Farm policy and the debt crisis

U.S. government subsidies, paid for cutting production, are going to pay debt, not rebuild U.S. agriculture.

Administration attempts at "cost-cutting" are backfiring as the costs of spiraling debt overwhelms the U.S. farm sector. The American Bankers' Association reports that $16 billion in short-term credit is necessary to prevent mass farm bankruptcies in the second half of 1983.

Total debt of American farmers is now $215 billion, a near doubling since 1979. Interest payments now cost farmers $23 billion a year, or 16 percent of their total annual production outlays.

Under these conditions, the Payment in Kind program (PIK), set up to reduce "surplus" production that was supposedly holding down farm prices and to cut the costs of government price support programs, is becoming instead a very expensive and absurd way for the government to subsidize farm debt. Farmers participating in PIK receive government-owned grain to sell, in exchange for *not* planting some of their own land.

Giving farmers surplus grain was supposed to cost less than price supports and grain storage payments, which amounted to about $6 billion in 1982. But PIK is reported to be already costing about $7 billion—primarily because the government does not own enough grain to award to participating farmers, and has to come up with new supplies.

With expenditures for other programs at an estimated $8 billion in 1983, total costs for government agriculture programs will be $15 billion this year. Costs in 1979 were $2 billion.

In addition, partly because farmers took their least fertile acres out of production, PIK will not cut production anywhere near intended levels, and therefore will not reduce production costs or farmers' need for credit.

Because PIK is so expensive, the program will speed up the dismantling of the remnants of existing farm price-support, distribution, and income programs which have contributed to making American agriculture the most productive per farmer in the world.

The primary source stores for PIK is *bankrupt farmers*. Many are simply defaulting on loans from the Commodity Credit Corporation (CCC), for which their stored grain was collateral, and turning the grain over to the government.

Farmers are walking out on about $2 billion of debt in this process, because they cannot meet loan repayments, and losing title to grain worth twice that amount.

The crisis atmosphere is being fed by rumors that grain bought from abroad will be used for PIK payments. The United States normally imports grain of certain types and qualities not produced domestically, but farmers facing bankruptcy and chaos in the markets are vulnerable to the same kind of manipulation that has come to be called "Jap-bashing" in the auto and steel industries.

The greatest failure of the administration programs is not their cost, however.

Farmers' primary expense is now debt service, not maintaining production. As a USDA spokesman stated in late May, by selling their PIK grain, "farmers will be able to retire high-interest debt, reduce short-term credit, and consequently reduce interest expenses." PIK, by subsidizing farmers' debt while destroying productive capacity, could well become agriculture's equivalent of the New York welfare system, which supports the vast New York real-estate bubble by issuing, as part of the welfare payment, a separate rent check directly to the landlord, no matter what other costs the recipient might have.

Yet government policy is also doing little to please the banks. Such methods of bringing "supply and demand into balance" clearly do not work. Charles Reimenschneider, the senior agriculture economist at Chemical Bank, has said that the "various payments, loans, and other subsidies" will cost the government $40-$50 billion—more than double the amount provided in real terms during any year in the 1970s. Such spending, he added, is not altering the production levels, which continue to outpace domestic consumption and foreign demand.

Banks are responding by cutting credit. Most lending institutions are already saying that they are looking at cash flow, and not collateral, in making loan judgments.

After 1982, the worst financial year for farmers since the Depression, about 24 percent of the 268,000 borrowers from the federal government's lending institution, the Farmers Home Administration, are delinquent. The FHA has recently been calling loans in early, forcing farmers to renew at a penalty interest rate.