Agriculture by Susan B. Cohen

Farm aid finally dangled

Federal loans and disaster assistance will sandbag a wave of bankruptcies.

The U.S. Department of Agriculture is projecting a net farm income drop of "23 percent or more" for 1980, according to the August issue of the Department's *Outlook*.

In announcing the open-ended projection, U.S.D.A. economists emphasized that three critical "unknowns"—ultimate crop output, inventory changes, and government payments—could seriously affect the final result.

Rumors are percolating in trade channels that President Carter will lift the embargo on American grain sales to the Soviet Union, a grandstand play that could give a new boost to the grain markets just before the election. Speculation about a new Soviet crop shortfall has also picked up again recently.

With the November vote approaching, Carter has begun to move, crabwise, to dispense some bandaids to the farm sector. Less than a month ago, in response to congressional action, Carter raised crop loan price support levels.

Farmers can borrow from the government at a set price per bushel using their expected crop yields as collateral. Carter has effectively raised the per bushel floor price paid on these loans.

This week the U.S.D.A announced that the time period for repaying these government price support loans has been extended an extra 90 days. The extension is applicable to all farmers, unlike previously, and to all grain. The move gives farmers an additional bit of important maneuvering room.

The uncertainty surrounding the extent of crop losses due to the heat and drought is spurring a price boom in the corn and soybean markets, in particular, that will reward many producers and puff up aggregate farm income figures. There are, however, many producers who don't have any crops left to sell at any price. Here is where the Department's Agricultural Stabilization and Conservation Service (ASCS) and Farmers Home Administration (FmHA) disaster assistance and economic emergency programs come in.

The ASCS estimates that it will channel approximately $1 billion in disaster payments into the farm sector this year, compared to a $230 million outlay in 1979. This cash injection could be raised significantly if revised drought-loss figures make it politically opportune. There is every indication that crop losses will be far more extensive than the Aug. 1 estimates had indicated.

The FmHA presently anticipates an additional $2.8 billion outlay for disaster assistance this year. As of Aug. 25, the entire drought-stricken states of Alabama, Arkansas, Kentucky, Missouri, North Dakota, Oklahoma, Tennessee, 153 out of 158 counties in Georgia, and more than half the counties in Texas, Kansas, Illinois, South Carolina and South Dakota have been declared eligible for emergency loans at 5 percent interest.

Taken all together, Carter politicking and the various operative disaster assistance programs just may add up to the kind of sandbagging operation that can prevent a flood of bankruptcies this fall. The FmHA, in particular, has been used in that way over the past three years. From 1978 to 1979 its holdings of farm debt jumped from $10 billion to $15 billion—and are now at almost 20 percent of total farm debt, a critical margin.

But even if successful on that score, such an operation will only postpone the day of reckoning for American farm producers already stretched to the limit. The sharp inflation of production costs in recent years—especially energy-related costs and, since October 1979, the cost of credit—has seriously gouged already inadequate income levels. Producers have become increasingly dependent on debt expansion—both for refinancing and operating credit—even as income to service the debt is shrinking. The increased role of the FmHA and Farm Credit System has taken some of the pressure off of this situation, but it remains a financial tinderbox. This past spring producers were forced to borrow money at 18 to 20 percent rates just to get their crops into the ground. Asked what would happen if rates were at that level next spring (and recent Federal Reserve moves point in precisely that direction), Dawson Ahalt, who serves as chairman of the U.S.D.A.'s World Food and Agriculture Outlook and Situation Board, said, "Then it would be 'Goodbye Charlie'—not just for farmers but for the whole economy."