Financial Stress on the Farm

The Farm Financial Crisis: Socioeconomic Dimensions and Implications for Producers and Rural Areas. Edited by Steve H Murdock and F Larry Leistritz Boulder, CO Westview Press, 1987, 186 pages, $18 95

Reviewed by Jeff Tripaldi and Joel Schor

Farmers have never been able to control all the variables necessary to grow and market their crop profitably Despite success in increasing production, farmers have become more, rather than less, dependent on external factors The assistance of agricultural economics and science to the farmer is valuable, provided that prognostication is accurate and production is adjusted in line with domestic and foreign demand In the early 1980's, the forecasts were inaccurate, and as a result, the recent farm financial crisis caught the farm sector by surprise The editors discuss the origins of the crisis, provide an important definition of the term financial stress, and identify both primary and secondary effects in rural America

Although the Great Depression too began in rural America before spreading to the rest of the economy, the recent economic distress on farms is not analagous The editors document the uneven nature of that distress, how it fell disproportionately on the middle class ($40,000–$150,000 sales), innovative, and youthful producers (an entire profile is provided) That the entire farm sector was not distressed, however, provides little comfort for a number of reasons (1) those distressed were among the most innovative, creative, leadership elements within rural areas, (2) their number was high, conservatively computed by the editors at 213,500, (3) the secondary and tertiary effects of such a displacement may surpass 1 million workers, and (4) this may erode substantially the revenue base of rural America

On the other hand, overall production of food and fiber is not likely to be reduced by the crisis, and consumer prices for food are not likely to increase much Nevertheless, the authors of the papers in this book conclude that from a fourth to a third of the population in agriculturally dependent counties will leave over the next few years Because these migrants will constitute the vigorous leadership and the older and less active will remain, the future shape of agriculture is very much an issue

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Crucial to their discussion is the debt/asset ratio, which at 40 percent or above becomes a determinant in predicting stress In the early chapters, the historical causes of the crisis are laid out briefly the liberal credit policies of the 1970's and 1980's, the contraction of markets in the early 1980's (which went unnoticed by most economists), the increasing farm debt, and the decline of land values (upon which the level of farm equity/credit is based at the bank), all accompanied by declines in farm income The recessionary period from 1979-82 was the most severe since the Depression, the editors assert, and was accompanied by record high interest rates To them, the first event in this chain of causation was the decision by the Federal Reserve Board in October 1979 to limit the supply of credit to limit inflation The effect of tight money, they contend, was compounded by the fiscal policy embodied in the Economic Recovery Act of 1981 Tax cuts of such a magnitude virtually ensured massive deficits Thus, the farm sector would experience a large reduction in credit

As defined by the authors, farm financial stress contains a social/psychological component—a feeling of helplessness, frustration, anger, and despair—from knowing that one can no longer meet one's cash-flow commitments The editors derived from ERS publications and private surveys much of the data compiled to measure the degrees and forms of such stress Although the material is by no means complete, it is probably the best available at the moment and is clearly presented in graphs, charts, figures, and illustrations

In their concluding chapter, the editors suggest policy options, though these are not spelled out in detail direct financial assistance programs aimed at reducing producers' overall levels of debt, programs aimed at assisting producers in renegotiating loans and altering payment schedules, assistance to producers in improving their management and decisionmaking skills, assistance to producers in retraining to obtain nonfarm employment and assistance in relocating to alternative job sites, the provision of mental health and other human services (p 172)

Written before the drought of 1988 and before the impact of disaster aid to farmers and therefore unable to assess the effect upon the existing crisis, the work nevertheless suggests the crisis will continue One impact not discussed is the effect the changing structure of agriculture will have upon the quality of the food supply Will the production methods employed by the large corporate farmers, who will replace the middle class in the editors' view, result in the same quality of food and fiber as that of the more traditional methods of the family farmers? Clearly, the urban consumer has a stake in the outcome but is unlikely to read such a work

While this book covers well the area delineated, and is important to the overall understanding of farm stress, another volume dealing with the likely impacts for urban areas and other sectors of the economy appears necessary While recent data tend to reduce the impact of the farm crisis, it is still too early to predict the effects with precision