Agriculture by Marcia Merry

Congress tries to rescue FCS

But given its record on the debt ceiling crisis and S&L losses, don't believe it till it happens.

The week of July 27, leaders of the House Agriculture Committee announced new legislation to provide a multibillion-dollar line of credit to the giant Farm Credit System, now faltering after months of farm loan losses. The aid package calls for setting up a temporary assistance corporation, with representatives appointed by the Treasury Secretary, the Agriculture Secretary, and the Farm Credit Administration. This body could apply to the Treasury for multimillion-dollar interest-free loans to put into the FCS. Representatives of the FCS have variously estimated the need at $6-10 billion in the near future.

The proposal also calls for creating a secondary market for farm real estate loans, backed by $1.5 billion from the Treasury. The new aspect of the proposal is the stipulation of government-backing. The irony is that if the bill passes in August, it may become law just at the time that the government defaults on its Treasury bonds, thanks to the debt-ceiling squabble in Washington.

The measure has backing from House Speaker Jim Wright of Texas, where dozens of both thrift institutions and Farm Credit System lending agencies are in trouble. Wright and House Agriculture Committee leaders Kika de la Garza, also from Texas, and Ed Jones, Democrat from Tennessee, have expressed their commitment to quick passage.

However, given Congress's record in such things, only a "see-it-when-it-happens" attitude is realistic regarding the Farm Credit System.

The FCS has lost $4.6 billion in the last two years. Without a bail-out, it is expected to lose another $3.1 billion over this year and 1988. The FCS is the largest agricultural lending group in the nation, now accounting for about $55 billion of total farm debt. It consists of a network of Federal Land Banks, Federal Intermediate Credit Banks, and Production Credit Associations. FCS is not a government agency. It is federally mandated, but is private, and raises money through public offerings.

For a limited period of time, before court action prevented it, the FCS took money from its districts in the black, and shunted it to other farm districts in deficit. However, the scope of the debt losses are now so great, and the farm economy so impoverished, that no similar maneuvers will work for long, even if legal.

Hearings were held on the shaky system in the spring, but Congress preferred to punt, and wait until the last minute before their anticipated August recess. Now, the crisis has worsened.

Thousands of farms continue to fail each month. Farmers are running their operations into the ground, making no equipment replacements, using too little fertilizer, and observing other "false economies" in desperate hopes of continuing until "help comes along." Meanwhile, the FCS and other lending agencies have foreclosed on thousands of farms, sold off a certain number, and written off the debt.

Nationally, U.S. agriculture debt has dropped from a high of about $205.4 billion in 1983, down to $162.1 billion at present. This not only represents the draw-down of debt, but the liquidation of masses of independent family farmers.

Those financial quarters that want to impose even more austerity and shutdown on the nation are attempting to dissuade Congress from enacting any bail-out mechanism, implying that farmers can scrape by, and meet their debts. Timed with the FCS bail-out announcement by the House, the *Wall Street Journal* ran a prominent article called: "Growing Prudence—As Their Plight Eases, Farmers Pay Off Debt Rather Than Expand."

This viewpoint typically ignores the consequences. The productivity of even the best prairie soils, for example, will give out if fertilization is not provided periodically. There is talk among farmers still in operation throughout the Midwest, of how to "diversify" into some non-farm activity now, before it's too late, because there is no apparent future in traditional agriculture. Many are trying to set up some small manufacturing or processing plant—for example, producing alfalfa pellets.

Economist Neil Harl of Iowa State University refers to the present mood among farmers as "debt shock." They have had large debts, with no ongoing means to pay it. Only the $25.6 billion worth of federal farm program payments—amounting to at least a third of all farmers' income this year, is keeping the agriculture sector afloat for another season. Under current conditions, if these payments are cut out—as the "free market" rhetoric in Washington implies—then the food supply sector of the country would cease to exist. The alternative to this scenario—taking economic emergency measures to restore both food output levels and revive world trade, is not even under discussion.