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The Subtleties in Private/Public Funding of Farm Credit

The Agricultural Credit Act of 1987 is of such recent enactment and so unconventional—if a 70-year cooperative credit history establishes a convention—that it will retain for some time the status of being not only new but philosophically imponderable.

Even the law's origin is exceptional, and revealing too. It was not drafted in haste. On the contrary, Congress deserves applause for deliberativeness. Both Houses did their homework.

Previously, Congress had done more than that. Congress, not the Farm Credit Administration, initially forced a disclosure that the System was headed for the financial rocks. Legislative attention followed.

Until a Congressional Committee shook a menacing finger, the FCA could almost have been accused of cover-up. This columnist heard a spokesman for the agency declare, three years ago, that nothing was wrong that a little wider interest margin could not correct. A wider margin was taken, stronger borrowers defected, and before long the situation could neither be stabilized nor kept under cover.

Moreover, those of us who have long been respectful toward cooperative credit were disturbed by allegations that some of the Land Banks proved to be notably harsh toward their farmer-borrowers in trouble. That seemed inappropriate for a cooperative lender.

A Philosophy of Government

This is written, though, not to accuse the Farm Credit System regarding its lending practices, nor to defend it. Neither does it examine the new law in detail. This note addresses, instead, a feature of the law that illustrates so vividly a philosophy of government that is current just now. The feature is the public guarantee of privately floated financial obligations. The philosophy is privatization of profit and socialization of risk.

Americans put a lot of store by their philosophies, their ideologies. In principle they favor a heroic private role in all economic enterprise. In practice they often run to public cover where risk is high. Aware of the obvious inconsistency, they often announce the former and act on the latter.

A point in dispute during the writing of the FCS law was how and where to get the \$4 billion, more or less, needed to refinance the System. At issue was not only whether Treasury funds (borrowings) should be drawn on, but also whether any government money would have to go through the appropria-

tion process. In the latter lies an anomaly of its own. Front-door appropriations add to the numbers for reporting the budget deficit; back-door financing does not. Yet the fiscal consequence is the same in both cases. Thus do we play games of fiscal self-deception.

The privatization-socialization thesis shows up clearly in the law as finally enacted. By a circuitous route private money sources will be tapped. But the government will guarantee the bonds. Furthermore, it will pay all the interest the first five years of the law, and half during the second five years.

The absorption of interest obligation is outright subsidy. Nothing is hidden or subtle about that. It's the government guarantee of a private debt instrument that illustrates the interesting combination of privatization of the generation of income and socialization of associated risk.

It's Not Just FCS

The philosophy and the practice are exhibited in so many activities of government. Farm programs fit the model. The independent farmer can take his chances in a chancy market; but if he will conform to acreage rules that are not onerous, he can be protected against very low prices. In crop insurance, the government contributes to the cost of protecting against crop failure.

Perhaps the drafters of the FCS law took their cues from the funding of the Farmers Home Administration. The FmHA has gone pellmell toward guarantee of private lending to farmers.

Biggest of all demonstrations of privatization-socialization is the insurance of deposits in banks and in savings and loan associations. The two funding agencies are now essentially depleted of funds, although FSLIC gets more publicity than FDIC does. Their dilemma brings to light the fact, hardly surprising, that the insurance back-up has cloaked instances of flagrant local mismanagement.

A Question

All of which is not so much to draw a moral as to ask a question: does socializing the risk imply a public concern for quality of private management? The FCS has much at stake in the answer—which, though, may remain undisclosed until such time as significant borrower losses occur. If the agency, sensing heavy pay-off demands to be made on it, initiates regulatory action, it will reveal the Agricultural Credit Act of 1987 to be more innovative than now perceived. In such a case, yet another new philosophy would be called for.

*Harold F. Breimyer is Professor Emeritus,
University of Missouri-Columbia.*