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## Too Slow To Act? Objective Analysis Needed

*The Farm Debt Crisis of the 1980's.* By Neil E. Harl  
Ames Iowa State University Press, 1990, 350 pages,  
\$24.95

Reviewed by Douglas Duncan and Steven Koenig

Neil Harl takes center stage in this memoir of his experiences during the mid-1980's financial crunch in agriculture. His behind-the-scenes account of events and his frank opinions of other players in the crisis is engaging. However, this book suffers from an attempt to exceed the bounds of memoir and serve as policy analysis as well. Readers expecting a rigorous and objective analysis of what has come to be called "the farm debt crisis of the 1980's" will be disappointed.

The first two chapters, "The Gathering Storm" and "The Slow Realization of Disaster for Agriculture," portend the farm crisis and the author's role in it. Harl hypothesizes a set of causes, though the weight placed on each is likely to be disputed by some economists familiar with the period and circumstances.

In chapter one, Harl roots the farm debt crisis in three Federal policies that economically handicapped agriculture in the 1980's: (1) an accommodative inflationary monetary policy in previous decades and the resultant low real cost of capital, which encouraged leveraging of investments, (2) the change in Federal Reserve Monetary Policy, which drove interest rates up, leading to the appreciation of the U.S. dollar and a subsequent decline in U.S. farm exports, and (3) the Economic Recovery Tax Act (ERTA) of 1981 and the ensuing growth of the Federal deficit.

Of these three suggested causes, the third is perhaps the least convincing. Harl fails to provide evidence that would measure the burden of changes in the deficit and interest rates on farmers. Indeed, the first stage of the ERTA tax cuts (which went into effect over 3 years beginning in 1981), roughly coincides with the peak in interest rates. Interest rates declined, though, as the two subsequent stages of ERTA took effect and the deficit grew. Farmers' financial hardships occurred over the same time period, but does this simple correlation mean a causal relationship? In fact, the linkage between deficits and interest rates remains the source of empirical debate among economists.

Harl feels the agricultural sector should be shielded from the macroeconomy and harmful Federal policies. Agriculture, he contends, is a capital-intensive industry, dependent on debt capital, and hence, particularly

vulnerable to policy changes and macroeconomic events. His special-case argument is unconvincing, oft-cited as it is by other sectors of the economy. His message is clear, however: the Federal Government must take a strong and active role in insulating the farm economy.

Underlying this general call for government protection and the adoption of his specific proposal are one of two possibilities regarding Harl's view of economic efficiency: (1) the role of markets in generating economic efficiency is not understood, or (2) efficiency is overridden by political expediency.

While Harl acknowledges that farm debt was concentrated in the hands of just a few farmers, he denies that those highly indebted farmers might have made poor investment decisions or were acting as speculators. He clearly states that they were victims of circumstance, and therefore deserving of government support.

Empirical research is suggested in chapter 10, "Lessons Learned," as the philosophical, practical, and empirical points of debate are organized into 12 lessons. In addition to "Lesson 1: The Danger of Aberrational Conditions," at least four others can be addressed empirically: "The Capacity of Creditors to Broker Losses," "Vulnerability of Agriculture to High Interest Rates," "The Hazards of Nondiversity in Loan Portfolios," and "The Farm Crisis as a Systems Problem for the Entire Community."

A summary of the empirical research in each of the above areas would have added analytically to the book. Research results have not generated a consensus among agricultural economists in any of these areas, but the crisis has only recently passed and a post-crisis evaluation of data should further our understanding of these events.

One section brings up a topic that needs public discussion: "The Need for a Team Effort by USDA and State Universities." The author's tone here and elsewhere implies that failure to adopt his view of conditions and solutions constitutes a lack of cooperation. This is perhaps a misunderstanding of USDA's and the public universities' different roles, roles that have changed along with the agricultural sector.

Despite the differing masters served by these institutions, the personnel that staff them have the same skills and should be able to work together. The aggregate policy-oriented perspective of USDA can combine with the narrower State-level focus of university experiment stations and extension services in areas of common interest.

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As a memoir, the book may have been written too soon to allow for the seasoning of personal perspective and the playing out of subsequent events. The author devotes much of the book (most of chapters 3-9) to his intense personal struggle, first to convince political leaders, college economists, and slumbering government officials of "the greatest crisis for farmers since the 1930's," then to persuade everyone to adopt his solutions. Harl dramatizes some events to enhance their historical appeal, switching hats quickly from social historian to policy advocate.

The events of the farm crisis are not presented chronologically but solipsistically, yielding a very close view of one university economist's participation in the policymaking process. This tack may appeal to political scientists and students of agricultural policy formation, but those unfamiliar with the duration of the crisis may be confused. Readers will find that much of the book's analysis and storyline is centered on Iowa, limiting its historical value.

Economic events are not analyzed empirically, and this deters us from sympathizing with the author or trusting his conclusions. The characterization of those with differing views as having a "remarkable capacity for limited vision of problems" (p. 78) implies that reasonable people cannot hold differing views and is offensive. A further stylistic point that hinders readability is the frequent reference to documents "on file at the ISU Parks Library," all of which should have been endnoted.

The first of Harl's two proposals to handle the farm debt crisis is debt restructuring, where lenders would forgive up to 20 percent of principal debt in return for a Federal guarantee on the remaining debt. Chapter 3 is mostly devoted to the selling of this proposal to policymakers, the media, lenders, and farmers. This chapter is the first to rely heavily on the print media (*The Des Moines Register* and *The Wall Street Journal*) to document and analyze the farm debt crisis.

Debt restructuring did eventually surface in the fall of 1984 as a Presidential initiative. The Debt Adjustment Program offered Federal guarantees on certain troubled loans if the lender forgave 10 percent of outstanding debt. However, demand for the program was weak with only 817 loans guaranteed by program's end in 1989.

Harl's second bold initiative to save agriculture was the Agricultural Credit Corporation (chapter 5), which would acquire farmland and machinery from failing farmers at "fair market value" and then rent these assets back to farmers, with former owners given preference to rent and repurchase. A financing component would provide interest rate assistance and capital to financially troubled farmers.

This second initiative affirms Harl's belief that farmland values must be upheld at all costs. He even cites an exchange of letters with a young farmer who argues that land prices are only falling to the point of economic efficiency. Harl appears unwilling to recognize that land values had gotten out of line with economic returns and that adjustments were needed and inevitable. Lenders who based farm loan repayment on capital appreciation and not cash flow ultimately paid the price.

Harl indicts the Federal Government in chapter 6 ("Indifference in Washington") for its lax response time and bureaucratic insensitivity. He recounts policy sessions with top officials from the Office of Management and Budget, the U.S. Department of Agriculture, the Federal Reserve Board, and the Congress. Even the Agriculture Department's Economic Research Service does not escape criticism for failing to arouse Washington to the financial problems of agriculture. Harl's naivete of the agricultural policymaking process is evident here. Interestingly, the importance of the Farmers Home Administration, the Federal lender of last resort to farmers, is largely sidestepped. The agency provided the bulk of targeted Federal assistance to financially strapped farmers. Untargeted assistance to the farm sector, through commodity income and price support programs, totaled over \$133 billion during the 1980's, a figure the author neglects to mention until the last chapter.

The author lionizes the media's coverage of the farm debt crisis in a tedious and redundant chapter 9. His estimation of the hardship as "one of the most poignant and emotional news stories of the century" (p. 268) seeks to justify the media blitz and cements Harl's symbiotic relationship with the local Iowa press, evident throughout the book. The media, in the reviewers' opinion, exhibited much naivete in sentimentalizing rather than impartially analyzing the farmers' financial plight.

The book should stimulate discussion of the appropriate role of Federal and State governments, State universities, and private sector interest groups in characterizing economic problems and intervening in agricultural markets. Unfortunately, neither the postulated causes of the crisis nor its extent are empirically verified, throwing into question a chapter entitled "Lessons Learned."

As a memoir, a breadth of focus in line with the book's title would be more satisfying than the adopted parochial focus on Iowa. A more careful chronological structuring of the text along with elimination of redundancies such as the media's role would help. Finally, the book may have been written too soon for events to be placed in proper historical perspective.