Food crisis: Congress punts and administration flounders

by George Elder

"A depression is led by farmers and fed by farmers," was the comment made several times at a special hearing Jan. 30 called by Sen. John Melcher of Montana. Although the hearing was technically "unofficial," the chamber was packed, and media roamed the halls. Farmers came from all over the country, and the story they told was one of disaster, to legislators that included Sens. Exon (D-Nebr.), Grassley (D-Iowa), Hart (D-Colo.), Sasser (D-Tenn.), Andrews (R-N.D.), and others.

Testimony was coordinated to show the urgency of the farm crisis in terms of the banking and credit collapse. The hearing came at the culmination of a two-week period of personal trips to Washington by farm-state governors and bankers, and of calls to the White House from congressmen for emergency action. Even little-known "friends of the farmer" like TV has-been Phil Donahue and Sen. Ted Kennedy, another has-been, got in on the act.

The problem is, no senator, and no one else, had either the knowledge—or, perhaps, the courage—to attack the causes of the problem: the International Monetary Fund's decimation of the world economy, including that of the United States with the unofficial economic dictatorship it has exercised through Paul Volcker's Federal Reserve; and the food-cartel giants like Cargill, who are now in process of swallowing up the bankrupt agricultural sector on the way to a vertically integrated system of food production and distribution administered as a matter of "supply management"—i.e., manipulated shortages.

The fact is, the farmer's plight is not a technical question of economics or production. It is the outcome of deliberate policies at the government and business level designed to destroy the American family farmer. Dump those policies, and politically destroy those responsible for this predation, or you are doing nothing about the farmer's plight.

In fact, the senators and congressmen present called the hearing for the evident reason of, not devising necessary emergency legislation, but deflecting all responsibility from themselves. "You farmers shouldn't have voted for Reagan," was a lame theme throughout.

Under the pressure, the administration came out the same week with a tentative plan for a banking aid program: the "interest rate buy-down," whereby the government will subsidize farmers debt service to permit planting in the spring.

In short, the hearings and the administration's response made clear that no one knows what to do, or otherwise has the guts to do it. In the face of catastrophe, they blame each other, and allow the root causes of the problem to remain.

Senator Melcher scolded the farmers by saying, "You voted for Reagan. Why?" The farmers countered with more horror stories about the collapse, but never mentioned the cartels or the International Monetary Fund. The new administration measures offered are like IMF "bridge loans" to help the farm sector—representing $215 billion in debt—get through the next three-month planting season. But beyond that, nothing.

In fact, the cartel mythology, that "overproduction" (in a starving world!) is the cause of the farmers' plight, was pervasive throughout the hearing.

The Farm Credit Association economist, Mr. Wensel, used the IMF terminology outright to present his proposal that the United States implement a "bridging loan like that used by the IMF, if in fact, the current problem was nothing more than a blip. However, the policy solution to too many farmers producing too much food on too much land would require that we must look for the most orderly way to encourage farmers to leave the land."

Horror stories

Testimony from the farmers brought forward the fact that as the economic system is now disintegrating, the number of farm bankruptcies has escalated and reached a catastrophic level. For example, Iowa lost at least 10% of their farmers in 1984, more than the 7.8% lost during the entire Great Depression.

There were horror stories presented from every part of the country, including one situation of a farm soon to be lost that was in the same family since the original grant from the king of England. In another case, a 26-year-old American farmer is going bankrupt who had been designated among the best of the Future Farmers of America.

The situation in Iowa last year pales in comparison to the total of 40% of the remaining farmers expected to go under this year in both Iowa and Nebraska, as revealed in a recent survey by the *Farm Journal*, according to testimony at the hearings.

Testimony on the farm collapse was presented by the National Farmers Organization, the National Farmers Union, the American Agriculture Movement, and many others, including farm state bankers and churchmen. The farmers reported individual case stories and reported on the farmland-value collapse of 25%.

The testimony brought out the fact that the farm debt crisis would not only bankrupt the small farm banks, but also the giant commercial banks like Bank of America. A representative from this bank came to ask for help with farm loans.

The ostensible causes for these problems were said to be low commodity prices—cartel-manipulated, but this was not mentioned—and high interest rates—correct.

The solution that came forward was unfortunate. The farmers and lenders present asked for government help for emergency credit to enable farmers to put a crop in the ground in the spring. Although the subject of farm prices was considered, and the concept of parity was mentioned several times, no solution was offered.

No one addressed the necessity of a moratorium on foreclosures, although the testimony clearly warranted such a policy. Not one person mentioned the role of the international food cartels, and the International Monetary Fund in this situation. People fixated on exports only. And worse, Mr. Frazier, the head of the National Farmers Organization, was another promulgator of the myth of "overproduction," and talked of the need for "supply management." (If he's not on the Cargill payroll, he's getting gypped.)

The president of the Independent Bankers Association, A. J. King, reported that "hundreds of banks that are heavily committed to agriculture across the farm belt have very little remaining capacity to absorb losses from bad farm loans, without impairing their minimum capital. The escalating rate of farm bank failures during the last six months bears out that fact. There were 79 bank failures in 1984, forty of which occurred since June 15, 1984. Four of the 39 which failed prior to June 15 were agricultural banks; 22 of the 40 since June 15 were agricultural banks."

But he also called for mandatory production controls to "scale back agricultural production consistent with demand."

The farm collapse and the IMF

No one addressed the fact that, while U.S. farms go bankrupt, there is starvation in the Third World—with Africa only a foretaste of coming IMF-induced famine—while the cartels temporarily keep U.S. supermarkets stocked with food not produced in the United States, but frequently exported from the very Third World countries starving as a result of IMF conditionalities on loans.

What the farmers did not know, and what the senators were too stupid or unwilling to tell them, is that their experience here at home is the result of the deliberate policies of the International Monetary Fund. It is IMF policy to order Third World nations to ship the very food that should be on their own tables instead to the United States. This includes everything from beef, fruits and vegetables, and orange juice to wheat. The IMF is forcing the developing nations to grow and sell these commodities through the cartel channels at slave-labor level prices. The cartels then import the food into the United States—at a 35% bonus because of the overvalued dollar—and put the food in our supermarkets to temporarily

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maintain the illusion of plenty, while our own farmers are dispossessed. This process is so extreme, that Brazil is even exporting yams to New York City to gain foreign-exchange to pay its foreign debt.

The answer to this problem lies in breaking the grip of the IMF throughout the world, and removing the cartel control over food flows. This perspective is being presented around the country by farmers and others associated with the Schiller Institute's drive for an international summit meeting to scrap the IMF, and for interim domestic emergency measures to preserve farms, maintain the rural credit system, and to rapidly expand output and dismantle the market control of the food-cartel trusts. This is the basis for mobilizing the capabilities to aid Africa with emergency food and the inputs for productive infrastructure projects.

Emergency state actions

Emergency resolutions containing the Schiller Institute program are circulating in many states. To date, however, lesser measures, or outright anti-production, IMF-style emergency actions are being enacted:

- North Dakota: Incoming Governor Sinner held a press conference Jan. 29 announcing what he called a "complex proposal" based on the last depression. The Republican leadership of the state legislature will suspend the rules in order to allow the introduction of farm legislation calling for: 1) regional boards to review the credit situation of farmers; 2) state-insured loans and spot debt moratoria; and 3) the state to authorize $3.8 million of general fund credit for farm-loan insurance guaranteed by the state.

- Minnesota: The state senate passed a 120-day farm debt moratorium, called by area farmers the "one last planting" act, under which the first 60 days of farmers' debt payments are to be paid by the state to the banks, and the next 60 days of interest will be added to the principal owed.
- Iowa: The state senate passed a resolution declaring the state an economic emergency area, and calling on the governor to implement emergency measures, including a debt moratorium. Gov. Terry Branstad has stalled by forming a panel of experts who will report back March 1. Meantime, he trekked to Washington, D.C. to lobby for federal emergency action.

The new federal aid plan

According to press reports, the new administration aid plan is to, first, establish "forbearance" in federal bank regulation. This is supposed to allow leeway to bankers to continue credit to farmers whose land collateral has fallen in value, for example. Second, banks are to be allowed to reduce part of the interest on a farmer's loan, under the ongoing debt-assistance program announced by the administration last fall, that covered only the loan principal. Third, measures are to be taken to expedite the paperwork for credit for spring planting. This plan has been called an "interest rate buy-down," referring to federal intervention to reduce the farmer's interest load, by covering the cost from the federal budget.

According to one administration spokesman interviewed by the *Chicago Tribune,* "We've got to do something, but we don't know what it is. . . . We're floating in limbo."

It has been widely noted that President Reagan has reservations about this assistance plan. However, it is understood that his Cabinet Council on Economic Affairs, with whom he met this week, and others have offered no other solutions. Several Republican senators have asked for the formation of a presidential commission. In the present police framework, that could turn out to be merely another opportunity for the cartels and the International Monetary Fund to control the direction of U.S. farm policy.

Whatever Reagan's reservations, the new agriculture aid plan will be used—like all other budget items—as a battering ram against the defense budget. Among the leaders of this group in agriculture is the American Farm Bureau, an organization that sells farmers insurance and supposedly represents their interest. Last year the Farm Bureau head office lobbied heavily for the $8.6 billion federal bail out of the International Monetary Fund—the farmers' worst enemy. This year the Farm Bureau is behind the "Balanced Budget Brigade"—handing out a million cards at farm fairs and in Washington calling for reducing the deficit by cutting defense and agriculture expenditures.

Documentation

Farm banks on the brink of disaster

Excerpts from the statement of A. J. King, president of the Independent Bankers Association of America, to the "Public Hearings on Farm Credit Problems," convened by Sen. John Melcher on Jan. 30, 1985.

. . .The time for effective action is slipping away.

To spend the minimal time on the problem itself, I am going to direct my comments to the bottom line of the agricultural banks, which make up roughly one-third of the IBAA's total membership of about 7,900 banks.

There are over 4,100 U.S. banks which have at least 25% of their total loan portfolio committed to farm and ranch loans. About 3,800 of the agricultural banks (92% of the total) are located in 17 states—including Montana, incidentally, with 75 agricultural banks. About 1,700 of these agricultural banks have over 50% of their loans to farmers and ranchers. And this does not include assets invested in agri-business loans, Farm Credit System bonds, and other investments directly related to production agriculture.

Commercial banks are required by regulation to maintain minimum available capital equal to 5.5% of their deposits. Agricultural banks on average now have available capital in the vicinity of 8% of deposits, and an average loan-to-deposit ratio of 61%.

As these figures indicate, hundreds of banks that are heavily committed to agriculture across the farm belt have very little remaining capacity to absorb losses from bad farm loans, without impairing their minimum capital. The escalating rate of farm bank failures during the last six months bears out that fact. There were 79 bank failures in 1984, forty of which occurred since June 15, 1984. Four of the 39 which failed prior to June 15 were agricultural banks; 22 of the 40 since June 15 were agricultural banks.