U.S. farmers' debt: how will it be paid?

by Cynthia Parsons

U.S. Agriculture Secretary John Block, it was reported on ABC-TV's Good Morning America show Jan. 17, has made explicit what most farmers had already come to fear: that the Reagan administration "strongly opposes a blanket moratorium" on farmers' $25 billion debt owed to the federal government. But America's farmers, carrying well over $200 billion of total farm debt will not be able to refinance that amount in fiscal year 1984. This is bad news for all Americans, and puts the already endangered U.S. food supply in even more serious jeopardy.

Both the Federal Reserve and the Department of Agriculture are putting the blame for the huge debt buildup on "bad management" by farmers. (This is similar to the line peddled about Third World nations.) Neither the Fed, nor the administration nor Congress is being honest about the origin of the debt, nor are they able to explain just who will pick up the tab. Given that Block has flatly stated the administration's opposition to a reorganization of the debt through moratoria, and is even hinting that a freeze on target prices is in the works, since this will save the government $2 billion, let us look closely at another option, further extensions of credit.

Farm income is falling for the second successive year; it was $19 billion in 1981 and will be lower for 1982. Farm prices are also falling, with no end in sight. It appears safe to say that 1983 will not improve farm income.

It would be reasonable to assume that the farm sector as a whole needs approximately $25-30 billion of new credit for 1983, just to make it through the year. In 1979, the year of the drought, farm debt increased $24.5 billion. Taking into account a decline in inflation and possibly reduced production expenses, a $25-30 billion figure makes sense.

Farmers borrow essentially from five major sources—two government and three commercial—for both real estate and non-real estate loans.

The largest debt load is carried by the Cooperative Farm Credit System (FCS), composed of the Federal Land Banks (FLBs), the Farm Credit Administration and the Bank for Cooperatives. In total, the Farm Credit System is carrying $81.5 billion of outstanding debt. During 1982 the FCS reported that its growth rate in new loans was very slow and in December announced that its renewal rate for FCA debt had reached 32.8 percent of the total loans made in the eight months prior to September 1982, compared to 29.3 percent in 1981.

The FLBs have had to turn to refinancing short-term debt to meet demand, now at 16.7 percent of volume. The FLBs report that producers have been reducing their payments by converting short-term debt to mortgages, or by liquidating portions of their assets to reduce debt load.

In short, high interest rates bit into the banks' loan operation, slowing down business and holding down savings. How much more debt can these institutions afford to roll over without going out of business themselves?

There are about 14,000 agricultural commercial banks holding about $45.5 billion in farm debt. This debt has increased by over $4 billion in 1982, doubled the rate of increase from 1980 to 1981. In 1981-82, banks reported that repayment rates were at the lowest level ever and that banks had discontinued a larger share of borrowers than during the previous year. Loan demand was very weak, especially to finance machinery, equipment, and real estate investment. While new loans declined, refinancing in 1982 increased by 26 percent, loan delinquencies doubled, and losses increased 40 percent. The commercial banks are fully aware that they have almost as big a credit crunch as the farmer. "There are no hard and fast answers," said an American Bankers Association spokesman.

Life insurance companies carry over $12 billion of debt, mostly mortgages, which have decreased drastically since 1980. If interest rates continue high, and land values fall, farmers, as a group already behind in their mortgage payments, will not be likely to obtain new ones.

The Farmers Home Administration is the major government lending institution, primarily to those who cannot obtain funds from other institutions. It lends to 270,209 farmers and is holding $26 billion in outstanding debt. FmHA debt has doubled since 1979; it is now 11 percent of all farm debt. During the same period, the period of the Volcker interest rate explosion, FmHA picked up most of the debt in the form of disaster loans and production loans. As FmHA "emergency" debt ballooned, government budget cuts curtailed many of its programs for farm development or purchases. Still FmHA could not satisfy loan demand. So FmHA was told to unload as many customers as possible onto the commercial banks. In 1981, FmHA lent at limit to 6,000 borrowers; in 1982, it lent to 30,000 borrowers in cooperation with the commercial banks. This is why they were able to maintain 97 percent of their borrowers during the year.

Although the government has been slowly extracting itself from financing agriculture, it increased FmHA's budget for 1983 to $4.5 billion from $4.1 billion. In 1981 FmHA total debt expenditure was $8 billion, $5 billion going into disaster emergency loans. This special category of loan has an open-end limit on total spending but has now been "tightened up," and a ceiling of $500,000 per farmer is in effect.

Since 1980, the government has been the lender of last resort for farm debt, but it is clear that farmers will experience a worsening credit squeeze that can only accelerate the already crisis-magnitude rate of bankruptcies, foreclosures, and farmers driven out of production and off the land.

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