DISCUSSION: CAPITAL FOR THE AGRICULTURE OF THE FUTURE

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Drs. Plaxico and Knowles did an excellent job of covering the broad range of issues that will be impacting the financing of agriculture throughout the remainder of this century. I found very little in the paper that I disagree with. Unfortunately, due to the breadth of the topic, they were able to explore only a few major implications of the issues raised. I hope the agricultural economics profession heeds their warning that finance has been an area sorely neglected by many, if not most, land-grant institutions. The next 5 years may see more changes in the structure of production agriculture and the structure of the institutions financing agriculture than have occurred during the last 30 years.

Changes that are likely to occur will be the result of five significant shifts: (1) the current extended downturn in farm income levels and asset values immediately following the combined high inflation and income levels during most of the 1970's, (2) the shift to more market oriented government agricultural programs, (3) the deregulation of financial institutions, (4) the continued movement from a primarily domestic economy to a world economy, and (5) the biggest potential shift, the shift away from the willingness of the administration to support continuing expansion of government loan programs. The last point may be the most significant in terms of the speed with which the restructuring occurs. The extent to which FmHA tightens on making new loans and how long they and other lenders continue to carry nonviable/nonperforming loans will determine how fast the shakeout occurs. Unless we are willing to settle for a government controlled and subsidized agriculture in this country, it is not so much a question of if, as when this will happen.

The following approach will be taken in my discussion. First, I will comment on four specific observations made in the paper. Second, I will suggest a few additional research areas. And third, I will expand on some of the educational issues raised.

My first comment is in reference to the statement regarding the strength of the Farm Credit System's capital base relative to other lenders. While it is true that the System has a strong capital position and loss sharing arrangements between its various entities, a significant portion of the capital is in the form of member stock which is not permanent capital. Thus, as the paper correctly states, much of the System's capital strength is dependent upon the continued confidence of its better borrowers. Due to the limited diversification of its portfolio, further significant declines in asset values and a continuation of low farm incomes for another 2 years could seriously jeopardize many of the System's institutions unless the capital base is consolidated. Even with consolidation, the capital base is probably not strong enough to withstand the losses that would result if FmHA were to continue financing only those farmers with a reasonable chance of succeeding and thereby precipitated a dramatic decline in asset values.

Second, I will comment on the statement that the "relevant" issue is how can society most efficiently channel debt capital to limited resource farmers. Given the low income levels in agriculture and the surplus of resources currently employed in agricultural production, the relevant question would seem to be why any funds should be channelled to limited resource farmers beyond those provided by the private sector and existing FmHA programs.

Third, I question whether the redistribution of farmland that will likely result if the current farm income situation persists would

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be size neutral even if the land were purchased by established producers. I do not see any likelihood that the commercial farming sector will involve anything but larger and fewer units.

Fourth, the proposed crisis management policy would undoubtedly improve the survival probabilities of many lenders with significant amounts of high risk agricultural loans. My question is whether the public would be willing to absorb the tremendous amount of potential losses that would be involved. On the other hand, if the program could actually be restricted to producers with a legitimate chance of succeeding, lenders' actual loss exposure would not be significantly reduced because the high risk loans would not be eligible for the guarantee. History would also suggest that "temporary" agencies have a way of becoming permanent.

Turning to the area of research needs, I believe the authors have addressed several very important topics. However, I will suggest some additional areas based on my biases and vantage point. One is the need for improved models for analyzing loan portfolio risks. These models need to address not only the enterprise mix including historical price and production variability, but also the financial characteristics of the borrowers, the current economic environment, the longer term economic outlook for the enterprises being financed, and financial characteristics of the financial institution itself.

A second research need is to make the fullest possible use of the national PCA borrower database which is to be developed by the end of this year. This information will provide a potential wealth of research data that has not previously been available. The FmHA is also moving in the direction of developing an information system which will eventually generate similar data on their borrowers. Unfortunately, an in-depth analysis of the financial condition of FmHA's portfolio might be so politically sensitive that it will be some time before a comprehensive study can be made.

Third, there is a tremendous need for continuing refinement of farm level decision models which allow farm operators to input their individual farm characteristics, both production and financial, and at the same time consider macro data from both the domestic and international markets. There is a great need for models which can be updated directly and continuously using the farmer's own management information system and which can also be interfaced with a wide menu of decision models that can be used to evaluate specific production, financial, and marketing alternatives.

Fourth, I would like to see a study which estimates the regional impact on farm asset values if agricultural lenders, including FmHA were to discontinue financing nonperforming/nonviable loans within the next 2 to 3 years. Finally, a significant amount of research needs to be done to look at the economic impact of the various moratoriums on farm foreclosures that have occurred or are being proposed.

In concluding my discussion, I will comment on some of the educational issues that were raised in the paper. In many respects, the Land-Grant University System and the Farm Credit System are very similar. Both have a long and distinguished record of service to agriculture, both are composed of institutions forming a large national network, and both are currently suffering from their own bureaucracy. Some of the problems are the following: (1) presence of performance evaluation and reward systems which are either counterproductive or inadequate, (2) presence of too many layers of administration, which tend to reduce innovation, risk-taking and response time, (3) strong efforts to preserve traditional delivery systems, and (4) too much time and too many resources being used to "reinvent the wheel" and "fight fires."

I do not intend to be totally negative, because a tremendous amount of positive change is taking place. However, my concern is that the infrastructure of these organizations tends to make the response time too long. Thus, most major changes are reactive rather than proactive. Using the Cooperative Extension Service as an example, I believe that too many resources are being invested in continuing to deliver programs that have outlived their usefulness or that do not provide a high enough payoff. All this is to the detriment of efforts that need to be made on developing new programs. For example, with limited budgets and human resources, the extension service needs to focus more of its resources on educational efforts and less on information dissemination and direct service. The latter two areas should be shifted more into the private sector.

I would like to see more cooperation between industry and the academic community. While there is already a great deal of interaction, it has been my observation that much of this involvement either tends to focus on a few key individuals at each university or in many cases is too superficial. I believe the land-grant universities should be encouraging: (1) more private consulting by staff members to keep them more closely involved with industry, (2) more faculty-executive exchange programs, (3) an increase in formal continuing education programs similar to the executive development programs sponsored by the major business schools, and (4) greater use of university-industry research project teams (as opposed to advisory task forces).

Finally, I would like to see more rigor and more emphasis on teaching excellence in undergraduate agricultural economics programs. By rigor I do not mean tougher grading. Rather, the students need to participate more in the educational process. Teachers need to be rewarded for: (1) spending more time developing cases and problems which require the use of the analytical tools being taught, (2) developing business simulation models, (3) encouraging students to challenge and question textbook approaches and solutions to problems, and (4) developing capstone courses that place more emphasis on the overall integrative aspects of managing a business and less on how to be a specialized middle manager who focuses on managing a single technical area of the business.