Click here for Full Issue of EIR Volume 13, Number 6, February 7, 1986

 by Marcia Merry

100,000 farms to fail in 1986?

Latest figures show that the 1986 farm debt blow-out will dwarf that of any Third World nation.

In mid-January, government spokesmen announced that their fall 1985 analysis of the degree of insolvency of the Farm Credit System (FCS) was an underestimate. The Government Accounting Office is preparing a report, for release soon, that is purported to show that the FCS third-quarter figures present a far more extensive farm debt crisis than originally reported. Over 220,000 farms are delinquent in payments to some part of the FCS—the Federal Land Banks or the Production Credit Associations.

The FCS accounts for about $74 billion of the national farm debt, or about one-third of the total $210 billion. In September, the FCS asked for a federal bail-out of $5 to $6 billion, and in December received an "assistance" package of a federally created farm liquidation authority—the FCS-Capital Corp.—and the promise of some Treasury money.

At the same time, the Farmers Home Administration (FmHA), which holds about $24 billion of the total national farm debt, is engaged in court litigation from January through March with the courts, and fighting with Congress and the public, in order to proceed on delinquent farm debt. An estimated 80,000 farmers are delinquent in some degree to the FmHA.

Outside the FCS and FmHA, commercial banks hold about $48 billion of the U.S. farm debt. Last year, of the 124 U.S. bank failures, 55 were farm banks, and the 1986 farm bank failures have already begun, with two bank failures in Utah in January. Part of a "deal" with the White House last fall, was that the FCS would get its "assistance" package by January 1986, and then the commercial banks would get some assistance legislation in spring 1986.

The figures involved in a potential 1986 farm debt blow-out make the question of Third World debt minor by comparison:

FCS: 160,000 farms in crisis; 30,000 farms could close in 1986.

FmHA: 69,000 farms in crisis; 30,000 farms could close in 1986.

Commercial banks: 60,000 farms in crisis; 25,000 could close in 1986.

Insurance companies and other debt holders: 50,000 farms in crisis; 25,000 farms could close.

These figures show that a possible 150,000 farms could go under in 1986. Since 1979, 400,000 farms have been lost—including over 175,000 in the category of the middle-sized, independent family farm operation, that had accounted for the incomparable productivity of the U.S. farm sector. As of 1980, there were only about 600,000 farms in this category out of a total 2,500,000 farms in the United States (counting anything as a farm that sells over $1,000 a year).

For every dollar of farm debt that goes under, the ripple effect in terms of shutdown of farm community services and businesses is multiplied many times over. The total farm debt blow-out could amount to $30 billion, if one figures each farm debt value at about $200,000, and 150,000 farms go under. The multiplied effect of this easily reaches $100 billion—dwarfing the debt of any Third World nation.

Various maneuvers are under way to postpone the debt collapse. Beginning Feb. 10, the FmHA is sending letters to 65,000 farmers notifying them of their "rights" to pursue one of seven "options" on their loan delinquencies. The options include: rescheduling, deferring payments for five years; reducing interest rates on loans; or selling off assets. There is no guarantee of FmHA agreement to any of these options in the case of the individual farmers. An estimated 14,000 of these farmers have been delinquent for more than five years.

By mid-February, the FmHA is suposed to publish guidelines for FmHA-coordinated interest reduction, or government interest "buy-down." This refers to a proposal to subsidize farm interest payments, provided the farmer can get his banker or FCS agency to make a matching subsidy—an unlikely contingency under the current general collapse process. In addition, under the Gramm-Rudman measures, the FmHA's own funding is to be cut back.

When called before the Senate Appropriations Subcommittee on Jan. 24, Vance Clark, the FmHA administrator, said, "There is no way we can guarantee the success of every farmer who appears at our door in 1986."

U.S. Department of Agriculture Undersecretary Frank Naylor also defended the FmHA's right to get tough, in terms of the budget cutting mania shown by the Congress itself, by pointing out that the Congress's GAO has criticized the FmHA for its leniency to farmers. Naylor said, "This administration has more than demonstrated its concern for the American farmers through the Farmers Home Administration."

© 1986 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.