FARM FAMILY FINANCIAL STRESS: IMPACT ON CONSUMERS

Jean Kinsey, University of Minnesota

ABSTRACT

A short-run farm financial crisis will not affect urban consumers in a significant way. The impact on food prices will be minimal. The impact on non-food items will be most evident in rural areas and in the cost of financial services. A long-run crisis in farming could lead to a diminished standard of living for all consumers.

The current farm financial crisis is critical for about 10 percent of farmers. Their debts were more than 70 percent of their assets where 40 percent is considered the beginning of financial stress. On a national average, farm debt to asset ratios were about 17 percent during the 1970s rising to 24 percent by 1984. The farmers most likely to be in financial trouble are producers of basic grains and oilseeds who recently financed land purchases.

Some of these indebted farmers will go out of business. Historically, about 2 percent of farmers go out of business annually compared to .4 percent of other business enterprises (U.S. Dept. of Commerce). Short-run impacts of the current farm financial crisis on consumers will be discussed in four parts.

First, the impact on food prices and food consumption will be minimal. There is an excess supply of basic agricultural commodities which has suppressed and will continue to hold down both farm prices and the cost of these farm commodities in retail food products. Furthermore, this cost comprises only one-third of the price consumers pay for food in a grocery store and 17 percent of food purchased in restaurants. It would take a sustained 10 percent increase in basic commodity prices to increase retail food prices 3 to 5 percent.

Sluggish export markets and continued adequate supply will tend to hold prices down also. With a rise in the worldwide value of the dollar, agricultural exports have become very expensive; competitive selling exerts downward pressure on their price. The total supply of agricultural food products is unlikely to change. Ownership of the land, buildings and equipment will change, but the land will continue to produce crops under different tenure arrangements. Even if some land goes out of agricultural production, technology exists to produce more food on less land.

Second, the impact on prices and availability of non-food items will be limited to rural communities and to financial services. As farm income decreases, demand for goods and services sold by rural, mainstreet business decreases. If these businesses falter, fewer goods will be available at higher prices in rural towns. When financial institutions lose money on loans, they charge more for all other services to all other customers. Higher interest rates, fees, and minimum balances along with lower returns on savings could result.

Third, the impact on the federal budget deficit and consumers' tax bill remains to be seen. If sympathy for farmers' plight and stress is strong, continued farm price supports and short-run loan repayment relief will be legislated. Regulatory action to protect farmers from foreign competition are import quotas or export subsidies. Import quotas could decrease the supply and increase the price of foods like sugar and dairy products. Export subsidies could result in higher food prices. All these programs compete for consumer's tax dollars.

Current political forces in favor of cutting federal spending predict, however, that farm price supports will be lowered allowing market forces to dictate farm incomes. Tax dollars used for agriculture will probably decrease. Alternative programs to provide income support, relocation and retraining for displaced farm families will, however, not be costless to taxpayers.

Fourth, there will be some impacts on the labor market and rural land prices. The entrance of ex-farmers and their families into the labor market will increase all the problems associated with unemployment and retraining in the communities to which they move. Mortgage foreclosures and forced land sales will temporarily depress rural land prices, but investors who purchase that land now will probably find it to be valuable in the long run.

The current farm financial crisis is not likely to have a major impact on consumers. If farm prices continue to be depressed over the long run and a large number of acres go out of production, a food shortage could, conceivably, occur. In this case, food prices and expenditures would rise; discretionary spending would fall. This is a recipe for diminished living standards. Given the state of agricultural technology, world food demand and traditional government programs, this is unlikely to happen in the foreseeable future.

REFERENCES

1. U.S. Department of Commerce, Bureau of the Census, Statistical Abstract of the U.S., 1984.