Agriculture by Cynthia Parsons

A statistical hoax

The U.S. Agriculture Department has braked the decline in farm income—on paper. The real situation is devastating.

For the past two months or so, the Reagan administration has been saying that the only way to turn around the farm crisis is to increase farm income. The data released July 21 by the Agriculture Department go a long way towards doing just that. When all previous data back to 1978 are revised, it appears that farm income has not taken the precipitous collapse from 1979 to 1980 which was confirmed by the old figures.

I do not take issue with the fact that USDA withheld these figures for six months, nor that they chose an election years to revise the data to reflect the 1978 census. I do, however, take issue with the method used for these revisions.

The USDA calculated their new figures by the same unscientific means as GNP, which counts as income recipts from bingo halls and brothels. The department now dubs "income" all unsold inventory such as grain sitting in reserves.

These reserves are overflowing because exports are declining, and farmers prefer to pay to hold their grain in storage until prices rise rather than lose money.

According to the revised figures, net farm income for 1981 was down to $25.1 billion from a high-point of 1979 at $32.4 billion, a decline of 22 percent. Many USDA and private economists' own calculations had set the 1981 income between $23 billion and $16 billion, a total I think is more realistic.

Let's say that income was $19.9 billion; the decline from the unrevised 1979 high of $32.7 billion income would be almost 40 percent. It is probably safe to say that between 1979 and 1981 farm income dropped by that magnitude. Even with the new methods, the slide from 1978 to 1981, measured in constant dollars, is 30 percent.

A March 1982 Federal Reserve report on farm income claimed that contrary to all scare stories, farmers were very prosperous. The picture was distorted because the number of famers had decreased greatly since the Depression years, said the Fed.

Prepared for an uproar from farmers who, the USDA believed, would ridicule these new methods, calculations have been provided showing a net cash income, i.e., excluding inventories. Though the revised figures change the picture slightly, the 1981 income was $31.5 billion, down from $35.8 billion in 1980, or a mere 12 percent decline.

Then there is the debt question, which the USDA's focus on income omits to address.

Debt payments, in the words of an agricultural economist from Oklahoma State University, "for some farmers is taking almost every penny they have just to pay on their loans, leaving little to live on." Total farm debt rose 11.5 percent during 1981, the fastest rate since the Great Depression, to $200 billion. During the past decade, total debt rose 400 percent. Interest on that debt rose 24 percent in 1981.

Thus the amount of debt rose three times as much as income. The Oklahoma State economist has calculated that, in 1950, for each $1 of debt there was 70 cents of net farm income for consumption, expenditures, capital investment, or debt support. In 1980 there was only 7 cents left to spend.

The debt burden is currently becoming unbearable because of the fall in prices paid to farmers relative to the cost of production. Farmers get $3.42 per bushel of wheat; it costs them $7.30 to produce. Rice brings $8.21 cwt, yet costs $21.20 to produce. Soybeans and sorghum are paying 50 percent below the cost of production.

For the past five years, farmers have been borrowing money on the value of their equity, mainly land, which has skyrocketed because of speculation in most parts of the country. That speculative bubble is being deflated. Land values dropped 4.4 percent in the first quarter of this year. Lending institutions are beginning to demand stricter conditions for such loans.

"You have a sitution," explained an economist at the USDA, "where current income is cut off from cash receipts, and loan income is also cut off. It is not that there is no money out there, but that borrowers aren't qualifying. . . ."

This overall situation of "non-qualifying" farmers is exactly what the Federal Reserve predicted to me back in April—that some 10-15 percent of farmers will go out of business by the end of the year. The exit is planned to be very selective, so that the banks do not get into a 1930s situation of wild defaults, foreclosures, panic, and failures.