DISCUSSION: FINANCIAL CRISIS IN AGRICULTURE, A SOUTHERN PERSPECTIVE

R. Lynn Harwell and C. Parr Rosson, III

We have just shared in a viewing of the current financial dilemma in agriculture—a viewing magnified through four spyglasses, all focused from separate vantage points. Three of the spyglasses were trained in a southerly direction.

This paper attempts to draw commonalities from the presentations by Breimyer, Love, Wilson and Sullivan, and Glover while at the same time examining the more than three-fourths of producing farmers that these presenters did not recognize and discuss. Eighty percent of southern farmers have somehow become a minority. Can their performance help us to correctly portray the crisis and devise schemes for its alleviation?

We give help to the flood victims while we neglect efforts to plug the dam. The short-run problem is the farm crisis; the longer run involves restoring profitability to the 80 percent who are survivors.

Asset Devaluation in Agriculture

Professor Breimyer began by reminding us of what makes all good economists seem out of sync; there is a duty to look deeper than the present gore and trauma—to the times and places which may make the present seem inconsequential. He also noted in the beginning what so many congressmen have missed: a new farm bill will not correct the major issues that trouble agriculture today.

Many less astute and poorer trained students of agriculture know that *structural flaws exist in our economy today that have a great many farmers in trouble.* Breimyer removes much of the shroud from around the farm capital structure. He also shows variable interest rates as something insidious, far more than an innocent attempt to stay ahead of rising lender costs.

It would have been helpful to move from the theoretical illustration to today's agricultural realities. Although a doubling of the interest rate is certainly real, the borrower in a 60 percent leverage position (assuming the land mortgage is his only debt) uses a heavy measure of outside capital. The position is much more tenuous if the loan is secured by land which is priced well beyond its agricultural productivity, a complicating factor Briemyer introduces later. Prior to the present crisis, many large farmers were already making the rental payment with accumulated capital, while most smaller ones used off-farm income.

At a recent land rental workshop in South Carolina, in a locality where better farmland has dropped from $1,000 to $600 per acre, producers were still unable to generate a rent factor sufficient to cover the landlord's costs. We agree with Briemyer that the speculative boom may have dissipated; we wonder if interest rates and land values are as yet realigned. In contrast, we read in popular journals where better farmlands in selected midwestern localities are being purchased at prices which allow a positive cash flow.

A recently conducted survey (Hammig et al.) reveals that 81.8 percent of a sample of 2,000 South Carolina farms had debt-to-asset ratios of less than .4. This group originated 66 percent of the State's farm sales, but owed only 30 percent of the debt. Admittedly, many of these farmers are quite small (half of all respondents had outside incomes of more than $10,000).

It seems worth emphasizing, however, that more than 80 percent of all farmers in a state characterized as having a relatively less ef-

R. Lynn Harwell and C. Parr Rosson, III are Associate Professors, Department of Agricultural Economics and Rural Sociology, Clemson University.

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ficient agriculture have thus far escaped a financial predicament. They have survived in a situation even more precarious than that outlined by Professor Briemyer.

According to the survey, average debt-to asset ratios of farmers in South Carolina were 19.1 percent, almost identical with national numbers. We believe these ratios are such because the bulk of American farmers expand only as assets permit. Thus, while many farmers cannot follow the path of Briemyer's reasoning, his conclusions must be ingrained somewhere in their code of ethics and in the business procedures under which they operate.

THE ROLE OF EXTENSION

Professor Love addresses the farm financial crisis from the standpoint of extension accountability, namely, *Where have we been?* and *What are we doing?* He also adds needed vision in pointing out some opportunities. His categorization (he calls them characteristics) of areas of programming opportunity is especially useful.

Love laments southern extension efforts in financial management prior to 1980. We believe there is no occasion for such feelings of guilt. Indeed, his own department employed a capable extension specialist in financial management in 1974 or earlier. Relationships in Oklahoma between extension and the agricultural lending community reflected these programs and University developed computer software was in place to guide in making bank management decisions. A strong educational program began emerging.

One of the authors of this paper became Clemson University's first extension financial management specialist in 1975, a result of a special legislative appropriation. Major thrusts in agricultural finance at southern departments of agricultural economics, notably at Texas A & M, were recognized by the mid-seventies.

Research effort at the time was largely occupied with modelling growth and resource allocation at the firm level and with macro issues related to energy, pollution, and farm size. Only rarely did someone like Melichar try to sound the alarm, stating in 1977, "*This paper examines the possibility that the coincidence of these attitudes with the boom in farm capital expenditures and land prices that began in 1972 may culminate in the reappearance of problems that U. S. farm credit markets have not faced for nearly four decades.*" (Melichar).

The paucity of research information describing the farm financial structure and its heavy dependence on a continuing escalation of land prices added to the surprise and indecision when the inflated *farmhouse of cards* began to topple. In many cases, extension still operates in a financial research void when trying to aid beleaguered farmers.

Principles of excessive leverage, inadequate liquidity, and cash flow planning were well known and demonstrated by a number of extension professionals throughout the South. It was frequently true that local agents, like their farmer clientele, did not recognize the lessons taught by such principles. It was also true that many extension administrators had not shifted their sights from production agriculture. It was tragically true that most lenders recognized the principles but did not apply them. The most agile extension professional could at best lay groundwork and establish strong relationships in such an environment.

As Love moves through one characteristic to the next, he repeatedly alludes to interagency relationships and interdisciplinary programming. To the extent that extension is lacking in preparation and response, we are prone to suspect both, but especially the relationships among disciplines. Short years ago, only a heretic would suggest that a local extension agent be anything but a generalist. Clientele today need special help from several directions. That implies strong support from a team of individuals with special capabilities. Sharing program effort with other agencies is not sinful, be they governmental or free enterprise. Clients know who provides the help. Others will not eliminate our jobs; we will only do that to ourselves.

Professor Love spends some time on methods of program delivery and allocations of extension resources. Good agency health insists on periodic examinations of structure and goals. Modern marketing technique implores that we be *positioned* properly. Lest we be immersed in process at the expense of product, let us turn again to the 80 percent of southern farmers who seem to have done a number of things right.

We have known for many years that farmers have a distinct advantage over college professors in talking to other farmers. We learned a long time ago that result demonstrations, well planned and executed, are effective educational tools. We also know there are teachable moments. How then can we help influence the less successful minority with the successful majority? They already know each other. They live near each other. In fact, they have been watching each other succeed and fail.

Farm families in trouble did not get there just last week. Many of them worked at it persistently. Those who return to financial health will do so a little at a time. Patient treatment, repeated educational exposure, and friendly assistance is what they need. Extension does not have the resources. However, it does have the capability to *nurture and supplement* such resources. Highly successful farm management associations, privately financed, exist in a dozen variations (Moore and Justice). Others, with state and private funding, are being developed. The teachable moment is now.

AGRIBUSINESS

Businessman Glover adequately quantifies the enormous cash flow gap troubling the agribusiness world. His separation of the problem into short term and long term issues is both useful and necessary.

Mr. Glover's chosen definition of agribusiness includes farm operations but, while not incorrect, shrouds that section of the industry concerned with supplying production inputs and capital items to production agriculture. This broad definition may also obscure some problems peculiar to suppliers. For example, does the service industry also have a long term problem of inadequate assets?

While it is recognized that certain business information remains confidential, we suggest that an agribusinessman's view of his own sector's concerns, and there are undoubtedly many, would be enormously helpful. Successful business people are recognized for their no-nonsense, pragmatic approach, but surely there is concern in the agribusiness community about the future role of dealer credit on farm finance, about the use of operating inputs in obtaining maximum *economic* yields, about federal policy dedicated to the restoration of agricultural exports, and to the accelerator effect on the derived demand for capital goods.

Glover lists three survival alternatives for firms serving farm producers: (1) diversify away from agriculture, (2) scale back to existing demand, and (3) get out. We wonder what happened to a strategy many firms have successfully employed, namely integration. Indeed, certain commodities are almost totally produced in an integrated environment and others are rapidly moving in that direction. Although many integrated firms face financial problems, we believe this is an important alternative which cannot be overlooked.

To the extent that agriculture stabilizes its precarious footing, the agribusiness service sector will play a major role. Farmers everywhere look to their suppliers for advice. The many particular kinds of expertise needed may not be available elsewhere. The entire food and fiber industry should recognize that, in the long run, both responsibility and opportunity will be shared.

AGRICULTURAL BANKS

Bankers Wilson and Sullivan use good statistical support to recant a history of agricultural lending phenomena, both regional and national, over the past decade. Frequent contributors to Federal Reserve publications, they understandably speak from a banker's perspective. We would have benefited from a more normative presentation.

Why, to rephrase their own words, is the concentration of farm loans at agricultural banks in the Southeast insignificant? We would suggest that one reason for disproportionate growth of the Farm Credit System in the Southeast has been to fill a sizeable credit gap. Indeed, again rephrasing, this minority lending position relieves the southeastern banking industry from the problems experienced by banks in other regions. Does it also relieve them of the responsibility?

In order to better understand the financial dilemma, we need the benefit of banker viewpoints on the effects of variable interest rates, shifting to longer term debt, writeoffs, debt rollovers to the FmHA, and converting from short term to longer term credit. We see only a chronological series of incidents; bankers do tend to be pragmatic, but we long for a lender's illustrated concern of the structure of agricultural finance.

Dr. James Hite, speaking to the First Annual Southeastern Agricultural Lenders' School at Clemson University in 1984, said *"It is one of the ironies of Southern history that while the region's agriculture has always had a greater need for credit than that of other* *parts of the country, the agricultural credit system of the South remained for a very long time relatively primitive and loosely organized."* Southern bankers should read Professor Hite's paper.

Returning to the farm producers who have escaped crisis level financial problems and who therefore would seem to be good credit risks, why are more of these farmers not customers of commercial banks? Wilson and Sullivan acknowledge that, prior to very recent times, agricultural loans were, on average, both less risky and higher yielding. They do point to the increasing number of agricultural clients recently moving from other lenders to commercial banks. What a grand opportunity to skim the cream from borrower ranks!

Opportunities do exist in southern agriculture. A recent study of developing trends in the South (Rosenfeld) reveals that we are well on the way to becoming the *woodbasket of the nation*. About 70 percent of the South's timberlands are in the hands of private, nonindustrial landowners, a great number of whom are farmers. Vast sums will be expended on southern forests in the next 50 years.

The authors' experiences suggest that most major banks in the South are ill-equipped to service production agriculture. The trend toward bank consolidation may not help.

CONCLUSION

In summary, four accomplished practitioners have afforded us their expert views on the farm credit crisis and some measure of how it has affected the South. We can benefit from their observations. We would suggest that, like their contemporaries in the popular media, there is danger in selecting that portion of production agriculture which remains staunch and opportunistic.

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