Agriculture by Susan B. Cohen

Under the credit knife

An update on the effects of Chairman Volcker's interest-rate policies on farmers and farm banks.

In early September Dawson Ahalt, chairman of the USDA's World Food and Agricultural Outlook and Situation Board, told *EIR* that if interest rates were again above 15 percent during the critical February to March period of this year, "It would be good-bye Charlie—not just for farmers, but for the whole economy!" Ahalt was sure that it wouldn't happen.

All the figures are not yet in for 1980, but a few key parameters tell enough of the story to indicate the urgency of reversing the Volcker economic policy before the spring planting. Many producers will not be able to withstand another planting season at 15 to 20 percent interest rates.

The drop in net farm income this year from about $31 billion in 1979 to approximately $25 billion reflects the fact that production costs ran up faster than farm prices—by an estimated 12 percent and 6 percent respectively. It also masks wide regional discrepancies due to the impact of the heat and drought. Many producers were left with nothing to market at any price.

The drop in net income, moreover, impacts the larger, more productive and highly leveraged farm operations most seriously. These farms—about 20 percent of all farm units, with annual sales of $40,000 and more—produce more than 80 percent of the total U.S. farm product. They do not enjoy the volume of off-farm income and nonfarm income that gives resiliency to the small, part-time farms.

Last spring, when the prime rate went up to 20 percent, most farm bank loan rates jumped by five percent or more to the 15 to 18 percent range. For the typical producer, who needs $200,000 in operating loans annually, that meant an instant annual $10,000 boost in operating costs for interest charges alone.

Not tied as tightly to the money markets (though this is breaking down) rural bank interest-rate structures are less volatile. They don't rise as quickly, but they don't come down as quickly either.

Two main factors have so far prevented a sheer blowout in the farm sector as a result of the Volcker measures. On the one hand, the USDA has channeled about $1 billion in disaster assistance loans into the farm sector. And the Farmers Home Administration (FmHA) has approximately doubled its outlays from an anticipated $3 billion to about $6 billion in low-interest emergency credits.

This patchwork is complemented by self-imposed austerity on the part of producers who immediately reduced capital expenditures. As indicated in the American Bankers Association (ABA) annual farm credit survey, regional bankers overwhelmingly experienced a sharp drop in intermediate-term borrowing for machinery and equipment during 1980. Farm equipment sales literally plunged by 30 percent during the first half of 1980. Year-end estimates are for a net 15 percent reduction in equipment sales this year.

The predicament shows up in the fact that the regional commercial banks are presently "flush" with funds and desperately looking for borrowers. This was the subject of anxious discussion at the recent ABA Agricultural Bankers conference in Dallas. "No matter how good the outlook is for next year," Arkansas banker Marlin Jackson told the gathering, "my farmers are getting clobbered by the 15 percent interest they'd pay on a tractor loan."

In a report on the subject, the *Wall Street Journal* described a Kansas cash grain farmer with 2,000 acres who insisted that he doesn't have the cash flow to "even think about" a new $60,000 combine. Don Pagel told the *Journal* he's holding out for 10 to 12 percent interest rates. "If the money coming in can't cover the interest payments," he said, "I'm just not going to spend."

Bankers in turn are worried that if they can't attract new loans, they won't be able to pay competitive rates on the increased deposits and will lose them to the money-center banks. But that's not their only concern. While every index of farm loan quality, according to the ABA survey, has deteriorated over the past year—renewals, refinancings, delinquencies, and losses have all jumped, while repayment rates have dropped—all bankers report that their farm loan portfolios are of the same or better quality than their business loan portfolios.

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