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Agriculture by Marcia Merry

The new class of farmer-paupers

The lack of action by Congress, and the actions of the FmHA, have produced an situation of neo-feudal land-holding.

The Farmers Home Administration debt policy has produced "a new class of pauper-farmers," in the words of a prominent Wisconsin dairyman. He was referring to the FmHA farm foreclosure and farmland leaseback policy, in which farmers become serfs on their own land.

The FmHA itself owns 3.4 million acres of land, and is acquiring more every day. Millions more acres are owned by the other major holders of farm debt. Dispossessed farm families are "lucky" to get any work at all on these new, neo-feudal holdings.

As of the fourth quarter this year, the lack of effective action by Congress on the farm debt crisis, regarding all categories of debt holders—FmHA, Farm Credit System (FCS), commercial banks, insurance companies, private overseas capital, etc.—is resulting in a mass-scale shutdown of the independent family farm system, the foundation of the U.S. and international food supply. Over the last 24 months, Congress has commissioned report after report from the USDA and other agencies to "study" the problem to death, while doing nothing.

In the latest gesture of "action," Congress called on the General Accounting Office (GAO) to come up with a proposal about how to bail out the largest agriculture debtholder, the Farm Credit System (FCS), that accounts for $75 billion of the national total of $190 billion in farm-related debt. That beats all.

On Sept. 17, the House Agriculture Committee released a report it had commissioned by the GAO, on the financial shakiness of the FCS. On Sept. 18, Rep. Ed Jones (D-Tenn.) chairman of the farm finance subcommittee of the Agriculture Committee, asked the GAO to come up with some suggestions on how to design a bail-out plan for the FCS.

The GAO is one of the most unlikely agencies for this task. It was set up during the 1920s, along the lines of the British Civil Service, to be a bureaucracy to monitor "how government is functioning."

However, even the GAO report on the FCS could sound an alarm in Washington, D.C., simply because the farm breakdown process is so far advanced.

The FCS lost $2.7 billion last year. This year the GAO predicts it will lose another $2.9 billion. This rate of loss exceeds any loan loss resources left to the FCS, and also exceeds the ability of the FCS to move money around from one geographical farm credit district to another. (The FCS is made up of 12 districts involving 37 funding banks, and numerous Production Credit Associations and Federal Farm Banks.) The GAO report said, "The exact time at which the system's surplus will be exhausted is not so important as the inevitability of the event."

The GAO request of Rep. Jones, and his colleagues in the House and Senate, is a slap in the face to the farmers now hit by PCA and Land Bank foreclosure actions. At the same time, Congress, with its inaction, is telling the public, "Let them eat cake," while the hard core, meat-and-potatoes producing sector of the U.S. economy is literally being shut down.

The administrator of the FCS, Frank Naylor, chairman of the Farm Credit Administration, is attempting to discount the GAO report conclusions. The FCS is a federally chartered organization, but raises money on the public bond market, and was always thought of as being "as good as the government." At the time of the release of the GAO report, Naylor said, "We see no basis for federal funding at this time."

Before the November elections, Congress is attempting to strike a posture of budget cutting, while expressing "concern" over the plight of dispossessed farmers. Naylor provides them with some hocus-pocus about how well he can manage the farm credit collapse.

Naylor reported that he has "creative" ways of restructuring "non-accrual loans," those farmers are not repaying, and thereby he can ease the "pressure" of paying FCS long-term bonds that were sold to raise money when interest rates were high. Besides bookkeeping tricks, Naylor is referring to the extensive powers of the new FCS-Capital Corp., created last year by Congress. This agency can order money moved from one part of the FCS district to another, and it can seize, warehouse,

Many farm groups have been lobbying for some fall-back, minimal federal help in the form of orders to the FCS to lower interest rates to farmers. There are $50 billion in loans through the FCS, and interest is running at 12% and higher. Very few loans are at lower rates.

Sen. Thad Cochran (R-Miss.) and Rep. Jones have introduced a bill to give the FCS more latitude to reduce interest rates. The measure would permit the FCS banks to separate interest rate calculations from the financial crisis facing the system as a whole.

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