The 1995 Farm Bill

Crystal-Balling Future Farm Policy

by Randy Allen

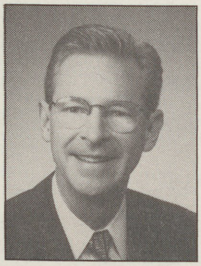
After five years of record gross farm income, it's time to get serious about the future of agricultural banking again. My grandfather's old axiom, "Nothing lasts forever" is as true today as it was in his day. Banks have enjoyed the fruits of their labor since the economic debacle of the mid-1980s, but that's about to change. There's a storm ahead and it is time to plan for it. I'll call it "The 1995 Farm Bill".

Please understand that this article is not an editorial, rather it is information oriented. There are certain facts and figures that point to potential problems in the near future. Keep in mind that agricultural profit margins are in a narrowing trend and that farming will remain profitable only for the "smart bank" and the good farm manager. Those banks that survive the next ag storm will secure a prominent position and an increasing market share for years to come. Let's look at what we know about the approaching storm:

The 1995 Farm Bill will attempt at eliminating another $5 billion in farm subsidy payments.

• 28% of gross farm income is derived from U.S. Government farm payments. To think that these payments (at this magnitude) will continue in the future is wishful thinking. Although 49% of the producers have little or no debt, 51% of the nation's farmers depend upon government subsidies and need to sharpen their financial management skills – soon.

• Washington, D.C., is financially bankrupt. I know you're saying, "Tell me something I don't know!" The 1995 Farm Bill will attempt (and succeed) at eliminating another $5 billion in farm subsidy payments. It is already pre-approved with



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President Clinton's new tax bill that was recently passed. This would eventually reduce farm subsidy levels to between $5 billion and $8 billion per year. In the past, farmers and lenders have enjoyed a range from $11 billion to $17 billion in farm subsidies.

• In turn, moderate mathematics applied, this would place the government's yearly share of gross farm income around the 17% area. What does this mean in reality? A producer who raises 20,000 bushels of corn would roughly receive $1,600 less in farm payments. A significant cut in one commodity alone.

• Also, look for a new tax revision for producers within the next two to three years, it has been talked about for years. That is, we expect farmers will no longer enjoy the "roll over" exemption on grain and livestock inventories. Our best guess is that producers holding unsold inventories of grain and/or livestock will have to pay tax on the value of those inventories on Dec. 31 – the value being derived by the ASCS county average price on that day. Lenders and accountants should keep this in mind and begin to prepare their farm clients for the day of reckoning.

• Export markets are drying up. Already, we are shipping 16% less feed grain to the Soviet Union. President Clinton's staff has already announced that we will allocate less aid in 1994. International ag competition has never been greater. The traditional export pie is shrinking, while food production remains in an over-supplied situation. Unfortunately, GATT will probably not improve this situation as much as we all had expected, even when it is signed.

• Don't forget that our farm population is continuing to age. The average age of the U.S. producer is now placed at 58. This means that the trend of "fewer farmers and larger farms" will remain intact regardless of economic measures. Thus, this will ensure that the current ag transition will remain with us through the 1995 and 2000 Farm Bills.

It's obvious that the U.S. taxpayer is tired of financing both farm production and export markets. On one hand, taxes are used to pay for farm price deficiencies; while on the other hand, taxes are used to export food in order for foreign households to buy U.S. commodities (Export Enhancement Program, etc.). In the future, our government will choose which avenue they will finance – domestic production or export markets. Certainly a choice must be made.

Credit analysis will never be more important; nor will the ratios.

Here are three quick recommendations for ag lenders who want to compete in this evolving agricultural arena:

First, standardize your farm financial records now. Credit analysis will never be more important; nor will the ratios. This will provide a firm foundation on which to monitor individual farm financial activity and act as an early warning system to avoid unprofitable mistakes.

Second, you are going to need more farm clients in the future to secure your ag bank loan portfolio. This means you have to make a plan and get competitive now. Your bank must become market share oriented. Your promotion must entertain your attitude and commitment toward farming with a plan to solicit new prospects. Only 29% of all ag banks have a structured plan such as this.

And finally, you must continually educate your farm clientele – at your expense. *("If you think education is expensive, try ignorance" – Derek Bok).* As you know, this is a slow process, but paramount to success. No longer can your farmers miss $7 soybean prices as most did this year. They must be price conscious and have a marketing plan, thereby attacking profitable opportunities when they occur. ▲