov't (FmHA)	Other
1977	2,426	1,264	1,264	2,255
1978	2,564	1,583	2,639	2,053
1979	2,761	3,301	3,202	2,313
1980	533	1,735	2,774	1,111
1981	1,381	1,506	2,696	1,059
1982	3,201	−986	307	750
1983	2,911	−1,391	−68	−585
1984 (1st Q)	146	−519	74	N.A.

Source: *Agricultural Finance Databook*, USDA, July 1984.

of due process. The court case on which this injunction was based has been resolved, and a new set of guidelines, addressing the issue of due process, is expected to appear very soon. Although the officials at the Kansas State FmHA told *EIR* that they do not keep centralized records, they estimate that approximately 250 foreclosure cases are pending there. Although this represents only 3.3% of the borrowers in the state, rapid action against these farmers could have a devastating effect on the psychology of the farm and financial community there, without any visible positive action on the part of the Reagan administration.

The Farm Credit Administration could also play a decisive role. Described by economist Irwin as functioning like the Federal Reserve for the cooperatives, and enjoying the same nominal independence from administration policy, the FCA could plausibly move to tighten up the loan approval procedures of its members, particularly if a large and spectacular bankruptcy had just occurred. With agricultural machinery being sold off for 25¢ on the dollar, top producing dairy cows bringing $450 each at the slaughterhouse, and the land market in an accelerating plunge, high-risk loans are probably widespread. The commercial banks themselves could also be the targets of the regulators, and Federal Reserve chairman Paul Volcker has shown himself willing to take the executioner's role before.

However, the bankers are at this point the most politically organized of the groups, and therefore might be likely to resist attack. The least political risk might be run by the insurance companies, which hold $12.5 billion in land-based debt, and could act to "protect their shareholders" by a sudden reduction in this exposure. There is, clearly, no lack of possible and effective means to destroy the rural credit system at this point. But why would anyone do that?

The common theme of most analyses of the farm sector in recent years has been the emergence of a two-tier structure in American agriculture, in which very large and relatively small farms are thriving, while the mid-sized independent producer experiences growing difficulty. The emergence of this two-tier system provides the best indication of the grim future intended by the financial powers manipulating the current crisis.

Billy Davis, Independent Democratic vice-presidential candidate and the running mate of Lyndon LaRouche, described it this way in a nationally televised address on Sept. 3: "When [Walter Mondale and the cartels] talk about 'family farmer,' they talk about a guy with a grub-hole and 10 or 12 acres of land who has a job in town. They're not talking about the independent American farmer, the guy from $40,000 to $100,000 gross income that's been the backbone of this country. They intend to remove him completely from the scene. If he does not willingly go into a contract situation, where he becomes 'vertically integrated' into these cartel corporations, then he will be wiped out."

USDA covers up the world grain crisis

by Marcia Merry

On Sept. 12, the U.S. Department of Agriculture (USDA) released its annual fall update on world crop production, a transparent cover-up of the global grain crisis.

Total world grain production this year, according to the USDA, will be 1.59 billion tons—called a "record" harvest. Not only does this figure overstate production in many regions; it conceals an enormous shortfall relative to world requirements, a gap which translates into mass starvation in Africa and other famine-struck regions.

A proper reading of the world grain situation also shows that the United States—hitherto the world's largest grain exporting region—is imposing upon itself such severe restrictions on grain output, while shipping huge quantities of grain to the Soviet Union, that the future of the American grain supply has become a national security question.

The figure of 1.59 billion tons of grain works out to less than 15 bushels of grain per capita—and less again, when you correct for the USDA's persistent overestimate of grain harvests. The 15 bushels is an increase over the world average of around 11 bushels per capita in the early 1960s, but a person requires a minimum of 24 bushels to receive a healthy diet, including the feedgrains that go into meat and milk production. Until about 1979, world grain output per capita was rising, reaching almost 18 bushels a person. But since then, world production per capita has fallen.

In Africa, domestic production plus food imports have fallen each year for over 10 years, until now malnutrition has overtaken 150 million people—one-third of the continent's population.

To provide even minimum food levels, the 1.59 billion tons of grain output needs to be doubled. The USDA's reported total of 785 million tons of world feedgrains should be tripled, at least. However, political networks connected to the world food cartels, in conjunction with the Soviets, have moved to reduce grain output, especially of feedgrains, over the last 10 years. The United States is the key target, since it accounts for 50% of the world's feedcorn output, and 60% of world soybean production—both top animal feeds.

U.S. output declines

The last two years of grain harvests in the United States have been a watershed in the reduction of world food supplies. In 1983, the Payment-In-Kind (PIK) program was enforced, inducing farmers to take a record one third of U.S.