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AGRICULTURAL CONDITIONS AND THE RURAL ECONOMY

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

NINETY-NINTH CONGRESS

FIRST SESSION

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JOINT ECONOMIC COMMITTEE

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AGRICULTURAL CONDITIONS AND THE RURAL ECONOMY

MONDAY, FEBRUARY 25, 1985

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to notice, at 10 a.m., in room G-50, Dirksen Senate Office Building, Hon. David R. Obey (chairman of the committee) presiding.

Present: Representative Obey and Senator Abdnor.

Also present: Robert J. Tosterud, deputy director; and Dale Jahr, professional staff member.

OPENING STATEMENT OF REPRESENTATIVE OBEY, CHAIRMAN

Representative OBEY. This morning the Joint Economic Committee is conducting a special hearing on the economic conditions in rural America and the effects of the current credit crunch of farmers, small agribusinesses, and small town banks around the country.

In the past few weeks we have had a number of witnesses appear before this committee who have commented on the farm situation, including Agriculture Secretary John Block, Federal Reserve Board Chairman Paul Volcker, and Special Trade Representative Bill Brock. Their views reflect the position of the administration or the perspective of Washington, DC.

Today we are pleased to have with us a group of elected State representatives who are concerned about the impact of the farm crisis on the people and the economy of the agricultural rural areas of America that they represent.

This week a number of committees with legislative jurisdiction will be holding hearings and meetings on the farm situation. The Joint Economic Committee, it should be clear, has no legislative jurisdiction. Its purpose is to gather information about the range and the nature of economic conditions related to the farm and credit crisis in rural America, so that information can give Congress, as a legislative institution, a better ability to shape policy to economic and social reality.

In my view, the purpose of Government is not to insulate farmers from economic change any more than it is to insulate auto workers or steel company executives from economic change or legitimate competition. But Government policies have contributed to the economic problems which are now putting many parts of rural America through an economic and social wringer.

For the Government to merely promise that expanded farm exports will solve the problems facing American farmers would be a cruel hoax and an economic delusion, in my judgment. The single-minded quest for magic markets abroad for our farm commodities is one of the things that got agriculture into the current fix in the first place. Those policies were one dimensional and short sighted. As the lead editorial in yesterday's Washington Post said:

> The Government's first responsibility in agriculture is to maintain efficient and reliable production of the country's food supply at prices that do not jump wildly and disruptively from one season to the next.

This hearing is not designed to fashion new farm policies, at least not in this committee. Its purpose is to provide an opportunity for elected State representatives to give the Congress accurate information about the nature and the scope of the problems in the countryside which can be taken into consideration when the House and Senate debate national farm policy.

I think I understand the concerns that will be expressed by many of the State legislators today. I myself represent a district which has a good number of farms, small towns, and rural communities. Although the farms are mostly small dairy operations, they are certainly affected by the other agricultural sectors of the economy and they share many of the same problems.

Over the past several months I have visited with a good many farmers and small town bankers and mayors in my district. Many of them are not in very good shape at all.

In trying to deal with this issue, government is caught in a crossfire between two fundamental concerns. The first concern is about the cost to taxpayers of the various agricultural programs. They have obviously skyrocketed. A careful look at the budget numbers show that during the early seventies the annual cost of the farm price supports and crop control programs averaged about $3 billion a year. Those costs rose to about $4 billion annually in the late seventies. In the past 4 years they have been as high as $19 billion in a single year, and averaged over $10 billion per year. Obviously, those costs have to come down.

At the same time, there is a concern about the impact that a rapid decline in commodity prices and land values along with a prolonged period of high real interest rates and an overvalued dollar have had on the ability of farmers, including some of the best farmers in this country, to survive.

I fully understand those concerns. One of the reasons we are holding this hearing today is because vice chairman, Abdnor and the other members of this committee also share those concerns.

We look forward to hearing the testimony of the representatives before us this morning.

Before I begin, I would ask the vice chairman, Senator Abdnor, if he has any comments he would choose to make.

OPENING STATEMENT OF SENATOR ABDNOR, VICE CHAIRMAN

Senator Abdnor. Thank you, Representative Obey, and I too want to welcome our witnesses to Washington. If I can get parochial, I want to give a special welcome to Don Ham, the speaker of the house from South Dakota, and the other representatives accompanying him.

By this evening we are going to have 105 members in this town from the South Dakota Legislature which is all of our legislators. Along with our Governor they are coming out here to tell their story. So I certainly do welcome the fact that you are all here, along with my group from South Dakota, because we do have this story to tell.

I am looking forward to listening to your perspective on agriculture and your rural economic conditions in your home States. This is not new before this Joint Economic Committee. We have a subcommittee that was started a number of years ago which I chair called Agriculture and Transportation. I had over 200 witnesses and 3,000 pages of testimony from just about everyone we could think of who is related in some way or other to the agricultural economy. So we do have a great concern.

It is not any secret that farmers and ranchers in your States and mine are under the most severe financial stress since the 1930's. Consecutive years of low commodity prices, high interest rates, and declining land values have left farmers without a profit and without much equity.

But this financial erosion doesn't stop at the farm gate. The main street merchants in our small towns, our schools, hospitals, and States are all feeling pain as well. Unless this situation is reversed, I believe that the economies of whole States and that of our Nation could be in jeopardy.

But you and I both know the problems. You are here today to demonstrate to the rest of Congress the severity of the farm economy. You are here to make your point by demonstrating and dramatizing the desperate conditions facing many honest, hard-working farmers and ranchers. I for one welcome your presence and input because I believe that we need all the help we can get in order to make Washington listen, understand, and act.

Now let me say one thing. In order to act in a responsible manner—and I think that's the key word—Congress must hear a single, well-spoken message from the farm belt. It just isn't enough to yell that farmers need lower interest rates and higher prices. Rather, I hope that you have a plan on how we can achieve these goals, on how we can bring agriculture and rural America back. We cannot settle for anything less. We have to come up with a program.

But let me say this, from my own observations after being home for 10 or 11 days, I have never seen more attention focused on agriculture and rural America than I have in the past few weeks and it seems to be growing each day and we need that. We need to make the 97 percent of the people who buy the food that we produce understand that we are having severe economic problems, that we are not enjoying the economic recovery that other segments of the economy are enjoying. It's a true statement that we are having a strong economic growth, but we do not know it in rural America. It includes our merchants and everybody else involved in the business coming from that area as well as farmers.

So we have to be responsible. We cannot come in here and say we want the impossible and think we'll start high and come down.

We have to present programs that are reasonable. I have been listening to the Governors on the television the last few days and they are all calling for reductions in spending. They think they are helping the farmers as well as the country as a whole, and I think that's the message. So we have to understand that as we look at this problem that we are not going to be able to go out there and make great demands of large sums of dollars because that's just part of the problem.

So hopefully we recognize the problem and we can sit down and come up with some workable and feasible plan so people in Congress—Representative Obey and myself—can really sell something to our colleagues. That's why we welcome people like you here. You understand that problem. You have to deal with taxpayer's dollars and the economy and what's good for the people, it gets you a lot of votes but you do have to be responsible.

So with that, I too welcome you here and I am anxiously waiting to hear from you.

Thank you, Mr. Chairman.

Representative OBEY. Thank you, Senator. Let me just add that I agree that we need to hear a consistent message. I also ask those who are testifying today to keep in mind again that there are other committees in Congress in both the Senate and the House which will be dealing with specific legislative actions to deal with the problem. I think the best role that this committee can play is to try to fill in the gaps in knowledge which the Congress has in terms of actual facts.

We have had a number of witnesses up here. What disturbs me is how little in some areas the Government actually knows about the specific nature of the problem, and the range of the problem, and exactly who's affected by what. Unless we have those facts, it's going to be difficult to do anything except legislate by title around here.

With that, let me ask you to begin. I will take the Chair's prerogative and ask that we start first with State Senator Rod Moen from my own State of Wisconsin, who I've known for a good many years. He has with him, although he will not testify, State Representative John Robinson from the district which I used to represent before I came here on April Fool's Day of 1969. Mr. Moen, why don't you begin. I will, incidentally, ask all the witnesses to please hold their comments to 5 minutes or somebody is going to get shut out at the end because I'm going to keep strict time on the testimony. Rod, why don't you go ahead.

STATEMENT OF HON. RODNEY C. MOEN, WISCONSIN STATE SENATOR, ACCOMPANIED BY HON. JOHN ROBINSON, WISCONSIN STATE REPRESENTATIVE

Mr. MOEN. Thank you, Mr. Chairman. My name is Rod Moen, and I'm from Whitehall and I represent the 31st Senate District in the Wisconsin Senate and I am the Chair of the Wisconsin Senate Agriculture, Health, and Human Services Committee.

I sincerely want to thank you, Mr. Chairman, and the committee for the opportunity to address this committee. The 31st Senate District which I do represent includes all four counties and parts of three others in west central Wisconsin. It is a rural district with its economic roots firmly embedded in our soil.

Like much of the rest of rural Wisconsin, the primary agricultural enterprise is dairy. Agriculture is big business in the Midwest and Wisconsin is no exception. Wisconsin's 90,000 farms market $5 billion in farm products each year with dairy marketing representing about 58 percent of that total.

Now many consenting adults in America's dairyland have financial problems. For some, the problem is immediate. Many others view their future in agriculture with apprehension. Wisconsin farmers, like farmers in many other States, are beset by high interest rates, declining land values, and low commodity prices.

As an example, in 1981, the value of Wisconsin farms stood at $20.5 billion. Last year it was $17.4 billion. The Wisconsin Department of Agriculture, Trade and Consumer Protection surveyed Wisconsin commercial banks and farmers last year and the results are sobering.

Consider the following, 18 percent of Wisconsin farmers who had real estate loans were delinquent on principal and/or their interest; 25 percent of Wisconsin farms with nonreal estate loans were delinquent on principal and/or interest. Last year, 13,000 out of Wisconsin's 90,000 farmers were denied credit. Only 28 percent of those who were denied credit were able to obtain alternate financing.

Thus, about 9,000 or 1 in 10 of Wisconsin's farmers were unable to obtain new or additional credit during 1984.

Debt-to-asset ratios are also a concern. The average debt-to-asset ratio on Wisconsin's farms is 34.3, ranging from 22.7 in central Wisconsin to 45.1 in southwest Wisconsin. The debt-to-asset ratio has nearly doubled since 1979 when it stood at 17.8. By 1983, it had jumped to 23.6, and leaped another 10.7 points last year. The highest debt-to-asset ratio was among Wisconsin dairy farmers where the 1984 average stood at 36.2 or 20 points higher than other Wisconsin livestock farms and 14 percent higher than Wisconsin grain farms.

I think the numbers are even more alarming when they're addressed by their age group. For example, dairy farmers under 25 years of age had an average debt-to-asset ratio of 51.0. This group of young farmers also had a 40-percent delinquency rate of real estate loans and a loan refusal rate of 33 percent.

In the 25 to 34 age group, the debt-to-asset ratio is 52.8 and in the 35 to 44 age group it is 49.3 and for those 45 to 54 it's 28.4

There are two evident conclusions. Wisconsin dairy farmers are worse off than other Wisconsin farmers and the young dairy farmer in the State is worse off than other farmers.

Undoubtedly, the debt-to-asset ratios, loan delinquencies, declining land values, high interest rates, and low commodity prices were well in mind when the Wisconsin farmers responded to another survey question: "Under current economic conditions, how long do you think you can continue in farming?" Fifty-seven percent thought they could continue until retirement, 7 percent thought they could hang on for another 6 to 10 years, and 25 percent said that they thought they would be out of farming within 5 years, and 11 percent said they didn't think they would last out the year.

Another statistic indicates the difficulty of the times. The average number of foreclosures in Wisconsin for 1976 to 1980 was 1.9 per 1,000 farms. For 1983, foreclosures initiated were 2.8 per 1,000 farms in the Federal Land Bank and the Farmers Home Administration which accounts for one-half of the dollars loaned for farm real estate in the State of Wisconisin.

We have been told that 1 out of 6 American farmers may not get financing for spring planting. In Wisconsin, the situation is also severe. Indications are that 80 percent of farmers applying for a Farmers Home Administration loan will not get financial assistance.

The backlog in the State of Wisconsin on Farmers Home Administration loans is in the neighborhood of 52,000 loan applications.

Much worse news from Wisconsin farmers would be a drop in the price of milk to $11.60 per hundredweight and the continuing high interest rates.

I am not exactly certain what the failure rate would be among Wisconsin dairy farmers, but under those circumstances I'm sure it would be very high.

As Representative Obey well knows, healthy agriculture, healthy dairy in particular, is critical to the economies of rural Wisconsin. We have industry and tourism, but agriculture is the cornerstone of Wisconsin's rural economy.

If we take a look at the lender's side, it's just as gloomy. Bankers have stated that 40 percent of banks had their farm loan portfolios lower than a year ago. Three percent did indicate it was higher. They have refused to refinance 1 out of 8 farm loans and the bankers stated why. They said poor income prospects were the reason 59 percent of the time, insufficient equity 19 percent of the time, and indicated poor management 17 percent of the time; 59 percent of the banks reported that farm loan repayment rates were down and 56 percent discontinued providing operating credit.

Within the Farmers Home Administration, they indicated 23 percent of borrowers were delinquent.

We are doing some certain things at the State level but I realize that my 5 minutes has quickly passed. I had added an addendum to my statement for the committee to review but quite frankly if we lose our farmers, local lending institutions, our feed and seed suppliers, implement dealers, our main street businesses, we are going to lose a very important way of life in rural America.

Thank you, Mr. Chairman.

[The addendum to Mr. Moen's statement, together with an attached article, follows:]

ADDENDUM TO STATEMENT OF HON. RODNEY C. MOEN

Wisconsin's agricultural resources are the state's single most important economic asset. The farm crisis deeply affects all Americans by undercutting employment and depressing economic development.

A Doctrine of Fairness must be part of the 1985 Farm Bill. That Doctrine of Fairness should include the following proposals:

1. Raise prices of agricultural commodities significantly and establish programs to allow farmers to control production to match demand.

2. Institute a one-year, temporary moratorium on foreclosures by all federal lenders. This policy should be enforced until effective price and production programs are in place.

3. Establish a debt-restructuring program to allow farmers to adjust their existing debt to a more realistic repayment level.

   An immediate appropriation is needed to allow a write-down of interest rates, a necessity if massive farm foreclosures are to be averted. This would be a "buying time" measure to enable farmers to get close enough to a positive cash flow so lenders would stay with them for another year.

4. Expand the PL 480 Food for Peace program. It is unconscionable that mountains of needed food are stored in the nation's warehouses while millions are dying of starvation and malnutrition in the world. A foreign policy based upon the positive aspects of food is far superior to a foreign policy based upon weapons of war.

5. Work to freeze the federal budget and reduce the deficit. This show of determination to deal with a fundamental cause of so many economic woes would have a positive impact upon interest rates and would do much to ease farm policies.

6. Provide assistance to the Farmers Home Administration to immediately add temporary employees so the large backlog of farmers requesting loans can be served.

7. Take immediate action to avert further disasterous drops in milk prices, along with support for a long-term bill that will allow dairy farmers to utilize the tools necessary to bring supply in line with demand without wiping out huge numbers of farmers.

8. Extend the dairy diversion program until October 1, 1985.

9. Explore the possibility of establishing a graduated dairy price support program. Such a program would provide 100% parity price support for the first 100,000 pounds of milk, 90% for the next 100,000, 80% for the next 100,000, 70% for the next 100,000 and 60% for the next 100,000 pounds. Beyond this 500,000 pound total there would be no price support. This program would apply to farmer-owned and farmer-operated farms at one base per farmer. This type of dairy program would enhance the family farm, which is the backbone of American agriculture.

10. Change federal laws to remove the incentive for non-resident owners to use agriculture for tax shelters.

In order to ensure a smoothly functioning national economy, we need to resolve the present farm crisis and get the economy back in balance.

I have attached an article which succintly addresses this issue.

ECONOMY

The American economy—for years it was our national pride and joy. Once it served as the powerhouse of the free world, the greatest and most productive assemblage of workers, capital, and managerial expertise in history. We were the best and we had every right to be proud.

But these days pride has been replaced by anxiety. Our once-firm economy looks shaky indeed, and the fear is growing that someday soon it may come tumbling down around our ears.

Inflation has grown from a minor annoyance to a major worry. Each year the dollar loses over 10¢ of its worth in goods and services. This unceasing decline in the value of our money has been sapping the strength of the whole economy.

Housing prices increased about 200% during the 1970's. In 1970 the median price of a house was $23,400. By 1980 it had risen to more than $60,000. But incomes haven't kept pace, and that has pushed more and more Americans out of the housing market. In 1970 a little over 45% of families could afford the median-priced home. By 1980 the figure had fallen below 20%—which means that millions of Americans who grew up assuming that someday they would have their own place will never be able to afford a house.

Energy prices, which have been doubling every five years, are driving up the cost of transportation, of course, and also inflating the costs of manufacturing practically everything we need and use.

Labor costs have increased over 150% since 1965, but output per workhour has gone up only 25%. In short, a given amount of labor produces only a little more than it did but now it costs two-and-a-half times as much.

Interest rates have risen to the highest levels in our history, and they have been fiercely unstable. Many business borrowers have been denied the stable pool of long-term capital needed to finance economic expansion.

Because of inflation and the uncertain future, businesses are unwilling to commit major investments to long-term projects or basic research. As a result, productivity fails to grow, boosting inflation further and eliminating the international competitiveness of American products. Imports are taking over more and more of our markets.

Deficit spending has become a way of life for the federal government. The total deficit now stands near $700 billion.

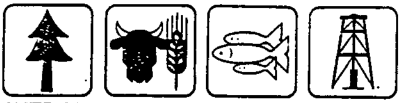
As the crisis has deepened, and as government has been forced to pay closer and closer attention to it, various attempts have been made to halt inflation and put the economy back on track. President Nixon, for example, tried wage-price controls, and more recent administrations have ordered new Federal Reserve lending policies, credit control programs, and changes in the federal budget, among other things. But of all these various approaches one fact holds true: none of them has controlled inflation. If anything, the situation has gotten worse.

There's a reason why these attempted solutions haven't worked: they all miss the point. By and large, the government has taken a band-aid approach to the economy. When something breaks, the government rushes in and tries to patch it back together, then it sits back and waits for the next crisis. But nobody asks the big, important question—What's really going on here?

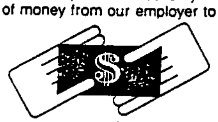
What's really going on is that we are living not on earned income but on borrowed money. This fact, stark and simple as it is, is the true illness afflicting the economy at its very heart. Interest is the price we pay to borrow money, and these days, with interest rates at record levels, we are paying a price we simply can't afford.

So fixing the economy isn't a matter of putting on more band-aids. It's a matter of repairing what's really wrong. To understand that and to see what must be done, we have to take a wholly new look at the economy.

The economy: A fresh look



The problem most of us suffer from in understanding the economy is limited perspective. From where we stand as individuals, the economy means the flow of money into and out of our households. At the end of each week or month we get a check for our labor. We use this money to pay the mortgage, the car loan, the grocery store, the doctor, and all the other goods and services we buy. As a result, our personal economy looks like an exchange of money from our employer to us and then from us to other people. So we naturally come to think of the economy as a matter of money changing hands.



But seeing the economy as money is like missing the forest for the trees. Money is not the end-all and be-all of the economy. In and of itself, money is worthless. It is simply a convenient medium of exchange that makes it easier for us to satisfy our wants and needs. Those wants and needs, in fact, lie closer to the real heart of the economy than money does.

Your most basic daily need, the one you must satisfy to sustain life, is food. No matter how much money you have, you can't eat dollars. You have to exchange your money for food. Money is simply a way of satisfying your needs, from basic ones like food to more sophisticated ones like stimulation of your intellectual capacities or the enjoyment of music.

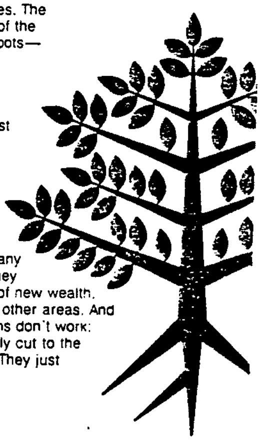
The purpose of the economy is to supply us with the goods and services that meet our wants and needs. This requires the production of a continuous supply of new things each year—houses, cars, phonograph records, medicines, hamburgers, school buildings, surgical equipment, typewriter paper—all the many and varied things we need and use. Making these needed products requires a continuous supply of raw materials: food and fiber, minerals, timber, and oil. Without these materials we cannot have the products we need.

The raw materials grown or extracted each year represent what we call new wealth. Keep those words firmly in mind: **new wealth**. New wealth is the key to the workings of our economy.

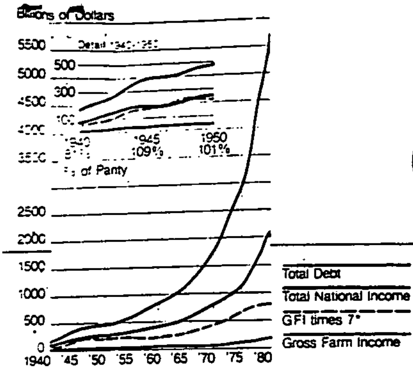
The exchanges of money that make up the economy actually begin with the production of new wealth. Consider what happens when a farmer clears land, plows the ground, and plants a crop of wheat. Where there was nothing, the farmer has created something—the wheat, new wealth. When it comes time to harvest, the farmer hauls the grain to the miller. The miller pays the farmer for the wheat, and the farmer uses the money to pay his workers and his production costs and to support himself and his family. The miller grinds the wheat and sells the flour to a commercial bakery. The miller takes the money he earns from the sale and pays his employees and production costs. The bakery bakes the flour into bread and sells it to a grocery store, which sells it to consumers. Again money changes hands. But the wheat, not the money, is the point of the whole economic process.

This example makes it clear just how important new wealth is to the economy. If the farmer didn't grow his wheat, the miller would have nothing to mill, the bakery would have nothing to bake, and the grocer and the consumer would have no bread. This little part of the economy would die out.

In many ways, our economy is like a tree. The roots take minerals and water from the soil and make a life-giving sap that flows through all parts of the tree and supports them. The minerals and water are raw materials. The roots are the producers—the farmers, ranchers, miners, lumbermen, oilmen, and fishermen—who make them available to the tree, who provide the economy with its lifeblood. No tree can live if it is separated from its roots: it withers and dies. The same thing holds true of the economy: cut off the roots—the raw material producers—and the tree—the rest of the economy—dies.



Unfortunately, most of us have lost sight of this basic fact of economic life. So have the policymakers, the people who are supposed to come up with solutions to our many economic problems. They ignore the importance of new wealth, focusing mistakenly on other areas. And that's why their solutions don't work: none of their ideas really cut to the heart of our problems. They just keep missing the point.



Source: U.S. Bureau of the Census Statistical Abstract

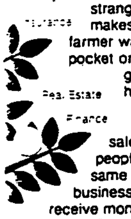
*Dashed line represents Gross Farm Income extended 7 times to make comparison to Total National Income easier.


1 Million Bushels
$1.00/Bushel $7 Million National Income
$0.50/Bushel $3.5 Million National Income

One man who didn't miss the point was Carl Wilken. An economist and mathematician by profession, Wilken set about to discover the whys and wherefores of the Great Depression of the 1930s. In the course of his work, Wilken uncovered a relationship between new wealth and the prosperity of the overall economy. Of the sources of new wealth—farming, mining, timber, and fishing—farming is the biggest, providing about 70% of the new wealth created each year. So Wilken focused study on the role of agriculture in the economy.

Wilken discovered a simple and precise relationship between farm income and national income. Whenever farm income equaled one-seventh of national income, times were good. And whenever farm income fell below one-seventh, times were bad.

Wilken had pointed out the heartbeat of the American economy. Prosperity depends on farm income. As long as farm income makes up one-seventh of the income of the whole nation, the economy produces prosperity for all. But if it falls below, economic downturn, even full-scale depression, soon follows. The income of the family farm is the key to our economic well-being.



At first glance this connection between farm income and national income might seem strange, but a bit of thought shows why it makes sense. The money our hypothetical farmer was paid for his wheat did not remain in his pocket or checking account. Instead, he spent it, giving his workers their wages, paying off his loans, buying new equipment, sending the kids to the dentist, and so forth. The income that goes to farmers from the sale of their new wealth turns into income for people in other sectors of the economy. The same exchange of income flows from businesses that handle the wheat and people who receive money from the farmer for goods and services. These people, too, pay workers, pay off loans, buy new equipment, and so forth. The people who receive this money again spend it. On and on the process goes, with each dollar changing hands about seven times. Thus each dollar of income to farmers becomes seven dollars of income to others.

Farmers are not the only ones who start such an exchange of earned income. The same sort of process arises from all creators of new wealth. Whenever lumbermen cut trees or fishermen bring in a haul of salmon or oilmen strike a new well or miners cut into a seam of coal, new wealth enters the economy, starting a flow of earned income—a flow all of us depend on.

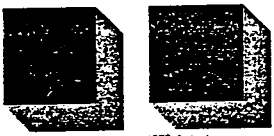
There's no way to make too much of the importance of this relationship between the creators of new wealth and the rest of us. Our income comes ultimately from their income. So the more—or less—they earn, the more—or less—we earn.

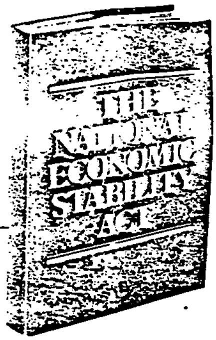
Suppose that farmers grow 1 million bushels of corn that sell at $1 a bushel. The income to farmers for the corn is $1 million, which they spend and which eventually becomes $7 million of national income. Now suppose the price of corn drops to 50¢. Farmers get only $500,000 which becomes only $3.5 million of national income. That drop in the price of corn cost the whole economy $3.5 million in lost income.

Parity and the debt spiral

Wilken's law points up something very important about the structure of the economy: the various parts depend on each other, and each one must be in proper balance for the economy to work as a whole. This means, basically, that the price one sector receives for its production has to fit properly with the prices it pays the other sectors. This is what we call parity; quite simply, it signifies the proper balance among the various parts of the economy. It is important to the whole economy that this balance be maintained. If one sector charges prices that are too high, then it exists at the expense of the other sectors. But if it gets too little for its product, then it becomes the victim of the other sectors.

That's precisely what's been happening here: raw materials producers have been the victims of our economy. In 1978, as one example, the national income was $1767 billion. According to Wilken's law, agriculture's income should have been $252 billion. In fact, it was only $123 billion, well less than half of what it should have been.


1978 $252 Billion
1978 Actual $123 Billion



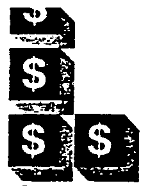
This low income produced problems for more people than just farmers and ranchers. Remember that the income agriculture failed to receive also failed to spread through the rest of the economy the way it should have. The $129 billion farmers missed out on means the whole economy missed out on a little over $900 billion of demand for goods and services. And this missing income amounts to considerably more than small change. It would have increased national income that year by as much as one-half. In other words, if farm income in 1978 had been at parity, national income that year would have risen close to 50%—a bonanza all of us would have shared.

On the one hand, the economy is receiving less income than it should be. On the other hand, we don't seem to be doing badly. After all, most of us live better than our parents did. So how can it be that the economy is coming up short and we still seem to be enjoying prosperity?

The answer is that the prosperity we're enjoying isn't earned; it's borrowed. We are enjoying good times on credit. The indebtedness begins with the raw materials producers again. They're falling short of income, but if they want to stay in business, they need more money. So they borrow. They borrow to invest in new capital goods to increase production and give themselves an edge. But even if they do succeed and raise production, they get into the same bind once more next year. Income still falls short of the parity share, and they still need money. So they borrow once again.

The same pressure affects other sectors of the economy. The shortfall in income to raw materials producers spreads throughout the economy, producing shortfalls in income in all the various sectors. Business owners and consumers are short of income just like the raw materials producers, and they too need money to survive. So they borrow. But, of course, they come up short again, so once more they borrow. On and on it goes, and everybody just gets deeper and deeper into debt.

In the years after World War II, agricultural prices were at parity. National income ran about $200 billion; outstanding public and private debt totaled about $500 billion. That was a healthy debt-to-income ratio of about 2.5 to 1. But then agriculture lost parity because of changes in the law in the early 1950's. Income fell short, and the debt spiral began. Consumer debt has swollen 180% since 1965, and a federal deficit that then stood at $200 billion has now increased more than four-and-a-half times. By 1981 total public and private debt exceeded the incredible sum of $6 trillion. The interest on this debt totals more than $500 billion, much of which is passed on to consumers as higher prices.



Here lies the root cause of the severe economic problems we face today. The ill effects of this orgy of borrowing are now making themselves felt. The mountain of debt built up over the years is crushing our false prosperity. The current economic debacle has arisen because instead of earning income we are struggling to keep up with the interest payments—and the truth of the matter is that we're falling behind. The economy's overburden of debt is driving up prices, including the cost of going further into debt, and robbing us all of true prosperity.

A way out: The National Economic Stability Act

The ony way to resolve the crisis we now face is to get the economy back in balance—to restore it to parity. To accomplish that, we've drawn up a model law, the National Economic Stability Act (NESA). The law has several principal points.

Farm products and all other raw materials will be priced at true parity. Parity will serve as the price base for all American commodities sold in this country and abroad. Since market conditions will tend to push prices around somewhat, a price floor will be set at 90% of parity and a ceiling at 115% to protect both producers and consumers.

Imports will be tariffed so that their price in the American market equals 110% of parity. Tariff revenues will be placed in a special account for the exporting nation to use in buying American goods. This provision will keep cheap imports from flooding our markets and will make it easier and more attractive for foreign nations to buy American products.

Producers can produce any product they wish in any amount. At the same time the federal government, working with producers groups, will estimate the nation's needs for each raw material for both domestic use and foreign trade and then divide this estimate among producers based on their record of production. Each producer will receive a marketing certificate for his share of the total. No matter how much the producer produces, he can sell no more than his certificate allows

Representative OBEY. Thank you very much, Mr. Moen.

Next we have the speaker of the South Dakota Legislature, Mr. Don Ham.

STATEMENT OF HON. DON HAM, SPEAKER OF THE HOUSE, SOUTH DAKOTA STATE LEGISLATURE

Mr. HAM. Thank you, Mr. Chairman.

Representative Obey and Senator Abdnor, I am Representative Don Ham, speaker of the house in South Dakota, from Rapid City.

I grew up on a ranch in North Rapid City and have quite a few relatives that are in the ranching and farming business in South Dakota.

My testimony will be a summary of a joint resolution we passed the day before yesterday in both the house and the senate in South Dakota. It's in three parts.

No. 1, what is the problem facing the Nation's farmers, ranchers, and small business people; No. 2, what have we done as a State in South Dakota to meet this problem; and finally, No. 3, what do we suggest as possible short- and long-term solutions to those problems.

South Dakota farmers, ranchers, and small business people are facing a very serious crisis. At a recent farm rally held on the steps of our Capitol, we had 6,000 farmers calling for some form of action and that's almost 1 percent of our total population in the State, being a small populated State. For a State with that small population and a history of independence, that's a significant number.

Agriculture amounts to 20 percent of all U.S. exports. The food industry employs 22.8 million people and produces one-fifth of the gross national product. Even at those figures, the farm debt increased $77 billion in the United States from 1979 to 1984. That's $80,000 per farm. For every new entry into farming, 15 have left the farm. Farm debt-asset ratios are at a higher point now than at any time since the 1930's.

In South Dakota alone, farm and ranch assets have declined by $1.6 billion since 1981, primarily due to the decrease in land prices and commodity prices. And yet farm and ranch debt has increased by $1.3 billion in South Dakota since 1981. This is, of course, having a serious effect on farmers, ranchers, and small business people because of agriculture being by far our No. 1 industry and it affects every business in South Dakota.

In 1981, we had 37 farmers and ranchers that filed for bankruptcy in South Dakota. In 1984, this number skyrocketed to 247 filings for bankruptcy. It's a very serious problem facing the agricultural industry and the Nation.

But this problem can be solved. The State of South Dakota has taken actions to reverse that trend. We spent right at $60 million on a transportation system when the Milwaukee Railroad filed bankruptcy some 3 or 4 years ago by putting on a 1-cent sales tax to buy that railroad so that we could get our agricultural products to the market outlets.

We have spent millions of dollars on rural water systems in South Dakota to increase the efficiency of the industry. We started an agricultural counseling program just this last 2 years to assist troubled farmers in reviewing their financial status and we found this was a serious problem, especially with young farmers.

We also created special programs in our new computer data processing college at Madison, designed specifically to assist farmers in increasing their managerial capabilities and their efficiency.

We sponsored an annual Governor's conference on agriculture and brought in experts from across the Nation in an attempt to find solutions. We have proposed hiring extra personnel at the State level to work with Secretary Block's credit program to help process agricultural loans for the Federal Government.

But we as a State are limited. We are limited in resources and in the scope of our jurisdiction. We have therefore come to you to suggest the following long-term solutions to the problem.

The Federal deficit must be eliminated. The enormous Federal deficit drives up the interest rate charged to the farmer, rancher, and small businessman. If the Federal deficit could be reduced, the interest rates would drop. Even a relatively small drop in interest rates could help our farmers. On a debt of $500,000, which is a median debt in the highly capital intensive agricultural industry, every 1-percent drop in refinanced loans equals an increase in net earnings to that farmer of $5,000 and that's a lot more than most of them are making at this time. If interest rates would drop 6 percent, then the farmer could increase his earnings $30,000. This is often enough to save the farmer.

Senator ABDNOR. Give us that again, that last part?

Mr. HAM. Sure. You would have a $30,000 increase in income to the average farmer because of his average $500,000 loan in South Dakota, which I suppose would be about average of income in perhaps the United States—no—it would be above average.

But we call for an across-the-board reduction in Federal spending. We were either the fifth or the sixth State to pass a resolution calling for a constitutional convention to amend the U.S. Constitution to balance the Federal budget.

As you probably know, 32 States have now done so and we need to get 2 more States to somehow help some of you, like Senator Abdnor and others, to pass a resolution calling for a constitutional convention; 49 States, of course, must balance their budget at the present time.

When we had a problem with an overrun a few years ago our Governor called for and got a 5-percent across-the-board cut in every area of State government except for higher education which was cut 3 percent. This saved our State from deficit spending that year. Otherwise, we would have been in the red which would have been unconstitutional.

You will wonder what we as a State are willing to do further because if we have cuts in the Federal budget, of course, that's going to hurt South Dakota. We have a large military base that will have the B-1 bomber coming in at Ellsworth near Rapid City. We get Federal subsidies and grants and loans and we will be hurt by those Federal spending cuts. But when called upon to sacrifice for the good of the Nation, we are willing and always have been willing to do that.

We just demand that all Americans, including our urban cousins, share in that sacrifice. Farmers in small towns should not be singled out from the deficit as a national problem. For too long the burden has been on the farmer. These cuts must be fair and across the board and not limited to the agricultural community.

The world's situation, of course, must be addressed. The strength of the dollar is affecting the ability of our products to compete in world markets. We must develop long-range planning for our farm programs. It's been hard for the farmer and others to deal with the uncertainty of the farm program that changes every year.

Another area requires immediate attention and is the export situation. We must recapture our export markets, including an attack on the trade barriers and agricultural subsidies in foreign countries. To meet the immediate crisis, we would call for the following short-term solutions: No. 1, early payments of one-half of the Commodity Credit Corporation payments this spring to be based on historical production with adjustments made in the second half in the fall; No. 2, to make deficiency payments on target prices in advance; and No. 3, expand the President's debt set-aside plan to be funded responsibly. We have farmers that are ready to go to the field or will be in just a few weeks and they are going to need help, many of them, with credit, in order to plant this spring.

The prices in agriculture are directly linked to a national economic situation. Farmers did not cause it, yet farmers are suffering from it. Farmers cannot be expected to balance the entire budget on their backs. It is time for fiscal sanity on the Federal level. We ask you to address this crisis immediately and responsibly.

Farmers in South Dakota are waiting for your response. We in the South Dakota Legislature are waiting for your response.

To demonstrate the seriousness, as Senator Abdnor mentioned, in order to sensitize you and to sensitize people in the administration, all 105 of our legislators will be here tonight and tomorrow because we feel that that's important. By the way, the farmers in South Dakota started a give-a-buck campaign and they have raised $17,000 to pay for most of this trip.

I appreciate your time and thank you very much.

Representative OBEY. Thank you.

Next is Mr. Taliaferro. Is he here?

[No response.]

Representative OBEY. Mr. Taliaferro has submitted a prepared statement for the record, without objection, his statement will appear in the record at this point.

[The prepared statement of Mr. Taliaferro follows:]

PREPARED STATEMENT OF HON. PAUL TALIAFERRO, OKLAHOMA STATE SENATOR

Mr. Chairman. Members of the Committee. Thank you for this opportunity to meet with you.

Agriculture in Oklahoma today faces a peril as great as it did in the 1930s. The cloud that blots out the sun on our farms today is not one of dust, but one of national and international economics. But it is just as deadly. It is worse than drought or flood. It is worse than a hailstorm or disease.

It is not far from correct to say that the economy of Oklahoma relies as much on agriculture as the economy of the District of Columbia relies on the federal government. When Oklahoma farmers are in trouble, Oklahoma retailers are in trouble. When farm income is down, the state treasury is down. When farmers go under, banks go under. We have all of those problems in Oklahoma today.

If we are to solve the problems, our solutions must be both immediate and long-term.

Let us turn first to the immediate crisis. We need fast, strong action to get through 1985. I propose a two-step approach.

First, we must pass an Agriculture Emergency Credit Act. There should be two targets for the act. We must declare a moratorium on foreclosures of agriculture-related loans by FMHA, FCA, commercial institutions and others. At the same time, we must provide all lenders with the opportunity to make emergency low-cost short-term loans to assist farmers through 1985 and to buy time for a planned reorganization by borrowers.

Second, we must establish target prices for 1985 at not less than 1984 production costs.

If we do those two things--prevent unwarranted foreclosures and provide emergency financial aid and set prices at a break-even level---farmers may be able to make it through the year.

Now, let us turn to a longer term solution to the problem.

We must restructure our whole policy toward financing of agriculture. We recommend a 90 percent unconditional loan guarantee to qualified participating institutions. We must eliminate the strings that now are attached to agricultural loans that are not attached to other types of business loans. We further recommend that loan application be answered within 60 days and that approval be based upon 100 percent of cash flow, not 110 percent. Finally, we recommend that loans be based on collateral, equity buildup and market value, not on cash flow and production estimates.

As we restructure our loan policies for agriculture, we must at the same time rethink our marketing approach.

We must develop a marketing strategy to sustain market support price levels through a balance of import and export duties and tariff reciprocity.

In short, we must abandon our outdated agricultural marketing policies that reflected a relatively closed national economy. We must recognize that today's market for virtually all products is an international market. We must make America's agricultural products a vital component of that international market.

It has been said that the only thing more expensive than education is ignorance.

I submit to you today, members of the Committee, that the question before the Congress is not what it will cost to save agriculture.

The question before you today is: What will be the cost to this nation without agriculture?

Representative OBEY. Next we will have State Senator Jerry Kelsh from North Dakota.

STATEMENT OF HON. JERRY KELSH, NORTH DAKOTA STATE SENATOR

Mr. KELSH. Good morning, Representative Obey and Senator Abdnor. I am Jerry Kelsh, State senator from North Dakota, and I represent the 26th district, which is in the south central part of North Dakota, right on the South Dakota border.

Those of us from the farm States are bringing this message to the President and to our counterparts in the U.S. House of Representatives and U.S. Senate. We wouldn't cut defense in time of war or think of cutting health care programs during a medical catastrophe. We simply cannot eliminate the farm programs during a farm crisis, not at a time when farm scenes in North Dakota are beginning to look like the film clips of the 1930's or when young farmers are putting their homes and farm machinery on the auction block.

We have to make people understand that for 50 years the Federal Government has been a partner to agriculture. Now in this time of crisis, farmers must look to Washington to help straighten out this mess, and the mess today is in the large part the result of rising interest rates coming at a time when U.S. export earnings have been falling. The result has been catastrophic.

That is why American farmers now owe more money than Brazil and Mexico combined. North Dakota alone has lost 4,000 farms in 4 years, from 40,000 farms in 1980 to 36,000 farms in 1984. And our Commissioner of Agriculture estimates another 5,000 farms will fail in 1985.

If we don't solve this problem, my State alone will become 70,000 miles of ghost town. The situation is that dramatic and it is that important.

Moore, ND, is a case in point, a small town whose businesses and lending institutions support and are supported by agriculture. Several weeks ago the entire staff of our local board of directors of the Federal Land Bank were fired by the St. Paul, MI, regional land bank. Stockholders of the bank were shocked and the community was outraged. How could a locally elected board who was doing its job to the satisfaction of the stockholders have their ropes pulled out from under them suddenly by a regional land bank 300 miles away? The St. Paul directors said that they had taken this drastic action because the Moore land bank had too many problem accounts and thought the money problems at the Moore bank was the result of poor management. I say that's hogwash. The problem with Moore was simply a sign of the times.

Farming is in trouble and in my area it is not the fault of the five-man Federal land bank, and the board of directors. There's no question that 1 week before the firing of the board, North Dakota's largest newspaper ran a special edition entitled "Crisis in Agriculture." That edition singled out Moore as a town that is suffering because of the farm crisis. The article talked about 2 consecutive drought years, 20 percent interest rates, deflation of land values, and the closing down of small business after small business. The article was written before anyone knew that the land bank board of directors was about to be fired. It was merely a story which pointed out the entire community was dying because of hard times on the farm. It is a sign of the times.

The wholesale firing of locally elected land bank board members is one critical sign that agriculture needs help now. It can't wait and it can't be ignored as a problem of bad management by farmers and bankers alike.

In a recent survey by the North Dakota Crop and Livestock Reporting Service in Fargo, in contrast to what the administration people are saying, 22.8 percent of all farmers, not just those with debt, but all farmers are delinquent on either their real estate debt or their short-term debt and delinquency increases with the size of the farm. This is because the real farmers, the ones that produce the food and fiber for this country, are shamefully underpaid and have less opportunity for off-farm income.

We must have immediate short-term financing. We must lower interest rates to get the crop in the ground this spring and we must have higher prices for our products. If the State Department and other Cabinet officials are going to use agricultural products as a reward or punishment for foreign countries, then let's change farm programs to the State Department and stop making the food producers pay for foreign policy of the United States.

We cannot continue to pay high interest rates to the Eastern money markets and then supply this country with food for 11 percent of the take-home pay that individuals spend for food when they eat at home. We cannot continue to let North Dakota and other food producing States become barren reminders of what once was family farmed rural America.

When you continually take away and give very little back, you soon destroy, and that is what is happening in North Dakota.

We, too, in North Dakota have worked on many innovative programs, but with our limited State resources we can only touch the tip of the iceberg of our farm problems.

I thank you and would welcome any questions.

Representative OBEY. Thank you very much, Mr. Kelsh.

Next we have Mr. Loran Schmit.

STATEMENT OF HON. LORAN SCHMIT, NEBRASKA STATE SENATOR

Mr. SCHMIT. I also appreciate this opportunity to speak to you here today. I have read thousands of words in the last few months that have attempted to explain the current economic crisis that faces many Nebraskans, both farmers and nonfarmers alike.

Recently I heard President Reagan state that the Federal farm policy in the past 50 years has not worked and that those policies must change. I must respectfully disagree with President Reagan. I do not believe it was ever the intention of the Federal Government to guarantee a profitable income to agriculture.

The major purpose of the Federal farm policy for the past 50 years has been to provide a plentiful supply of wholesome, low-cost food to the American consumers.

During much of that time the American farmer was forced to rely on the Federal Government. Part of the concern, because of the lack of profitability in agriculture, was always placated by reassurance that the value of real estate would always increase and thereby provide a comfortable cushion for his otherwise nonprofitable operation.

Recent high interest rates and low commodity prices have now destroyed the value of that real estate.

In the early 1970's, during the World Conference on Food held in Rome, there was a general consensus that the world was headed for starvation unless one of two things occurred. It either had to be a dramatic decrease in the population explosion or an increase in the production of food.

The United States is recognized as the one country that has the land resources, the technology, the management ability, and the capital to greatly expand food production.

In 1971, President Nixon stopped the sale of U.S. gold at a fixed price and allowed the dollar to float on the world market. At that time it seemed like a good idea, but today that high-cost dollar has served to jeopardize our ability to market food overseas.

At the same time, President Nixon traveled to the People's Republic of China and announced that we were going to do business with them for the first time in decades. In July 1972, the Nixon administration concluded the first massive sale of surplus grain to the Soviet Union and commodity prices improved dramatically and the stage was set.

Most all agencies of the Federal Government, from the administration on down, most Midwestern Governors, land grant colleges, and other Government leaders agreed that the farmers would have to increase their production to meet the worldwide demand. The farmers borrowed large sums of money at reasonable rates to build the plant, install irrigation systems, purchase equipment, built handling facilities, and made other major expenditures in response to the Federal Government's call for increased production.

Beginning in 1973, prices of livestock and commodities began to improve to the point where the President felt it was necessary to impose a price freeze on retail beef, notwithstanding an earlier commitment not to do so. That one action cost the cattle producers $1 billion in 3 weeks' time.

It should have been a warning to us that the price of food would not be allowed to get out of hand. In June 1973, the price of soybeans began to become profitable. The administration again imposed an embargo on Soviet exports. The result was the price of beans dropped dramatically and foreign importers, most notably Japan, sought a more reliable source. Soybean production in Brazil was dramatically stimulated. As a result, we have never regained that market and the Brazilians continue to be competitors in the marketing of soybeans.

In 1974, wheat and corn sales contracted to the Soviet Union totaled 3.2 million metric tons were canceled. Once again, foreign importers concluded the United States was not a reliable supplier and our commitment to provide foreign countries with food was worthless.

Even at this date we farmers did not heed the warning. In late 1975, President Ford again embargoed feed grains with a dramatic, devastating impact on price. When President Carter was elected we were assured we would have free access to worldwide markets. For a time this appeared to be true.

In 1979, the decision to deregulate the cost of money caused interest rates to skyrocket to more than 21 percent. The obligations of the early 1970's which had seemed reasonable at $3.50 corn, $8 beans, $70 cattle, and 7-percent interest became an intolerable burden for the American farmers.

January 4, 1980, the final blow was struck. President Carter ordered an embargo on the sale of grain to the Soviet Union and the price of all commodities tumbled and the American farmer has not earned a profit since that time.

In 12 years, the Federal Government has acted at least six times to put a lid on farm prices. Today we hear the comments that the Government wants to get agriculture back to the marketplace, but when farm prices were up we never heard the Federal Government insist on getting it back to the marketplace. There was always that interest in keeping down the price of food.

It is unrealistic to expect the U.S. farmer to accept lower prices for their commodities when higher prices and higher income are needed to cover production costs.

The food farmers in my district are looking now for a way to salvage what little they have left. They have lost from 75 to 150 percent of their net worth in the last 5 years. At the same time, while we're facing this problem, if we do not get some kind of decent assistance the shock waves will spread to both coasts.

The FmHA in Nebraska in a meeting I held last week told me they had over 12,000 loan applications and had only the physical facilities and manpower to process about 1,500.

I have some recommendations that I will make but I will leave those for another time. Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Schmit follows:]

PREPARED STATEMENT OF HON. LORAN SCHMIT

MEMBERS OF THE JOINT ECONOMIC COMMITTEE--MONDAY, FEBRUARY 25, 1985--
MY NAME IS STATE SENATOR LORAN SCHMIT, 23RD LEGISLATIVE DISTRICT, OF NEBRASKA. I APPRECIATE THIS OPPORTUNITY TO SPEAK TO YOU TODAY. I HAVE READ THOUSANDS OF WORDS DURING THE PAST MONTHS WHICH HAVE

ATTEMPTED TO EXPLAIN THE CURRENT ECONOMIC CRISIS FACING MANY NEBRASKANS-FARMERS AND NON FARMERS A LIKE. MORE RECENTLY, I HEARD PRESIDENT REAGAN STATE THE FEDERAL FARM POLICIES OF THE PAST 50 YEARS HAVE NOT WORKED AND THAT THOSE POLICIES MUST CHANGE.

I MUST RESPECTFULLY DISAGREE WITH PRESIDENT REAGAN. I DO NOT BELIEVE THAT IT WAS EVER THE INTENTION OF THE FEDERAL GOVERNMENT TO GUARANTEE A PROFITABLE INCOME TO AGRICULTURE. THE MAJOR PURPOSE OF THE FEDERAL FARM POLICIES THE PAST 50 YEARS HAVE BEEN TO PROVIDE A PLENTIFUL SUPPLY OF WHOLESOME, LOW COST FOOD TO THE AMERICAN CONSUMER.

DURING MUCH OF THAT TIME THE AMERICAN FARMER WAS FORCED TO RELY ON THE FEDERAL GOVERNMENT FOR HIS market ~~PRODUCTS.~~ THE FARMERS CONCERN BECAUSE OF A LACK OF PROFITABILITY IN AGRICULTURE WAS ALWAYS PLACATED BY REASSURANCE THAT THE VALUE OF HIS REAL ESTATE WOULD ALWAYS INCREASE AND THEREBY PROVIDE A COMFORTABLE CUSHION FOR HIS OTHERWISE NON-PROFITABLE OPERATION.

IN THE EARLY 1970s, THERE WAS A WORLD CONFERENCE ON FOOD HELD IN ROME. THE GENERAL CONSENSUS OF THAT CONFERENCE WAS THAT THE WORLD WAS HEADED FOR STARVATION UNLESS THERE WAS EITHER A WORLDWIDE CURB ON THE

POPULATION EXPLOSION, OR A DRAMATIC INCREASE IN THE PRODUCTION OF FOOD, OR BOTH. THE UNITED STATES WAS RECOGNIZED AS THE COUNTRY WHICH HAD THE LAND RESOURCES, TECHNOLOGY, MANAGEMENT ABILITY, AND CAPITAL TO GREATLY EXPAND FOOD PRODUCTION.

IN 1971, THEN-PRESIDENT NIXON STOPPED THE U.S. SALE OF GOLD AT A FIXED PRICE, AND ALLOWED THE DOLLAR TO FLOAT ON THE WORLD MARKET, AND THEREFORE DIRECTLY ENHANCED OUR ABILITY TO EXPORT FOOD. CONCURRENTLY, PRESIDENT NIXON TRAVELLED TO THE PEOPLE'S REPUBLIC OF CHINA AND ANNOUNCED THAT WE WERE GOING TO DO BUSINESS WITH THAT COUNTRY FOR THE FIRST TIME IN DECADES. IN JULY OF 1972, THE NIXON ADMINISTRATION CONCLUDED THE FIRST MASSIVE SALE OF SURPLUS GRAIN TO THE SOVIET UNION, COMMODITY PRICES IMPROVED DRAMATICALLY AND THE STAGE WAS SET.

MOST ALL AGENCIES OF THE FEDERAL GOVERNMENT, FROM THE ADMINISTRATION ON DOWN, MOST MIDWESTERN GOVERNORS, THE LAND GRANT COLLEGES, AND OTHER GOVERNMENT LEADERS AGREED THAT FARMERS WOULD HAVE TO INCREASE THEIR PRODUCTION TO MEET WORLDWIDE DEMAND.

FARMERS BORROWED LARGE SUMS OF READILY AVAILABLE MONEY AT THE REASONABLE RATE OF FIVE AND ONE-HALF TO SEVEN PERCENT INTEREST, AND DEVELOPED LAND, INSTALLED IRRIGATION SYSTEMS, PURCHASED EQUIPMENT, BUILT LARGE GRAIN STORAGE AND HANDLING FACILITIES, AND MADE OTHER MAJOR EXPENDITURES IN RESPONSE TO THE FEDERAL GOVERNMENT'S CALL FOR INCREASED PRODUCTION.

BEGINNING IN 1973, THE PRICES OF LIVESTOCK AND COMMODITIES BEGAN TO IMPROVE TO THE POINT WHERE THE PRESIDENT FELT IT NECESSARY TO IMPOSE A PRICE FREEZE ON RETAIL BEEF, NOTWITHSTANDING AN EARLIER COMMITMENT NOT TO INTERFERE IN THE MARKETPLACE. THAT ACTION COST THE AMERICAN LIVE-STOCK PRODUCER BILLIONS OF DOLLARS AND SHOULD HAVE BEEN A WARNING TO ALL OF US THAT THE PRICE RECEIVED BY THE FARMER FOR FOOD WOULD NOT BE ALLOWED TO GET OUT OF HAND.

IN JUNE OF 1973, AS THE PRICE OF SOYBEANS BECAME PROFITABLE, THE ADMINISTRATION IMPOSED AN EMBARGO ON SOYBEAN EXPORTS, WITH THE RESULT THAT THE PRICE OF BEANS DROPPED: FOREIGN IMPORTERS, MOST NOTABLY THE JAPANESE, SOUGHT A MORE RELIABLE SOURCE; AND SOYBEAN PRODUCTION IN BRAZIL WAS DRAMATICALLY STIMULATED. AS A RESULT, WE HAVE NEVER REGAINED THAT MARKET, AND THE BRAZILIANS CONTINUE TO BE MAJOR COMPETITORS IN THE FOREIGN MARKETING OF SOYBEANS.

IN OCTOBER 1974, WHEAT AND CORN SALES CONTRACTS WITH THE SOVIET UNION, TOTALLING 3.2 MILLION METRIC TONS, WERE CANCELLED. ONCE AGAIN, FOREIGN IMPORTERS WERE FORCED TO CONCLUDE THAT THE U. S. WAS NOT A RELIABLE SUPPLIER AND THAT OUR COMMITMENT TO PROVIDE FOREIGN COUNTRIES WITH FOOD WAS WORTHLESS. EVEN AT THIS DATE WE FARMERS DID NOT HEED THE WARNING.

IN LATE 1975, PRESIDENT FORD EMBARGOED FEED GRAINS, WITH A PREDICTABLY DEVASTATING IMPACT ON PRICE.

WHEN PRESIDENT CARTER WAS ELECTED, WE WERE ASSURED THAT WE WOULD HAVE FREE ACCESS TO WORLDWIDE MARKETS, AND FOR A TIME THIS WAS TRUE. BUT IN 1979, THE DECISION TO DEREGULATE THE COST OF MONEY, CAUSED INTEREST RATES TO SKYROCKET TO MORE THAN TWENTY-ONE PERCENT, AND THE OBLIGATIONS OF THE EARLY 1970s, WHICH HAD SEEMED REASONABLE WITH $3.50 CORN, $8.00 SOYBEANS, $70 CATTLE, AND SEVEN PERCENT INTEREST, BECAME AN INTOLERABLE BURDEN FOR THE AMERICAN FARMER.

ON JANUARY 4, 1980, THE FINAL BLOW WAS STRUCK. PRESIDENT CARTER ORDERED AN EMBARGO ON THE SALE OF GRAIN TO THE SOVIET UNION, THE PRICE OF ALL COMMODITIES TUMBLED, AND THE AMERICAN FARMER HAS NOT EARNED A PROFIT SINCE THAT TIME.

IT IS UNREALISTIC TO EXPECT U.S. FARMERS TO ACCEPT LOWER PRICES FOR THEIR COMMODITIES WHEN THEY DESPERATELY NEED HIGHER PRICES AND HIGHER INCOME TO COVER HIGH PRODUCTION COSTS. GROWERS SHOULD NOT BE EXPECTED TO BE THE

SHOCK ABSORBERS FOR OTHER INTEREST GROUPS BY ACCEPTING LOWER PRICES AS A MEANS FOR OFF-SETTING THE HIGH VALUED DOLLAR.

THERE IS A POSITIVE APPROACH, HOWEVER, THAT WILL ULTIMATELY SAVE THE U.S. TAXPAYER MONEY AND SERVE A VALUABLE PURPOSE TOWARD ENHANCING U.S. FOREIGN POLICY. IT IS A MASSIVE COMMITMENT AIMED AT FAMINE RELIEF, USING U.S. GOVERNMENT-OWNED GRAIN STOCKS TO FEED THE STARVING PEOPLE OF THE WORLD. USDA ESTIMATES MADE IN DECEMBER OF 1984 PROJECTED CCC OWNED WHEAT INVENTORIES TO BE AT NEARLY THE 400 MILLION BUSHEL LEVEY BY THE END OF THIS MARKETING YEAR. CCC OWNED FEED-GRAINS ARE PROJECTED AT APPROXIMATELY 8 MILLION TONS DURING THE 84-85 MARKETING YEAR.

THE U.S. CONGRESS AND THE ADMINISTRATION SHOULD JOINTLY PURSUE THE USE OF THEIR INVENTORIES FOR FAMINE RELIEF AROUND THE WORLD. EHIOPIA AND OTHER COUNTRIES ARE THE AREAS THAT COME TO MIND FIRST, BUT THERE ARE MANY OTHER COUNTRIES AS WELL DESPERATELY IN NEED OF RELIEF. THIS <u>FAMINE RELIEF PLAN, TURNING A LIABILITY INTO AN ASSET</u> IS A STARTING POINT FOR THE EFFORT.

AS ANOTHER OPTION AND AS A MEANS TO ADD VALUE TO THE U.S. ECONOMY, THE CCC OWNED STOCKS COULD BE COMMITTED TO VARIOUS STATES OR ENTITIES FOR THE SPECIFIC PURPOSE OF CONVERTING THE GRAIN TO ETHANOL. THE FOOD BY-PRODUCTS COULD THEN BE USED TO ENRICH OTHER GRAIN PRODUCTS IN THE FAMINE RELIEF EFFORT. A COMMITMENT OF PRESENTLY HELD COMMODITY CREDIT STOCKS TO THE FAMINE RELIEF EFFORT WILL HAVE A POSITIVE IMPACT UPON THE COMMODITY PRICES IN THE MARKETPLACE. THIS COMMITMENT SHOULD BE ON A CONTINUING BASIS AND SHOULD IN FACT BE CHARGED TO THE DEFENSE BUDGET AS A PART OF OUR OVERALL NATIONAL DEFENSE PLAN. I WILL LEAVE YOU A DOCUMENT WHICH PROVIDES THE BASIC BLUEPRINT AND RATIONALE FOR THE FAMINE RELIEF EFFORT. THANK YOU VERY MUCH.

Representative OBEY. Thank you very much.

Next we will hear from State Representative Chuck Davis from Minnesota.

STATEMENT OF HON. CHUCK DAVIS, MINNESOTA STATE REPRESENTATIVE

Mr. DAVIS. Thank you, Mr. Chairman.

Perhaps I could be most effective just speaking as an individual. Although I was born in agriculture, remain in agriculture, I teach agriculture, and I legislate agriculture, specifically for the Minnesota Senate, currently the chairman of the Rural Concerns Caucus of the Minnesota Legislature, which comprises over a third of the total legislative body concerned about this issue.

By the way, I hope that this isn't a continuation of something I've long suspected that farmers have spent more fruitless time talking to themselves than to people that can make a difference.

Half of the Minnesota farmers have a debt-to-asset ratio of about 70 percent.

Minnesota's best case, if we do indeed have a sound Federal farm policy, 13,000 family farms will be displaced from those farms within the next 18 months. Without appropriate Federal action, that number will increase to 25,000 to 40,000 farms over a 5-year period.

Every couple weeks the University of Minnesota sociologists continue to increase the population of towns that they expect to disappear over the next 2 to 5 years. First they started at 900 population or 600 population as the State of Nebraska study indicated, and now they are up to 2,500 population if those towns don't happen to be regional economic centers. That is devastating to rural America.

Our farm credit district assumes that a third of our rural banks will go under by the year 1995, 2,500 to 3,500 businesses will be closed by 1990. That means 75,000 to 100,000 people thrown out of work and that doesn't include the farmers that are being displaced.

The Minnesota Legislature has already acted on a number of initiatives, including a debt restructuring bill that would hinge on the agriculture proposal or whatever additional farm credit proposals that Washington puts in place. It has already acted on a voluntary 120-day grace period entered into by rural banks with assistance by the State, an interest buy down bill already at the $25 million level, which by the way when we look at $650 million offered by President Reagan and realize what Minnesota's share of that is, it only amounts to $25 million, the same as our State legislature has already authorized, and that itself only amounts to one-tenth of 1 percent of Minnesota's entire farm debt.

As a backup position to that and to prove our sincerity of purpose, the Minnesota Senate has already passed a 1-year blanket moratorium covering all foreclosures which is mandatory and has no interest subsidy, which has caused a lot of interest and a lot of action on the part of Minnesota bankers who are now looking back saying: "Hey, that first offer looks pretty darned good, the voluntary moratorium."

We passed a bill calling for the establishment of legal assistance to farmers who now have their back to the wall and indeed don't know what their legal rights are.

We proposed a delay in the property tax payments, delaying the first half payments that are due in the planting season to the fall, and in one move that is going to delay the payment of $85 million worth of property tax, interest free, until harvest time.

I mentioned the formation of the Rural Concerns Caucus in the State of Minnesota which is a bipartisan caucus. We think that agriculture is and needs be a nonpartisan issue. We realize the need for cooperation among State legislatures. We have been working hand in glove with our own commissioner of agriculture who has in turn been working cooperatively with commissioners of agriculture from across the breadth of this nation in all agricultural States, from Texas to New York, to arrive at a consensus of what could most properly be in any 1985 farm bill.

We have always been troubled with the numbers game—crop years, calendar years, fiscal years used interchangeably when discussing cost of Federal programs, net or gross incomes leave a rather confusing picture. But if we ignore budget shifts in attempts to obscure the true cost, the true cost meaning that in fact if 1930's prices were in place for food commodities that every American taxpayer would be paying a lesser percentage of his disposable income than the current situation is with Federal farm bills loaded down with all kinds of auxiliary programs, 45 percent of the total Federal farm bill being an extension of aid programs which makes them come out in terms of food to some people like food stamps and school lunches, but that's laid on our back. And take your choice of farm income, gross or net, for the same period and come up with figures as low as $17.5 billion to a high of $25 billion. None of the estimates of farm income come anywhere close to the cost of a single effort PIK.

The Government threw out a lot of money into the air and some of it must not have come down.

We are suggesting a $6 billion program which is less than the proposal of the administration, a balancing of production with demand, targeted at smaller and midsized operations, families that depend on farming as their primary livelihood, and emphasizes strong soil and water conservation measures.

It is a very direct 10 point program involving the elimination of deficiency payments by indeed setting loan rates at the average cost of production for each commodity. There will always be arguments about averages of cost of production, but it's painfully clear even from the USDA's own estimates that loan rates right now are out of line. When the USDA estimates 1983 spring wheat production costs of $4.97, a proposed loan level of $2.65 just doesn't work.

It calls for balancing production with demand. We already have normal crop acres as a base in the ASCS. We know what the normal yields. We can fairly accurately determine demand estimates from this week and assign a production goal and work in specific and required conservation set-asides, and include the flexibility to handle the extremes, exceptionally high or low yields.

Promoting sound conservation practices—I have to tell you that even from the most strongly conservative pockets of Minnesota, which I was born in, that the word "mandatory" is no longer a bad word. Our Minnesota congressional delegation has gone home and come back and offered alternatives surfaced in Washington, DC. There aren't any votes for the Reagan farm bill proposal—none.

The need to reduce production and conserve soil are understood and a long-term program is now possible. Even those members of the Farm Bureau who are farmers indeed are beginning to support this approach.

Target benefits that pay the farmers. It can be done. Figures on income levels and size are available. The disincentive for unchecked expansion can be reasonable. People can still be cut loose as they are free to do as they please with the clear understanding, unlike now, that the program will not be available to them.

Eliminate disaster payments and disaster loan programs and bring that back in the form of PIK commodities instead of dollars from our own reserves.

Expansion of exports as a solution to the farm problem ignores international realities. We can, however, encourage exports by such activities as adding bonuses to purchases. For example, offering 2 bushels free for every 10 bushels purchased.

Food aid—the need has never been more clearly demonstrated. Regulation by volume rather than by dollars or acres—in other words, production goals in terms of bushels or normally accepted units rather than by acres makes a heck of a lot more sense. Rather than trying to define categories of farmers and amounts and kinds of lands that they control, let us conduct supply management by volume.

As we have presented our proposals briefly here to you and in greater detail to our congressional delegation from Minnesota, I feel that they do represent a responsible and reasonable program to replace the mazes of patchwork programs now in force. The results would be predictable and the program would be self-adjusting.

I will leave summary copies of our 1985 farm bill proposals along with supporting data and rationale for this committee to share with others that indeed do have legislative authority.

As an afterthought, if any of you have a use for it, a misconception has long existed that the bulk of the debt lies in real estate debt. That's not the case any more. It's not the case in Minnesota. The operating loans now are $6.9 billion of real estate loans and $5.2 billion. The operating loans that commercial banks still hold, roughly a third, at 18 percent level are individuals, PCA's, and the Commodity Credit Corporation, real estate loans at the lower level, commercial banks very small amounts, individuals still 29 percent, Federal land banks still control 51 percent, insurance companies and FmHA 8 and 5 percent, respectively.

In short, what farmers need more than continual offerings of more loans and more loans is in fact some level of income to pay back the loans that they already have. A continuation of current prevailing prices for corn at the same levels that they were in 1942, which is the case right now, just won't provide any fair or equitable answer for rural America.

Thank you.

Representative OBEY. Thank you.

Next we have Michigan State Senator Nick Smith.

STATEMENT OF HON. NICHOLAS SMITH, MICHIGAN STATE SENATOR

Mr. SMITH. Thank you very much for the opportunity, gentlemen. My name is Nick Smith. I am a farmer. I was a Deputy Administrator for Farm Programs in the early 1970's in the USDA and at this time I'm chairman of the Senate Agriculture and Forestry Committee.

My wife and I bought our first farm of 9 acres in 1960. We have increased the size of that farm now to 1,400 acres. We own an additional 600 acres we rent and I hire one full-time individual to help us on that farming operation.

In the Michigan Senate, we've held hearings since the beginning of the session in January to try to get a handle on the extent of the problem in our State. More of our farmers are suffering economic problems this year than last and we suspect even more will be suffering in 1986.

There may be a need for a wringing out of the inflationary excesses of the 1970's. However, the fact remains that many farmers across this Nation are now in trouble. We're in trouble despite billions of dollars that we have spent on farm programs.

When the farm program started in the early 1930's, about 25 percent of our population was still on the farm. The farm programs kept coming and today our farm population is 2.4 percent. If farmers continue to be competitive and increase our efficiency, it will take still fewer farmers in the future.

Our policy goals should not be to keep all of our farmers from leaving the farm. This country's agricultural policy has been sending mixed and strange signals to farmers. Excess production has been encouraged by a program of high price support loans and high income support target prices that prices us out of world markets, subsidized insurance against crop loss, and subsidized Farmers Home Administration loans have also encouraged farm production.

At the same time, Government pays the farmer to cut production through CCC funded supply controls such as acreage reduction, paid land diversions and payment-in-kind programs.

The Federal Government has been sending out mixed signals and farmers reactions to those signals has been the cause of many of our troubles. These programs do not necessarily benefit the small family farmer nor are benefits necessarily fairly distributed. When Government gets in and tries to help, farmers often end up worse off.

American agriculture needs to move away from its dependence on the Federal Government. A Government that has had and will continue to have a cheap food policy, cheap food policy is a policy that says when there's 96, 97, or 98 percent of the people that say we want cheap food, how does Congress react to an effort to increase the prices paid to farmers?

Most farmers support the efforts to stop deficit spending and have a balanced budget. If this country is willing to hold the line on other subsidy and spending programs, there is no question in my mind that we, as farmers, will tighten our belts and take our lumps as we start weaning ourselves away from expensive Government programs.

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Lower interest rates that can result from a balanced budget would do more for the American farmer than Federal handouts. However, any phaseout of farm production subsidy programs should be done very gradually. I suggest 2 to 3 years without reduction and then a 5 to 10 year phaseout to a safety net level.

We have been dependent for a long time and the decisions we make now will determine who will produce our food and fiber in the future. It should be remembered that farmers are in competition with each other. Most all farmers, because of low commodity prices and high costs could now use help. If you develop a program that helps one class of farmer, such as those that somehow have become highly leveraged, then you add to the competition of other farmers, other farmers that might be on the brink of insolvency, the credit bailout program in many cases will help a banker more than a farmer. We need programs to help in the transition of the farmer that is not going to make it.

As a farmer, I would offer these recommendations to the committee.

One, and probably most important, do what you have to do to bring interest rates down.

Two, try to develop programs that will help all family farms in a fair and equitable way during a very gradual phaseout period. Support funding for agricultural research as an investment to guarantee future production efficiency to expand the market and to create alternate uses for food and fiber. Assure that farm product embargoes not be used as a tool for foreign policy. Develop trade policies to allow farmers to have access to world markets and not have to face unfair export subsidies. Free trade is good for the American farmer.

Develop programs for farmers leaving the farm that will include retraining and other transition assistance. Protect the stability of markets by limiting undue influence of large commodity speculators and huge grain companies. Add enough personnel to Farmers Home Administration to give preference to farm loan applications. Evaluate a change in the CCC non-resource-loan program to help assure that money be available this spring for farmers across the Nation. Consider computerization in each USDA county office. Such a system could aid farmers in forecasting production and future commodity expectations. Along with a greater effort to have foreign customers place their orders in advance, we could greatly reduce uncertainty and aid price stability.

Maybe the last is the most important. Exercise this country's clout and be aggressive to do whatever is necessary to insist that other countries not use artificial barriers to keep out this country's agricultural production.

Thank you very, very much.

Representative OBEY. Thank you.

Next we have State Representative John Solbach, from Kansas.

STATEMENT OF HON. JOHN SOLBACH, KANSAS STATE REPRESENTATIVE

Mr. SOLBACH. Thank you. My name is John Solbach and I am a member of the Kansas House of Representatives from Lawrence.

My district is approximately one-third rural and two-thirds urban. I serve on the Kansas House Ways and Means Committee and the Judiciary Committee and the Agriculture and Small Business Committee.

I speak as part of a bipartisan group of 40 Kansas legislators who came to the Nation's Capital at our own expense as part of a multi-State farm demonstration.

Thank you for the opportunity to testify here today.

Three key points—one, the urgency of the problem. The next few weeks are crucial as we have approached spring planting.

Two, the magnitude of the problem. Since 1979, Kansas has lost 2,700 farm-related jobs. If net farm income today were at the 1979 level, there would be $2 billion more of economic activity in the State of Kansas. What happens in rural Kansas affects urban Kansas. What happens in the Midwest affects the entire Nation.

Three, agriculture is not asking for a handout but a reasonable price which translates into a cost of production plus the opportunity to make a profit, a program which helps stabilize the farm economy so the necessary credit is available, and lower interest rates to one of the most capital intensive industries we have in this country.

James Kirkpatrick's column in yesterday's paper dealt poignantly to some of the problems that Kansas agriculture is facing. He pointed out that not all of the 900,000 commercial farming operations in this country are in trouble, that the heart of the problem lies in the Plains States where thousands of farmers stand this spring on the brink of disaster.

He mentioned Senator Kassebaum's expressed concern that 30 percent of Kansas full-time commercial farming operations are in deep trouble, that 40 Kansas banks are straining to stay afloat tied as they are to an agricultural economy, and that it is a whole way of life, a deeply valued way of life, that is also at stake; that the trend for consolidation of farm lands into gigantic tracts and corporate ownership is not a healthy trend.

So while the budget deficit debate consumes what Senate Majority Leader Bob Dole calls the window of opportunity to reduce deficits, a deficit which eats up farmers equity by causing high interest rates, should not also be allowed to swallow up the hardworking, productive, efficient Kansas farmer who has spent his life of labor on this country's 20 years of cheap food policy coupled with the promise of fairness to one of America's largest and most efficient industries.

Mr. Kirkpatrick concludes that back home in Kansas time is running out. "The Earth will be warming soon and planting can't wait."

Net farm income for Kansas has dropped by 36 percent in the last reported year, 1983. Exports sales have dropped about 15 percent last year. As a result, Kansas farmers are stuck in a position not of their own making.

Government for years backed aggressive export policy. The consequent overproduction combined with the strong dollar and foreign government subsidies have placed the breadbasket of the world on the brink of falling off the economic table.

Kansas farmers need to see a guarantee of some reasonable price for their products. Without it, the confidence necessary to stabilize the farm economy and, literally, the ability to make Kansas farmers survive will disappear.

The credit problem. Loans for planting are absolutely necessary and quickly. The $45 million provided through FmHA to Kansas will amount to a few hundred for all farmers or a few thousand dollars for those midsized commercial operations, full time, that are in trouble.

The Kansas Legislature is looking at a bill to appropriate money to help speed up FmHA applications and allocated money.

Necessary and reasonable credit cannot be obtained by Kansas farmers as long as income prospects are so bad. No one wants to put up money without a source of income to repay the loan. Land values are down 15 to 20 percent in the last year alone in Kansas. With bad income prospects, less collateral value, combined with the fact that many farms already have delinquent loans, the prospects for credit availability are dim.

Interest rates are too high. The prime reason, of course, is the Federal deficit, which we all keep mentioning. Kansans are united in opposing any more budget-busting plans and urge the immediate and substantial decrease in the deficit, but farmers cannot bear a disproportionate share of that load.

A resolution was passed by both houses of the legislature in Kansas which advocates a new stable and consistent government program in agriculture and a two-tiered pricing system to guarantee a higher domestic price and ensure that both stocks and new production can move in the world market—a new involvement that has the effect of being nearly budget neutral because it recognizes the need to avoid increasing government spending and putting some of the burden on farmers, processors, and consumers.

The resolution also asks some form of credit relief to get farmers in the situation where they can take more government out of the picture. Government should not so much seek to get out of agriculture altogether as to establish a consistent and affordable long-term farm policy.

For exactly the reasons we support our own resolution, we oppose the proposed budget of the U.S. Department of Agriculture and the consequent reduction of support for one of the bastions of Kansas and American democratic values—the family farm.

Thank you very much for giving me the opportunity to testify this morning.

Representative OBEY. Thank you very much.

Next State Representative Robert Skow of Iowa.

STATEMENT OF HON. ROBERT SKOW, IOWA STATE REPRESENTATIVE

Mr. SKOW. Thank you, Representative Obey and Senator Abdnor. I'm Representative Bob Skow from the State of Iowa. I live in the southwest part of Iowa. I'm here on behalf of the whole State of Iowa.

Since the first of the year in the State of Iowa, we've closed three banks, and we believe many more will follow. Agriculture's economic problems have brought our State to its knees. Here's the problem.

Real interest rates, the difference between the rate of inflation and the rate of interest paid by the borrower, reached historic highs for this century in 1980 and have been sustained near that level through today. Agriculture is a capital-intensive enterprise that greatly depends upon borrowing. Each 1-percent increase in interest rates means a $2-billion increase in U.S. farm production costs. High real interest rates in the United States have acted like a magnet to attract foreign capital. The demand for U.S. currency has raised the value of the dollar to historic highs against many foreign currencies. The high value of the dollar makes many imports to the United States relative bargains and makes American goods more expensive for other nations to purchase.

The U.S. trade deficit has reached also a historic high and farm exports from the United States have diminished as surpluses of agricultural products in the United States accumulate. Ironically, many underdeveloped nations typified by many areas in East Africa, have neither sufficient food supplies, the ability to produce food, nor the means to pay for imports. With decreased foreign markets, the oversupply in the United States has driven down the price of domestic agricultural commodities. High production costs coupled with these low prices have made farming unprofitable for all farmers. Diminished profitability and high interest rates have caused farm land values to decline by as much as 40 percent in our State in 3 years.

Over $40 billion in asset value has been lost by Iowa farmers since 1981. The decline in asset value has reduced the ability of farmers to borrow for continued operation and put additional strains on cash flow requirements. Devalued assets also mean that many existing loans will soon face significant financial difficulties. As many as 12,000 farmers may be forced off the land this spring. With their families, they number over 34,000 people being displaced in our State.

These problems of cash-flow, operating losses, and declining net worth for farmers have also become a problem for public and private lending institutions with a high proportion of agricultural loans. However, the twin culprits—interest rates and the value of the dollar—are far beyond the scope of State government to control.

Farming is the hub around which much of Iowa's economy revolves. About half of Iowa's industrial sector is comprised of food processing, farm implement and construction equipment manufacturing. The success of merchants in most Iowa cities and the job security of thousands of workers in factories depends on the profitability of farming.

With current land prices, profitability will return for most farmers only with decreased production costs, lower interest rates and higher prices. Levels of farm debt supportable by farm income must be achieved; otherwise, farming can only be profitable for new investors who purchase land at greatly reduced prices. Unfortunately, the latter also means that sizable losses in assets and livelihoods will be experienced by many Iowans who have dedicated their lives to agriculture. There may be means available to slow the rate of diminishing assets through financial mechanisms designed to allow positive cash-flows for a time. The cost to government would be significant and beyond the scope of State government to finance. The only long-range solution to the problem will materialize with lower interest rates and a lower valued dollar.

We have over 11,500 farmers—in an article just broke out in Farm Journal estimated that we have over 20,000 farmers, approximately one-fourth of our total farmers—with debt-to-asset ratios of greater than 70 percent, and over 25,000 additional Iowa farmers with debt-to-asset ratios over 41 percent. This group has debts over $7 billion that may not be able to be served in 1985.

We must receive massive Federal intervention to assist us in restoring our economy.

I'd like to read to you a letter from a 15-year-old farm girl from Iowa that she recently wrote to President Reagan:

> Dear President Reagan: I am a 15-year-old girl writing to bring your attention to the problem on our family farm in southwest Iowa. I will start by telling you that our farm has been owned in our family for over 100 years.
>
> In 1974, my father was presented an award for being selected as one of four outstanding young farmers in the United States. My dad is an excellent farmer and businessman. He is efficient and progressive. The United States needs good farmers like my father. On our farm we raise enough pork to feed 30,000 people. We also raise 700,000 pounds of popcorn.
>
> I read in the paper we are going to send $12 million to Israel. When businesses in our community are failing, it is easy to see that the reason is because of the farm problems. It seems to me that this money could be used to heal our country's problems. Farmers are not asking for a handout, but just a helping hand. You would be considered one of the great Presidents of all times if you could stop this massive farm crisis.
>
> I have been helping every day on the farm. But it is going to take help from you and the Congress to save our family farm. Please lower the interest rates, quit importing meat from other countries, and most of all, save our farm. We need help now.
>
> We were banking with a bank that has been closed by the FDIC. As a result of the FDIC's indecision, March 1 is our last chance because the Federal Land Bank is going to foreclose on our home farm, including our house. Here is a picture of me showing you that I am a real person asking for your help. Sincerely yours, Heidi Muller, Route 2, Griswold, Iowa.

Because of people like her, the State of Iowa has taken its problems into its own hands. Last week we decided that we would pass a law in the house setting up $65 million of debt restructuring money which will require a tax increase. We are in the process of revising State banking laws. We are in the process of updating our uniform commercial code and there's a great possibility that we may pass a minimum price on agricultural commodities.

According to the Federal Land Bank and according to other sources, Iowa stands out in the Midwest as having some of the most serious agricultural problems.

Thank you very much.

Representative OBEY. Thank you.

Next we will hear from Senator Stephen Sharp of Missouri.

STATEMENT OF HON. STEPHEN SHARP, MISSOURI STATE SENATOR

Mr. SHARP. Thank you, Representative Obey and Senator Abdnor.

In hearing these outstanding and substantive proposals being made by the members of each delegation and in asking myself if I could deliver to each of you a brief message that I think is more important from my State of Missouri than any other message I can tell you this morning, I must say that I don't feel that we have to convince each of you of the magnitude of our problems this morning and I appreciate each of your opening remarks. I think that we could not be speaking to two better people who will carry the messages forward that we are delivering this morning.

Representative Obey and Senator Abdnor, if I could only say one sentence, it would be that I sense and fear that there's an attitude prevailing here that we are talking about somehow the inefficient, marginal or somehow bad farmers that are getting ready to be shaken somehow out of the system, and while it's bad, it's an inevitable process. And I want to tell each of you that's not true.

In my State it's not true. In my senate district in Missouri it's not true.

We are talking about young, good, bright farmers like the young man that the gentleman from Iowa was just speaking of and we are talking about conservative, established, second and third generation family farmers who are facing this immediate crisis within the next 30 days. We are not talking about only land speculators and people who made unwise investment decisions over the past few years and that's my most important message I want to deliver to you this morning.

That is not the case in Missouri. Our problems in Missouri are exactly like those that have already been described. I would say more than any other particular solution that my delegation and my people in Missouri would concur in is the thought that we must move toward a market oriented basis for agriculture. We know and understand that. We know that agriculture cannot continue to be so dependent on Government as it has been in the last three decades, but it cannot be done precipitously. It cannot be done overnight and our farmers must have a period of reasonable years, 2 to 3 to 4, in working toward a new world market system.

That is essentially my message, and we appreciate being here.

Representative OBEY. Thank you all.

Let me ask two or three questions in my 5 minutes before I turn to Senator Abdnor. First of all, all of you have focused primarily on what the Federal Government ought to be doing. Obviously this issue is largely a Federal question. Nonetheless, let me ask you if you could indicate—and some of you have—what are your own States prepared to do?

For instance, we are being asked to help finance the ability of the Government to provide for interest and principal buy downs. What are some of your own States prepared to do in participating in that effort?

Mr. SKOW. I said in my statement that last week alone we authorized $65 million. That's predicated on using that for interest buy down and a participation program at banks of 5 percent in stage 2. That will only underwrite less than half of our farm debt that needs to be underwritten this year.

Representative OBEY. What will underwrite that?

Mr. SKOW. The $63-million increase in budgeting toward an interest buy down will raise taxes to generate that money in Iowa. But the problem is we have a State constitution that doesn't permit us to guarantee Government loans. So even if we appropriate money and raise taxes, there's a question whether we can make the program work and we don't have the manpower at Farmers Home.

Mr. SCHMIT. We have introduced a bill and one State has passed a special constitutional amendment which allowed farm land to be valued for other tax purposes. We introduced a bill which had a hearing and advanced to the first reading and we did it in desperation to reimpose a 9-percent usury limit on all the first $100,000 of all loans providing that the contiguous States can do the same thing by 1987. We put in a bill to establish an agriculture credit bank. We funded it with $20 million of beginning funds.

Those are just a few things that have been done.

Mr. KELSH. In North Dakota we have had many pieces of legislation—interest buy down, home purchase funds—the most comprehensive piece of legislation—I would like to leave a copy here that was developed by the Governor's office, and it is comprehensive and it has debt restructuring and there's some moratorium in it and it's a very good piece of legislation and we are working on it right now.

The cost would be quite minimal to the State but our funds are very limited with the situation in agriculture and I would also like to leave a copy of a petition that was sent to me by many people, about 800 signers, from the State of North Dakota, but we are trying to do many things in North Dakota.

Representative OBEY. Mr. Moen.

Mr. MOEN. Thank you, Mr. Chairman.

In the State of Wisconsin, the Governor who is from your wonderful hometown incidentally and the same hometown of my colleague to my right, has called together a commission on agriculture who will be meeting—the first meeting will be on Thursday of this week—to address the immediate problem we see in our State of providing some funds for farmers for spring planting.

We have legislation in that would provide $10 million and 100 percent guarantee loans to farmers for the spring planting, meeting certain criteria of course.

I think some of the other things we have done—our State, as you know, our property tax has been a tremendous burden. In this budget the Governor has proposed over $7 million in property tax relief and a lot of that will take the burden off our farmers out there.

I think we will also be looking through the Commission on Agriculture for some methodology wherein the State will make a commitment to provide people to assist the Farmers Home Administration to resolve this 52,000 loan application backlog that we have in our State.

I think those are very positive steps for our State.

Representative OBEY. Let me followup on that specific question because, as you know, a lot of the efforts that are being run through here would concentrate primarily on FmHA. What are your States prepared to do in order to assist the FmHA in dealing with that anticipated crunch? I know our own State FmHA director has issued an appeal to volunteer organizations and the State to help provide manpower. That may or may not get off the ground. What are each of your States prepared to do to deal with that crunch?

Mr. SKOW. The house legislature committee just this last week passed a bill appropriating $300,000 to help defray the costs of bankers, retired bankers and others, who would come in to some extent at their own expense, self-subsidized but to some extent compensated for their services, to help farmers fill out FmHA applications so that we could get those on file and hopefully speed up the process to getting those loans to the farmers.

Congressman, we're willing to go to the mat to get the number of people that are necessary, but the current FmHA program is a cruel hoax to farmers. President Reagan announced last fall $640 million and to date only seven farmers across the whole country have proved eligible for that loan. We could put 200 people out there, 5 in every county, and with the current rules it won't work. You could put in $5 billion, but under the current rules it's not going to work. Our people with 70 percent debt-to-asset ratios will never qualify.

Senator ABDNOR. Are you talking about FmHA?

Mr. SKOW. The FmHA.

Senator ABDNOR. Seven hundred million dollars went into banks and that hasn't worked.

Mr. SKOW. Back home we say our Farmers Home director has a Ph.D. in crab fishing and he can move sideways faster than anybody in the State. We call it manure back home, sir.

Representative OBEY. Anybody else?

Mr. DAVIS. Several years ago the Minnesota Legislature made offers to the State director of the FmHA to provide whatever help they needed to process the loans and he said he couldn't accept it, that they couldn't work with any outside help in their office in their superstructure. That offer still stands. We will provide as much help as we can if and when they will let us, in addition to encouraging our rural banks to get on-line, as we have already done, to become the lenders to help the processing of those loan applications.

Mr. HAM. We have had some problems in South Dakota too with nine of those offices and we have had quite a shift of personnel within those offices in the State. We have proposed in the legislature to provide more personnel to man those offices and we have also talked about perhaps using our computer college now that we have one, as I mentioned earlier, in Madison, SD, to help do what one of the other members suggested, and that was computerization of those offices. We are having problems with FmHA processing applications.

Mr. SCHMIT. They closed a bank and moved in 44 people to help close down the institution, but they didn't move a single person in to the FmHA office to assist the people who were forced out of that bank. Many of them were good borrowers but simply could not find a new credit home. The Governor and I met with the FmHA officials in the State and he offered to provide State government help to assist in their office and they declined and said they might need

15 or 20 people and they are reviewing loans only once a month. In February they met and did not plan to meet again until another month rolled by. It's absolutely impossible to meet the loan demand out there under those conditions.

Mr. KELSH. In North Dakota we have through our commission on agriculture, a farm credit counseling program so that farmers who are in trouble can call and people will analyze the situation and prepare a complete analysis, whether the farmer can get back on a cash-flow basis, and we would be very happy to work with the FmHA people and do all the preliminary work if they will accept those figures. We would be very happy to do that.

Representative OBEY. One last question. Mr. Davis, you indicated that in your part of the country you thought that even with very conservative farmers that the word "mandatory" was not a dirty word any more.

When you make reference to that, are you referring to mandatory production controls?

Mr. DAVIS. Yes, I am.

Representative OBEY. I just have to say that I wish I found that same attitude with my farmers. I don't. At every meeting I go to I get lots of people talking about how we have to get higher prices, but at the same time very strong resistance to production controls. I don't know how everybody out gunning one another is going to get higher prices. Maybe your farmers are a lot different than mine. I don't get that message.

Mr. DAVIS. I would just qualify that by saying that we are being very realistic. They are looking at what the alternatives are. They look at the program that's being proposed now and they are very realistically looking at the need for a living wage and how they can ever achieve that. They are also saying, well, if the only way to get a reasonable or an equitable price for a commodity is to accept some level of production controls, then, yes, they are willing to do that.

I might just indicate that the number of actions that the Minnesota Legislature has taken—we have talked to our own Congressmen about this—if that is ever going to be held against us, if what we're doing on our own volition is going to restrict the amount of aid given from the Federal Government, we will stop it right now. I don't think we can. We have more faith in the people out here than that. But in the absence of any logical farm bill that's going to provide any hope to our constituency, I think what you're going to see is some forced State cooperation, whether it's usury rates, moratoriums on foreclosures, cooperative enactment of minimum pricing legislation—we are going to be forced into that, too.

Representative OBEY. Senator Abdnor.

Senator ABDNOR. Thank you, Mr. Chairman.

Mr. Davis, you said in your proposal that it calls for a moratorium. Is that on everything, all farm loans?

Mr. DAVIS. Yes.

Senator ABDNOR. How do your bankers react to that?

Mr. DAVIS. Senator Abdnor, the very second bill that popped out of the Minnesota Senate was my bill that was in fact the embodiment of a cooperative effort between three major farm organizations and the Independent Bankers Association of the State of Minnesota which included that voluntary 120-day grace period which they would impose upon themselves. The Independent Bankers thought that was workable. They still think it's workable. Now they are starting to pull the Minnesota Bankers Association, which is just a little bit larger group, right along with them.

Senator ABDNOR. There's something I need to know about in my own mind which is often discussed. This is a moratorium on interest payments, too, I suppose, on the debt they have at the bank, is it not?

Mr. DAVIS. It may be that, but they realize——

Senator ABDNOR. I thought you said that. Is that in your proposal?

Mr. DAVIS. Senator Abdnor, that's not part of the proposal.

Senator ABDNOR. All right. That's the problem.

Mr. DAVIS. But the Independent Bankers Association realizes that the people at the very low end of the stick are nonperforming loans right now.

Senator ABDNOR. But the thing that bothers me is we do have some farmers, about two-thirds of them as I understand, in this country who are paying their debts at the regular rate of interest, as tough as it is. What scares me every time, including the program we're talking about here in Washington to help them, is when you do something to buy down interest rates at the banks or have your moratorium, the bank has to have some income, therefore they are going to have to take some from the other guys. I wonder if that's what we really want to do.

Are you going to shove it from one to the other? That bank can't go on without some dollars coming in. They've got money deposited with them.

Mr. DAVIS. You're absolutely right, Senator Abdnor, but again, it's a matter of alternatives. All of our legislators are running their own local surveys. I'm telling you that even the most conservative parts of our State, when they pose the direct question of, Do you favor an absolute 1-year moratorium on all foreclosures? The positive responses have been running 60, 70, 80 percent of the total population being in favor.

Senator ABDNOR. What answers do the people—not the bankers, the people—give you to solve the problem? Do they want us to save the banks then or are you going to do it in Minnesota? When you're talking about Government, that's one thing; but you're talking about private enterprise that has other people's money involved. Suddenly, you're going to put a freeze on them and tell them what they're going to do. Somebody who has their money in there is going to pull it out and put a run on the bank or something. What's your solution for that? Are we going to step in like we did with Continental? Who's going to help us on this?

Mr. DAVIS. Once again, Senator Abdnor, it's a matter of alternatives and the State Legislature of Minnesota already has taken steps on debt restructuring on interest to the FmHA. We have already taken steps on the interest buy-down provisions. But the big question that is hanging so heavily in people's minds and, in fact, a banker representing the Minnesota Bankers Association provided testimony that the two things he knew for sure, first, hopefully Washington, DC, was going to do something to provide some more adequate levels of income to help some of this mess; and the second was more powerful yet to my constituency at least, which was the realization that once farm families leave from the farms and once families and businesses leave from main street, we're never going to get them back.

Senator ABDNOR. Mr. Davis, I don't disagree with that and that's something we are trying to prevent. You have given me some answers but have not answered my question. I have been asked about this moratorium and I'm trying to find out whether I'm for it or against it. You keep saying we are working with them. That's not what I'm looking for. Have you an answer. If we're going to put a moratorium on it, do you think it would work? That's all I'm asking you. Do you think the banks can survive and do you think the people who have deposits in the banks and those who are paying interest to the bank aren't going to have to pay more money? That's what I want to know.

Mr. DAVIS. Senator Abdnor, yes; that is one of the proposals that we have been working with so far during this legislative session. Please don't misunderstand. The entire accumulation of whatever we're able to do in the Minnesota Legislature can only accomplish one thing, and that is buy time. Historically, moratoriums have been a part of a crisis back into antiquity. Legal experts will tell you that of all the legal uncertainties connected with moratoriums, one sure fact stands out, and that is that they are effective in buying time, and that's what we feel we have to do.

Senator ABDNOR. There's only one last thing I would say to you. If we're going to use moratoriums, I don't know where we're going to find the money.

Don, do you have any answer as to how we're going to do this?

Mr. HAM. We felt there wasn't any realistic and commonsense way to do that, to put that on the banks. We have some going under right now. And also the creditors and the depositors would be in trouble and then you have a chain domino reaction. Our small businessmen are in trouble now and if their savings went under, then you really have problems. Even with FDIC, if they didn't lose their savings at that time, the problem we're having with FDIC in the few banks that did fail, with the time period before those people would get their money and get their books settled up was putting those people out of business.

Senator ABDNOR. Do you see this conceivably happening and then seeing them coming back to the Federal Government? You don't have that kind of money I don't think. I never heard of it in South Dakota anyway.

Mr. HAM. That's the only source and knew that by asking you to balance the Federal budget that we shouldn't be asking you to help us out again.

Mr. ROBINSON. Senator, if I may, we in Wisconsin looked seriously at a number of proposals last session. What we found was that in most cases the two worst culprits were our State and Federal agencies in foreclosures. I think that probably is a trend that is true in most States. But we had agreement on a number of proposals that because of closing down the session we were not able to pass. What we found in most cases is if you have a moratorium and a moratorium is for 1 year, you're not bringing anybody new in.

You're buying time for the people who have problems right now, but in most cases it takes over 1 year in Wisconsin to foreclose on a property anyway. So, you're talking about protecting people at risk at this time and it's an immediate crisis and it does buy time for those people. Because of the time delays and other things you're not opening up the flood gates to all sorts of other people.

Senator ABDNOR. Do you want to add anything to that?

Mr. KELSH. Senator Abdnor, I think one thing bankers are looking at as far as the moratorium is concerned—a local banker told me about a year ago when the bank examiners finished their work at his bank, they came in with a list of classified loans and told him he'd better take care of them. He said he explained to them that we had been in a drought situation and a low farm prices situation and he said in no uncertain terms that he was sympathetic but that didn't make any difference—"You take care of them."

What that means is foreclosure. Right now what is happening is the assets they have are worth from 40 to 80 percent of what they have them listed as. A tractor is bringing under $20,000 and it lists at $80,000 new. They are going to lose way more if they have to sell that outright now than if they have time to work with that farmer and hopefully get some help as far as the price situation is concerned to make these farms viable units again.

Senator ABDNOR. Thank you. I have one quick question that I want to ask each of you.

Should there be any kind of a cutoff or do you each think that everybody should have that loan and we should try to keep every single farmer in business? I look over the record and this is a tough decision we have to make. Where do we help and where do we cut off? Is it possible to save everybody short of a grant? Are there some people that are so far in that it would be almost impossible to save them? This is something we are talking about. Ever since the 1930's there have been 2 or 3 percent of the farmers, even in the best years, that have gone out of business. Now is it up to us? Where are we going? And I agree with you that a lot of farmers went out of business who have been poor managers, but for the most part they are pretty good operators. I think they are getting better every year. My bankers tell me they are getting farmers who are using their computers in ways unheard of a year ago.

At what point do we discontinue this lending money and is there any point where we stop?

Mr. MOEN. I don't think we can save everybody. I don't think it's the duty of business to save every business, whether it's been small business or farms. I think there are certain things we must accept.

Senator ABDNOR. What would your criteria be?

Mr. MOEN. I've talked about a number of things. If you take a look at what has happened over the last 4 years, $50 billion, and where that money is going and who is getting it, it's not truly being addressed to the family farm. That's one of the things that needs to be addressed.

I had something in my statement about something like a graduated parity for dairy farmers and that would address the family farm and not the large corporations and so forth. But I think that's something that should be looked at so we can provide some assurance that we are addressing the family farm, those individuals that are receiving 51 percent or more of their income from that farm.

Senator ABDNOR. Even though they have a lot of debt, they really went over-debted and got themselves to a place where even an average crop may not help them out? What would you do?

Mr. MOEN. We bailed out New York City and a few others, and agriculture is the backbone of this entire country and I think we need to provide something there.

Senator ABDNOR. I couldn't agree more with everything you said, but is there a point where you're doing the guy more harm by bringing him along. Are you going to give him the money or loan it at no interest? What if he can't pay the regular interest because he has so much debt? What would you do in a case like that?

Mr. MOEN. I think every case is a case-by-case basis. I don't think we can guarantee for everybody.

Senator ABDNOR. I'm just wondering where we're shooting for up here.

Mr. HAM. Senator, it is going to be hard, I don't envy your position. I think one of the things is the 100-percent buy-back versus the 110 percent not having the cash-flow may be one criteria. We felt that a 50-percent CCC payment—of course they will have to buy crop insurance to let them plant this spring, but it's absolutely sure you're not going to be able to save them all.

Senator ABDNOR. If we did restructure the bank loans and the FmHA and we got something in writing to the majority and minority leaders saying that they are supposed to process the loans within 15 days and that they have to give a report every week. All these things are in there and if they do them it will work, and if the President would jawbone the banks a little bit they would help. If we get all of that done, I'm just wondering how far we're going to go with this thing—in this sort of situation. This was all put together last week and it was confirmed 91 to 0. All we got was a promise from the Secretary, speaking for the President, and letters from the minority and majority leaders. I assume in the House that they are going to do these things. No unlimited dollars for operating loans from FmHA if they are eligible and qualified. However, this is still taxpayers' money. You can't sustain this forever. My mail is already starting to go the other way. That's why I said in my opening statement that maybe we could go too far. I'm starting to get mail from people who say "If you're going to do it for everyone and everything, let's do it for us." But that doesn't help their own interest rates they have to pay because of the dollars they have to put out.

Mr. HAM. That's absolutely right. If we go too far in this we're going to have a backlash that's going to be tougher. We have already had some in the agriculture program. So you're going to have to have that reporting from all those individuals and you're not going to save them all. There just isn't any way in our economic system.

Mr. SMITH. I'm convinced not only in some cases is it a disservice to that individual to give him just 1 more year operating but in some cases it's cruel. I agree with the gentleman who said that it has to be a case-by-case basis. What is going to be the ultimate solution is higher commodity prices and maybe lower production costs. Simply giving some of those individuals that are already destined, because of their leveraged position, not to make it in agriculture, to ask that person to sweat out—and we're talking about individuals that are putting in 12, 14, and 16 hours a day—trying to make a living—it would be more compassionate if we would allow some of these individuals a transition program such as assistance for job retraining, such as a provision where they might at least keep an acre and their home and help in a transition program because there's no—I am convinced that it's a disservice to some of them.

Senator ABDNOR. The 50-percent loan—three national farm organizations have told me they are against it. I have letters from two of them and I'm supposed to have one from the third. They said, the worst thing you can do to a farmer is give half of his income away right off the bat because he's going to need it later on. However if we can get assistance from the FmHA, if such a program could work out—we have some horror stories here as well—but if we get this turned around for those eligible, we could restructure some of them through banks. They say that's a lot better for these farmers because when they complete the harvest they have something left over.

I'm a farmer, have been for 30 years. I had as many bills at the end of the year after I had grown the crop as I did when I got ready to go into the field. I know it is necessary to leave those people something. If they take a loan before they go into the field they can borrow on that which cuts back on the amount of money they get from the bank when they go to get their loan restructured. FmHA has to take this into consideration. I thought this was the way to go. I was going to put my own bill in, but I have been considerably slowed up.

Representative OBEY. We have a rollcall in progress on the House side, but I would just make one point before I leave. Mr. Skow, one of the frustrating things that I deal with here is lack of accuracy. One instance, is the fact that a number of national news networks are talking about is the "fact" that the dairy program is costing the taxpayers half a billion bucks. They don't know and they don't want to bother to learn that that program is self-financed by dairy farmers. It isn't paid for by taxpayers.

By the same token, you quoted the letter from a little girl, and I run into a lot of farm families in my own district on this same problem, talking about the level of aid we're giving to Israel. She's not correct about that. In my other capacity as chairman of the Foreign Operations Subcommittee, I would simply say that just as farmers shouldn't be scapegoated for costing taxpayers money when they don't, we ought to understand that there's a myth out in the country that if we only abolished welfare and foreign aid, we would be able to balance the budget. Frankly, that's a lot of nonsense.

The fact is all the money in the President's budget for foreign assistance is about a cent and a half for every dollar in the budget, a very tiny amount. And a significant amount of that is provided for our own security considerations around the world.

Second, I would simply make the point that all the welfare which is provided to nonelderly poor in this country only amounts to 5 cents for each dollar in the budget. If you wipe out all the foreign assistance and all the assistance to the poor, you would still not make a dent in terms of the national debt.

What we have to do is focus on facts that are true.

Mr. Skow. Congressman, I will sure forward that information to her. We believe we are giving up farms for arms in Iowa.

Representative Obey. Thank you. I apologize for having to leave you, but as you know, rollcalls don't wait. Senator Abdnor will continue.

Senator Abdnor [presiding]. I will be brief. I'd like to hear Senator Sharp's comment on this. I'm just trying to tell you what we are trying to do up here.

Mr. Sharp. On the moratorium issue?

Senator Abdnor. Yes, and about how far we should go. Should every single person be saved? Do you feel that strongly or is there about 2 or 3 percent that shouldn't be helped?

Mr. Sharp. Senator, I would think certainly that it's too ambitious an undertaking to save every farm. But at the same time, let me say that the gentleman who pointed out that this has to be looked at on a case-be-case basis I think is correct because in my State there are differing levels of this crisis depending upon the weather in the last 3 years, and I know that you don't want to hear me discuss the weather, sir, but there may be good farmers who, if they can stay in 1 more year in northwest Missouri, where there hasn't been a crop in the last three crop seasons because of flood and drought in the same year, who might survive, perhaps in the first year there should not be any cutoff. Perhaps in the second or third year there should be a $10,000, a $20,000, or $25,000 requirement stepping in.

Senator Abdnor. Thank you.

Mr. Skow. Senator, in Iowa we are using our institutions who help us in our bailout program set their priority on a case-by-case basis.

Let me explain something real fast to you. We believe and our economists in Iowa State that we have a conveyor belt and we are running these folks off a conveyor belt. Farm land is dropping in value. Even these people who maybe shouldn't in the long term have money to be in farming without trying to slow up this conveyor, we may run off lots of farmers. So I agree with the Senator from Missouri that maybe we ought to trim this thing off slowly.

Mr. Davis. Senator Abdnor, in answer to your last question, the indication that you're getting from lenders in not using the debt restructuring mechanism I think is a sure sign, and you're changing that.

Senator Abdnor. This is going into effect. We went from 110 to 100 just this week.

Mr. Davis. I realize that, but to answer your question, none of what we have done in Minnesota would ever take the decision making power of who gets a loan out of the hands of the traditional lenders.

Senator Abdnor. I'm more interested—maybe we could do something from this end. So I'm asking you, should we in Government try to make it our goal of saving every single farmer in Minnesota?

Mr. DAVIS. Senator Abdnor, I don't think it's possible. It's not possible for you to do that and it's not possible for us to do that.

Mr. SOLBACH. I do not think we can save every farmer, but the farmers that could not be saved are not farming any more. There are limits to what Government can do, both Federal and State. But we ought to push ourselves to the limits, to the boundaries of those limits, to help save as many farmers as we can. There are constitutional problems with the moratorium, at least in Kansas. In 1933, the Kansas Legislature did pass a law mandating a moratorium on foreclosure of farm lands. The Supreme Court of Kansas struck that law down in 1935.

Senator ABDNOR. Thank you.

Mr. SCHMIT. Five years of unprofitable operation in agriculture has made it impossible to save some farmers. That's too bad. But I would just like to point out that the reason why I support the resolution is because that organization has the manpower, the knowledge, and the ability and the willingness to process those loan applications and do it promptly and understand each farmer. They have the records. They know what they can advance to the farmer and can expect to be repaid. If they get $100,000 on credit from FmHA or the bank, it's all advanced and must be repaid.

The other point we're hoping for was that we'd get that money for the same cost as the corporation is paying for it which would be a help to us.

We sold corn for more than $2.40 in Nebraska in 1948. Unless those prices improve, there isn't anybody going to survive in agriculture.

Mr. KELSH. I think in North Dakota we're taking the attitude that we are not going to save everybody, but realizing that in 1960, 6 percent of the population in the United States was in agriculture and now we're about 2 percent, I think we have lost all the poor operators 15 to 20 years ago. I think people that are still there deserve every effort to be saved. If they have a minus net worth, it may be impossible, I agree, but we have the most efficient food producers in the world and they're raising it ridiculously cheap. I think these people deserve every effort to save them, yes.

Mr. SMITH. Senator, for the record, I would hope that you would encourage the administration to send out a directive to the Farmers Home Administration that their individual State offices give priority to farm loans and put rural housing loans and other commercial loans on the back burner to help the system at a time when we need to pay attention to farmers.

Mr. MOEN. To follow up on what Representative Robinson said, in the State of Wisconsin, as far as the foreclosures are concerned, last year we had 637 farms foreclosed which is a four-time increase over 2 or 3 years ago. But we do have a situation because of State law where it is basically a year before an individual can be foreclosed on, but we did remove something that we had previously to that called foreclosure by advertising. Now an individual has their day in court and we have to go through that process to assure that there's some mechanism there that a person has before they can be foreclosed on, and those cases where they are close to the fine line on a case-by-case basis they can—in fact, the court may give a second year as far as the foreclosure process. So there is some mechanism there but, again, it's not this moratorium. It's a difficult thing to deal with at any level.

Senator ABDNOR. Well, it's helped me a lot to hear you gentlemen talk. I just want to say it's now a quarter after 12 and some of us are supposed to be other places, but I do thank you for coming. You have come a long ways and I wish you could tell every committee in Congress what you have to say, but it does take time and everybody is running off in different ways in committees. It's not that they are not interested. It's just that you can get conflicting schedules. I could be in three committee meetings with no problem at all at one time. But this is down on the record. It's true that we are not an authorizing committee, but we do have this material on the record and presented to the Agriculture Committee. We're going to try to use the material the best way possible and I want you to know that we do appreciate you taking the time and I thank you and I know Representative Obey thanks you. We hope your discussion and your testimony here today will make a great contribution to solving the farm problem. Thank you very much.

The hearing is adjourned.

[Whereupon, at 12:15 p.m., the committee adjourned, subject to the call of the Chair.]

APPENDIX

State of Indiana — Senate

Senator Wayne Townsend
Rural Route 2
Hartford City, IN 47348

Committees:
Finance, R.M.M.
Commerce & Consumer Affairs
Public Policy
Interstate Cooperation

February 21, 1985

Representative Lee Hamilton
2187 Rayburn Office Building
Washington, D.C. 20515

Dear Representative Hamilton:

The crisis in American agriculture is already a real and immediate threat to the security of Hoosier farmers and the prosperity of Hoosier farming communities.

We are told by Indiana's agricultural authorities that as many as 20 per cent of the farmers in our state will begin the spring planting season under some form of credit restrictions. For some farmers, these restrictions will mean insufficient financing to complete spring planting. Other farmers will be forced to liquidate some of their investments in land and equipment. Still others will be unable to secure any financing under prevailing conditions. They may be out of business.

If these trends continue unabated, the forced sale of land could weaken the already depressed values of farm land so that farmers' equity and lenders' collateral are further eroded. This will force into liquidation many farmers who might otherwise survive the present crisis.

The times that have fallen upon American agriculture require prompt but prudent action from the Congress and the Administration. Despite problems with current farm policies and programs, this is not the time for radical change of the Federal role in agriculture. The nation's farmers, as well as the agribusinesses and the financial institutions serving agriculture, do not now have the capacity to endure experimental reforms in farm policy.

We should, instead, concern ourselves first with the immediate need to restore equity, stability, and profitability to agriculture. Our first objectives should be:

1 -- The most urgent need is to stabilize credit and ensure that sufficient loan funds are available to finance spring planting operations.

2 -- We must take immediate and effective action to restore foreign markets for American agriculture. Our economic policies have so forced up the value of the dollar in comparison with foreign currencies that American agriculture is faced with limited foreign markets.

3 -- We must take effective action on farm finances. Interest rates and the costs of farming remain high at a time when the value of farmers' assets in land and capital equipment is in decline and at a time when farmers' cash incomes are falling. Ultimately, this problem is a result of the exploding deficits in the Federal budget -- deficits that absorb investment capital that would otherwise be available for agriculture; deficits that support high real interest rates.

If these three problems are effectively and immediately addressed, then we have good reason to expect the restoration of security and stability to American agriculture. When we have accomplished these conditions, then we would be able to take up the serious restructuring of farm policies and programs.

The current crisis is a serious issue for the entire nation. I urge your immediate attention to the matter.

Regards,

Wayne Townsend
State Senator

Senate Form No. 8

SENATE RESOLUTION FEB 13 1985

#6

AGRICULTURE & SMALL BUSINESS

MR. PRESIDENT:

I offer the following resolution and move its adoption

WHEREAS, the economic crisis in American agriculture now presents an immediate threat to the security of Indiana farm families and to the prosperity of Indiana communities; and

WHEREAS, the origins of the present emergency lie in national economic trends that have raised the exchange value of the dollar to record levels in comparison with foreign currencies resulting in export markets that are increasingly inaccesible to the farmers of America and Indiana; and

WHEREAS, the origins of the present emergency further lie with economic trends that have raised interest rates and reduced the availability of capital for the continued financing of stable agricultural operations; and

WHEREAS, the present combination of economic policies and economic trends has produced a precipitous decline in the values of productive farmland which serves as collateral to finance the operation of family farms and to guarantee the solvency of banks serving numerous rural communities in Indiana; and

WHEREAS, the immediate result of these policies and trends may be to deny necessary loans to finance spring planting operations for substantial numbers of Indiana's farming families this year; and

WHEREAS, the extended results of these policies and trends could result in catastrophic losses to Indiana banks and financial institutions, wholesale and retail trade establishments, and to the property tax base which supports public schools and local governments in numerous Indiana counties and cities; and

WHEREAS, effective solutions for the present crisis are beyond the capacities of individual farm families and the farm organizations and financial institutions serving Indiana agriculture;

Now therefore,

BE IT RESOLVED BY THE SENATE OF THE GENERAL ASSEMBLY OF THE STATE OF INDIANA:

SECTION 1. That the Indiana Senate petitions the President and the Congress of the United States to seek and implement policies and programs which provide immediate economic resources sufficient to ensure normal planting operations in the spring season of 1985;

SECTION 2. Be it further resolved that the Indiana Senate petitions the President and the Congress of the United States to begin immediate action to enact and implement policies which again open foreign markets for the export of agricultural commodities from Indiana farms and which stabilize adequate capital resources for Indiana agriculture at practical and reasonable rates of interest;

SECTION 3. Be it further resolved that the Indiana Senate petitions the President and Congress of the United States to exercise caution in lowering support levels for farm commodities when considering the provisions of the Agricultural and Food Act of 1985 until the immediate crisis is resolved and stability is restored in American agriculture;

SECTION 4. Be it further resolved that the Indiana Senate petitions the financial institutions of Indiana, the United States Department of Agriculture and other appropriate agencies of the national government to serve the overriding public interest by using every reasonable effort to stabilize the farm economy of Indiana until permanent remedies may be implemented which restore self-sufficient stability to Indiana's farm families and farming communities.

Jessup

JESSUP - SENATOR

Townsend

TOWNSEND - SENATOR

The Farm Debt Problem: Causes and Possible Solutions*

--Neil E. Harl**

I. Nature and Extent of the Problem

Agriculture is going through the most wrenching financial adjustment in a half century. Not since the 1930's have issues of debtor distress gripped rural America as they have in the 1980's.

One need only look to our farms and rural communities for proof--

• In Iowa, land values have dropped by almost half since 1981, cutting some $35 billion in collateral value and wealth from this state alone.

• The values of machinery and equipment have plummeted, perhaps by an even greater percentage.

• The numbers of farm foreclosures, forfeitures of land contracts and defaults on notes have reached levels not seen in this state since the days of the Great Depression.

• The level of emotional trauma being suffered by our indebted farmers and small businesspersons is a tragedy of awesome proportions.

The scope of the problem is much broader than farms. Although economic stress gained a foothold among our more heavily indebted farmers, the phenomenon has escalated rapidly so that today it threatens to engulf the entire rural community. In fact, few will escape unscathed. And lest anyone among us still has doubts, the data make it clear that the problem is almost

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national in scope. The severity varies from area to area, and the upper midwest has suffered the most from the ravages of this economic downturn, but the blight of agricultural stress virtually blankets this country. In many ways, it's been like a war against an invisible enemy. And that enemy is the cost of servicing a huge debt load with interest rates at unprecedented levels in real terms.

I would call to your attention a few of the more obvious manifestations of that struggle.

- Our farmers have been on the frontlines and in the trenches fighting a lonely battle for months now. The prospects are for fully one-third of our farmers to slide toward insolvency unless--(1) interest rates fall sharply or (2) farm income rises dramatically. Neither outcome seems likely at the moment.

- Many lenders are also struggling to survive.

- Suppliers have taken and will continue to take enormous hits as unsecured creditors.

- Main street businesses have felt the ravages of this cancer that gnaws at the very structure of our rural communities.

One of the most puzzling features of this unfolding economic tragedy has been that so few people in the major population centers are even aware of the problem. Until quite recently, agencies of our own federal government seemed to be unaware of the problem and even today many do not begin to understand the gravity of the situation.

Why the problem exists

It would be an unwise use of our time to focus a great deal of attention on who is responsible for the plight we are in. Finger pointing and accusations of culpability will do little to remedy the situation. But it is important to recognize the roots of the problem.

The single most important factor appears to have been the decision by the Federal Reserve Board in October of 1979 to wring inflation out of the United States economy. That action followed a succession of policies spanning five different administrations that contributed to the inflation that raged in the late 1970's. The second most significant factor appears to have been enactment of the Economic Recovery Tax Act of 1981 that cut federal revenues so sharply as to assure massive budget deficits. The result of these policies has been an economic environment of low inflation and record setting real interest rates as tight credit and strong private sector demand for credit have boosted interest rates. For agriculture, which is both capital intensive and export sensitive, the result has been--(1) a strong dollar that continues to set records against other currencies and that has cost U.S. agriculture dearly in terms of exports of farm commodities, (2) high interest rates that have boosted the cost of production for indebted farmers to high levels and (3) falling land values as potential investors have been confronted with the reality of 10 to 12 percent real interest rates and the reassessment of land as an alternative investment in the economic environment of the 1980's.

Policies to reduce inflation and to cut taxes to induce economic activity have created gainers and losers. It seems not inappropriate for the gainers to share a small part of the gains with the losers.

In the economic environment of the last four or five years, any factor that made a farmer vulnerable by increasing the debt load was sufficient to assure economic difficulty. It was the resulting "window of vulnerability" that set the stage for financial stress.

• Adverse weather conditions in some areas with consequent loss of part or all of a crop have been costly to farmers affected. For many areas, we have had an unusual sequence of adverse weather conditions beginning in 1980, both too wet and too dry.

• Beginning farmers are almost always vulnerable the first several years of operation. That has certainly been the case in the 1980's. This factor alone assures that we are in danger of losing a generation of young farmers.

• Losses in cattle feeding in the 1970's and even losses in hog production in more recent time have increased debt loads and, thus, vulnerability. For 29 of the last 58 months, hog production has been at a loss. That is unprecedented in this state.

• Expansion to bring a family member into the operation has increased debt loads. The economics of farming in recent years has encouraged the continuation of family operations with ownership and management transferred to the next generation.

• Major purchases of land, machinery or livestock facilities in the late 1970's and early 1980's were factors increasing economic vulnerability.

Any event or series of events that placed a farmer in the window of vulnerability has proved to be economically devastating.

Amount and distribution of debt

Viewed from the standpoint of individual farmers, perhaps never in the history of agriculture have problems of debtor distress occurred at a time when there was greater variation among farmers. Moreover, the financial position of roughly one-half of the farmers is deteriorating. As of January, 1984, approximately 19 percent of the farmers nationally holding 22 percent of the farm assets were responsible for 63 percent of the farm debt as shown in

Table 1. Think of it. Two-thirds of approximately $215 billion of farm debt nationally is held by borrowers slipping toward insolvency.

Table 1. Financial Condition of U.S. Farmers by Debt-to-Asset Ratio

	Debt-to-Asset Ratio				
	0-10	11-40	41-70	Over 70	All farms
Operators (percent)	58	24	11	8	100
Assets (percent)	47	32	14	8	100
Debt (percent)	5	32	32	31	100

Source: Federal Reserve Bulletin, January, 1984.

In general, it has been believed that most farmers with a debt-to-asset ratio above 40 percent were unable to make their interest payments when due. In a December, 1984, survey, the percentage of farmers in the Central states with debt-to-asset ratios above 40 percent had risen to 42.5 percent of all farmers as indicated in Table 2. For the country as a whole, 28.7 percent of the farmers, holding 65.1 percent of the farm debt, were in the over 40 percent debt-to-asset category as of mid-December, 1984.

Table 2. Financial Condition of U.S. Farmers by Debt-to-Asset Ratio

	Debt-to-Asset Ratio			
	0-10	11-40	41-70	Over 70
Central	31.5	26	21.5	21
South	44.9	30.3	13.9	10.9
East	53.1	26.7	13.9	6.3
West	36.9	36.6	16.7	9.8
U.S.	41.1	30.2	16.6	12.1

Source: Farm Journal Survey, December, 1984.

As an illustration of the deterioration occurring during 1984, Table 3 shows the Iowa data as of January, 1984. About one-third of the farmers in Iowa, averaging 61 years of age, had little or no debt as of January, 1984. Roughly another third had significant amounts of debt but, in most instances, it was thought that group would be able to stabilize their financial condition although the upper quarter or so of that group were encountering financial stress.

Table 3. Financial Condition of Iowa Farmers by Debt-to-Asset Ratio

	Debt-to-Asset Ratio				
	0-10	11-40	41-70	Over 70	All farms
Operators (percent)	36	35	18	10	
Assets (percent)	30	40	21	9	
Debt (percent)	3	32	40	25	
Average age	61	53	48	46	54
Average assets per farm	$459,067	$623,864	$627,896	$477,241	$543,436
Average debt per farm	$14,888	$146,169	$341,233	$393,841	$159,892
Acres owned (average)	248	294	292	208	267
Acres rented (average)	123	205	302	271	200

Source: Iowa Farm Finance Survey, Iowa Dep't of Agriculture and Supplemental Iowa Farm Finance Survey, Iowa State University and Iowa Crop and Livestock Reporting Service.

The remaining group, 28 percent of the total, were severely impacted and were sliding toward insolvency. The more recent data indicate that a sharp movement has occurred of borrowers in the 41-70 percent category into the over 70 percent group. Moreover, a significant number from the 11-40 percent category have moved into the 41-70 percent group.

Unless something dramatic is done, or circumstances change, nearly half of the farmers will move to insolvency, taking down their lenders, their suppliers and other merchants, and inflicting incalculable damage upon the fabric of rural communities. Discharged indebtedness goes ricocheting through local communities, laying waste, with the unsecured creditors taking the greatest hit. However, with the weakness in land and machinery markets, even secured creditors are, in reality, only partially secured as collateral values have slipped below loan balances.

The next 60 to 70 days promise to be extraordinarily crucial. Indications are that 10 to 15 percent of the farm borrowers will be unable to obtain credit for the 1985 crop year. And that is not because lenders are being mean spirited or difficult. Lenders are confronted with falling collateral values on the one hand and examiners charged with assuring a strong lending system on the other. Both commercial banks and the Farm Credit System have a modest amount of capital to absorb loan losses.

If a borrower is unable to obtain production credit for 1985, it is unlikely that the borrower will be able to retain ownership of their land and machinery. That means an unprecedented amount of land and machinery will be forced onto already weak markets. We appear to be on the verge of pushing four to five times as much land on the market as those markets have handled in good times. And these aren't exactly good times. The clear prospect is for further declines in land and machinery values, depressing collateral values still further for all borrowers and all lenders.

Quite clearly, in the short run we must focus attention on ways to insulate as much land and machinery from the markets as possible, doing what we can to protect collateral values.

Before we turn to an examination of solution we should take a look ahead to the most likely scenarios.

Possible scenarios

Undoubtedly the most crucial question in framing solutions to problems of farm debtor distress is what can be expected over the next two to five years with respect to--(1) interest rates, (2) farm income and (3) strength of the general economy both domestically and world wide. Substantial uncertainty surrounds each of those variables. For purposes of discussion, four scenarios are identified.

1. Continued high real interest rates, possibly rising over the near term, with stable or slightly lower farm commodity prices. At some point, high interest rates will choke off economic activity in the general economy with a recession resulting. A decline in private sector borrowing should weaken interest rates.

2. The value of the U.S. dollar relative to other currencies, presently very high by historical standards, could decline sharply because of the effects of the record-setting trade deficit (expected to total $130 to $150 billion for the 1984-85 federal fiscal year) and a decline in interest rates domestically. The result presumably would be increased exports with a positive effect on farm income.

3. The Federal Reserve, concerned about economic pressure on Third World debtor nations (over $800 billion owed, much of the total to U.S. financial institutions) and pressure on some sectors of the U.S. economy might relax credit controls with an increase in the money supply and resulting higher rates of inflation. After some lag, farmland values would likely be affected. However, it is unclear in a world of deregulated financial markets what the impact would be on real interest rates.

4. If high and rising interest rates cause Third World nations to default on their debt obligations, an international liquidity crisis of major

proportions could occur. The effects would be highly destabilizing within and without the United States. Obviously, every effort will be made to avoid such a financial catastrophe. The probability of such a default would seem to be quite low.

II. Possible Solutions

The amount and distribution of debt in agriculture indicate that five to eight percent of the farmers or more holding a comparable percentage of assets but responsible for 12 to 20 percent of the total farm debt appear likely to reach insolvency each year for the next three to five years. Public intervention will be necessary if serious economic damage to the fabric of rural communities is to be avoided. All of the mentioned solutions are short term in nature. With short-term efforts, we are building a bridge over troubled waters. At the end of the next three or four years, we hope there will be greater prosperity for American agriculture. Long-term, the solutions are clearly--(1) lower real interest rates and (2) higher net farm incomes.

Debt restructuring

The debt restructuring program announced by the President on September 18, 1984, represents a modest, heartening first step in meeting the debt problems in commercial agriculture. To be an adequate solution, four modifications to that program will be necessary--

- Additional loan guaranty authority several times greater than the loan guaranty authority presently backing the program will be needed.
- A reduction in the cash flow requirement for eligible participants should be made from 110 percent to no more than 100 percent of projected cash flow.

• An opportunity should be given lenders to take the required principal write down in the form of interest rate reductions to borrowers spread over several years on a basis of present value equivalence.

• A good case can be made for an opportunity for at least lenders with substantial amounts of problem loans to take even the first 10 percent principal write down in the form of interest rate reductions.

With these modifications, which were also identified by the Governor in these chambers last week and in Washington several days ago, debt restructuring through federal loan guarantees and Farmers Home Administration loan set-asides will provide some buoyancy to land and machinery markets to help the asset restructuring that must take place to occur on a rational basis. Loan guarantees only minimally interrupt and distort economic relationships and represent a good solution in many ways.

In the event, however, that the debt restructuring program proves to be inadequate either because of insufficient loan guaranty authority or because the requirements cannot be met, additional solutions will be required.

Agricultural Credit Corporation

The most pressing objective, if debt restructuring proves to be inadequate, is to insulate land and machinery of debtors at or approaching insolvency from the market. One feasible approach (which we have referred to as Option B) is to create a separate financing entity--funded by a unique partnership of federal, state and private investor moneys. Option A would involve land ownership by the separate entity and appears to be less attractive for a number of reasons.

In its simplest form, the separate corporation , as a financing entity, would have the following features--

• The entity would be a Congressionally-chartered corporation--we would name it the Agricultural Credit Corporation or the ACC. In some respects it would resemble the Commodity Credit Corporation.

• The farm assets would remain in the hands of the farmer who would pay what would be a reasonable cash rental amount to the lenders.

• Lenders would take a write down of interest or principal to get loans into the program. Lenders would be encouraged to take a write down of 2 1/2 percentage points of interest per year of participation in the program. For loans with unusually strong collateral values, the write down could be as little as 1 1/2 percentage points per year.

• The ACC would pick up the difference between the amount due on the loans and the amount paid by the farmer after taking the lenders write down into account. At present income levels and under current interest rate conditions, the ACC would pick up about two percentage points on eligible loans. The total interest rate reduction for the borrower would be about 4 1/2 percentage points.

• Principal payments would be frozen except for special cases where the collateral is expected to diminish in value or the loan represents production credit.

• The amounts advanced by the ACC would be provided at no interest for two years with interest at one-half the federal short-term borrowing rate the third year and the full federal short-term borrowing rate the fourth year.

• The ACC would have a lien on farm assets in the program to secure the amounts advanced plus interest calculated under the formula. In effect, the funds advanced would be secured by future increases in land value. If land values did not increase, the funds would be "at risk."

• At any time, the borrower could pay the amount of the lien and terminate participation in the program. After four years, the ACC would begin to phase out. After five years, assets remaining under lien could be sold to satisfy the lien.

Note that, at termination of the lien, the assets would be subject to any unpaid loans and would be in private ownership. A lender's security positions would not be disturbed. If land values rise, the farmer would obtain the benefit except to the extent of funds advanced with interest. If land values continue to decline, the ACC would lose its advances and the burden of the declines in value would be on the landowner and the lender.

The national cost of the ACC would vary with the assumptions. In general, it should be anticipated that the cost would be about $2 1/2 billion per year for the first two years with the costs in the third and fourth years somewhat less because of the interest charges. Iowa costs would be between eight and nine percent of the federal cost.

As noted, the ACC would be funded by a partnership of federal, state and investor funding. The Iowa share would be something less than $25 million per year with 90 percent federal/10 percent state funding. A modest amount of investor funding could be obtained if a federal guaranty of investor funds were available.

Moratorium

Another remedy would be for states to utilize moratoria, either those presently available (as in Iowa) or available through enactment. In the 1930's, as the level of debtor distress rose, indebted farmers sought a general moratorium on real estate mortgage foreclosures as a political solution to the problem. Most agricultural states enacted moratorium legislation beginning in the early 1930's. The legislation was held by the

U.S. Supreme Court to be constitutional if a state of economic emergency existed. If no other solution is in place and functioning, pressure is likely to continue for states to enact (or to activate) moratorium legislation. The Iowa statute, as we all know, affects only real estate obligations. Under the Iowa statute, a moratorium may be invoked--(1) if the governor declares a state of emergency "by reason of a depression" or (2) a district court finds that inability to make payments is because of climatic conditions or infestation of pests.

The moratorium remedy would provide a period of debtor relief as to affected obligations.

Perhaps the most serious shortcoming of a moratorium is that it shifts the burden to creditors who then respond by reducing exposure to borrowers who are the most likely candidates to invoke the moratorium. Thus, it would likely end up impacting adversely the borrowers in greatest need of assistance. I am deeply concerned about setting in motion forces that would operate to reduce the availability of capital to farmers, especially over the next 60 to 70 day period. Availability of credit is vital to survival of a substantial proportion of farmers. The ones who are most vulnerable are the ones who would be most heavily impacted by declaration of a moratorium. A moratorium sends signals to lenders, even those not directly affected.

The Iowa State University Task Force is involved in reviewing the moratorium issue, the probable impacts of declaration of a moratorium and some alternative ways to obtain relief for borrowers without all of the negative effects of a conventional moratorium.

Conclusion

At first glance, creating a federally-chartered entity would seem to be a bold and somewhat daring step. However, the nature and magnitude of the farm debt problems are such that bold and daring solutions may be in order. At the moment, it is not possible to predict with accuracy whether the debt restructuring program now in place will stabilize farmland and machinery value sufficiently for asset restructuring to continue on a rational basis. Every effort should be made to make the debt restructuring program work. In the event that debt restructuring is insufficient, contingency plans should be at least in the advanced stages of formulation and should preferably be available on a contingency basis. The Agricultural Credit Corporation would appear to hold promise in such a back-up role.

If we are unable to stabilize farm asset vaules, the impact upon rural communities will be very large and will leave an imprint for years to come. If we are to make it through this difficult period, and I am confident we will, it will take the best efforts of all of us working together.

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