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AGRICULTURE

At the farm banks, credit is tight

Record corn and soybean harvests have gotten underway on schedule in the U.S. The spring wheat is almost all in, the winter wheat planting is more than one-third complete, and export demand is climbing neatly. But credit conditions are unusually tight at the nation's agricultural banks, especially in the grain belt.

This fact, together with the quantum leaps in FmHA lending compared to private commercial banks, life insurance companies, and the Farm Credit System itself, are the most striking features of the current farm credit picture. Historically indifferent to boom-bust banking cycles, the rural banking system is in one of the worst crises in memory, measurably worse than that associated with the "crunches" of 1970 and 1974.

With the turnaround of the livestock cycle and recovery in livestock, wheat, and feedgrain prices and returns over 1978 and 1979, farm incomes have moved up from the nadir of 1976 and 1977. Total 1979 income is expected to reach $30 billion, up more than $2 billion from 1978. Yet, deposit growth rates at the agricultural banks—banks at which farm loans represent 25 percent or more of total loans—have not risen from their 1976-77 lows, and loan-deposit ratios are still climbing steeply, even though loan repayment rates have been improving.

July surveys in the Minnesota district, with Kansas City, Dallas, and Chicago, the key agricultural districts, showed a "higher than desired" loan-deposit ratio at more than 50 percent of the banks, the highest since 1964, and a fact which correlates with an increase in refusals or reductions of loan requests at Minnesota and other district banks. From 25 to 50 percent of the banks in these key districts indicated either that they expected difficulty in meeting third-quarter loan demand or were not actively seeking new farm loan accounts.

Since mid-1978 in particular, Federal Reserve surveys show, the average interest rate—typically on a track several notches below large money-center bank rates—has climbed rapidly compared to previous periods of "monetary restraint." Significantly, the range of rates on farm loans has also widened

CORPORATE STRATEGY

Cushman & Wakefield brings Hong Kong to N.J.

Next spring, groundbreaking ceremonies are scheduled to take place in Mt. Olive, New Jersey for what is billed as "America's most sophisticated foreign trade zone." A foreign trade zone like the one in New Jersey's Morris county is an extraterritorial enclave like Hong Kong, where foreign and U.S. multinational companies will operate free from U.S. duties and government regulations. The groundbreaking event will punctuate an intended switch of U.S. business from its traditional status as the world's leading exporter of high-technology capital goods into an oversized entrepot given over to foreign assembling plants and hotel and entertainment complexes.

The corporate entity most responsible for putting together the New Jersey foreign trade zone is Cushman & Wakefield, one of the country's largest and oldest real estate firms. Cushman & Wakefield has leased a major share of all office space constructed in New York City over the last thirty years, and is involved in every aspect of the real estate business: project consulting, appraising, leasing, sales, management, renovation, and now packaging foreign trade zones. Cushman & Wakefield is a subsidiary of Rockefeller Center, Inc., which gained a certain notoriety during World War II for housing Sir William "Intrepid" Stephenson, the Canadian national who, from his Rockefeller Center enclave, covertly set up the U.S.'s first intelligence agency along Anglo-Canadian specifications. Alton Marshall, who extended such hospitality to Sir William, is still Rockefeller Center's president.

"We are the exclusive rental and managing agent for the trade zone, and we were instrumental in joining Rockefeller Center, Inc.. and Lakeland Industrial Park, to make the trade zone possible," Tyson Maroon commented in a recent interview. "Ty" is the senior vice president at Cushman & Wakefield who brokered the partnership between Rockefeller Center and the New Jersey developer which owns the 667-acre site where the trade zone will be located. New Jersey's Governor Brendan Byrne, the man who brought legalized gam-

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greatly—both between large and small bank lenders, and on individual loans granted by small banks. Agricultural banks—the nearly one-third of all commercial banks which together account for a mere 6 percent of total banking resources, and yet hold 51 percent of all farm loans in the banking system—have historically relied on deposits as their sole source of loan funds. As of March 1979, large time certificates of deposit ($100,000 or more), for instance, made up only 5.2 percent of total resourcess at agricultural banks, compared to 14.7 percent at other banks. The federal funds market has typically served rather as a place to invest liquid funds, not as a source of funds for the agricultural banks. As of March 31, 1979, agricultural banks were net sellers of $1.8 billion in federal funds, 2.5 percent of their total assets, while other banks were net buyers of $61.1 billion, an amount representing 5.2 percent of their total assets.

These patterns have, however, begun to change, with direct results on farm credit conditions. Sales of federal funds by agricultural banks have declined *relatively* from an earlier average of 4 percent of assets, and as of March 1979 the percentage of net buyers of federal funds among agricultural banks had jumped from 10 to 18 percent, with net purchases representing 2.9 percent of total assets. Further, agricultural banks have introduced a new six-month money-market certificate of deposit, which, today, one year after its first offering, comprises 5.7 percent of the total resources of agricultural banks nationally, compared to 3.1 percent at all other banks.

The pressures of this greater involvement with money-center institutions are acting to constrict credit availability and raise its cost—as dramatically shown in the FmHA lending record for the past two years. In the first nine months of 1979 alone, the FmHA made more loans—about $11.5 billion—than in any previous entire year period. CCC and FmHA loan expansion in 1977 and early 1978 largely replaced reduced commercial bank and Farm Credit System lending. But, in the last year, while FCS lending has begun to recoup, commercial bank loan levels continued to lag (despite reported high demand), and FmHA lending—the "safety valve" factor—soared.

The bulk of the FmHA lending is taking place under the authority of the "economic emergency" program established under the Emergency Agricultural Credit Adjustment Act of 1978, scheduled to terminate in 1990. Deliberation on this and similar measures in the Congress, such as the important Farm Credit Act Amendments of 1979 which I reported on a week ago, must address these difficulties, since the results will largely determine the direction of farm finance.

—*Susan Cohen*

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bling—and organized crime—to Atlantic City, also played an extensive role in founding New Jersey's first foreign trade zone. Under his direction the state applied to the Foreign Trade Zone Board at the Commerce Department in Washington for the trade zone designation, and it is now putting in access roads and other costly infrastructure.

The blueprints for the Lakeland Industrial Park complex call for an "office park," a major hotel site, retail and restaurant malls, and the largest foreign trade zone in the U.S.

The benefits of operating in a foreign trade zone are tremendous, according to Cushman & Wakefield's Mr. Maroon. The tenants of a zone—foreign or U.S. multinational corporations—pay no customs duties on their goods as long as they remain within the zone. "The cash flow savings can be enormous—in the range of hundreds of thousands of dollars," Maroon explained. "The companies get the full use of the money which would have been paid out in U.S. customs duties."

If the goods, once assembled by American labor, are exported to countries outside the U.S., the company never pays any duties. If the assembled merchandise is sold in the U.S. domestic market, the tariff rate is cut in half.

According to Ty Maroon, legislation permitting the creation of foreign trade zones within the continental U.S. has been on the books since 1934, but until recently it didn't make sense to locate in a foreign trade zone. Now it does for two main reasons: the relative cost of American labor has dropped greatly in real terms, and U.S. customs authorities now accept computerized inventory control to determine customs duties—imported goods are not inspected piece by piece.

Cushman & Wakefield is currently in negotiations with over 20 firms for space in the New Jersey zone, 60-70 percent of which are foreign based. The prospective tenants are mainly labor-intensive assembly plants in electronics and other fields—the sort of industry for which Hong Kong is infamous.

New York City's South Bronx may be the next stop on Cushman & Wakefield's new itinerary. State Senator Manfred Ohrenstein of the Bronx, who has a plan to situate a foreign trade zone in the devastated Hunts Point section of the South Bronx, hopes to engage Cushman & Wakefield to set up that trade zone, too. According to an aide to Ohrenstein, one of the main attractions of this site is "the large pool of unskilled labor waiting to be tapped." The real estate firm says that it has entered preliminary negotiations with Ohrenstein's South Bronx task-force, and is interested, but commitments have not been made as yet.

—*Lydia Schulman*