Farm Talk

by

Jerry Webb

Good times are still being promised to America's farmers, but they're going to have to wait a few more years. And if they expect to participate in those good times, they're going to have to learn some new rules. That's the prediction of an Iowa State University agricultural economist. Michael Boehlje believes that the farmers who are struggling now may be in trouble because they are following the wrong rules. If they can adjust to the new game plan and hang on a while longer, there is still that long promised prosperity somewhere toward the end of the decade.

Boehlje documents a phenomena that has occurred in agriculture over the past 20 years that is important to farmers. It has to do with the debt-to-income ratio. He points out that back in the 1960s, that ratio was three-to-one and now it is 10-to-one. That really doesn't mean much until you look closely at what the debt-to-income ratio means. That three-to-one ratio 20 years ago simply meant that if farmers used all their income to pay off their debts, they could accomplish this in only three years. The current 10-to-one ratio means farmers would need 10 years to pay off their debts.

Herein lies an important consideration for most farmers. This rapidly rising debt-to-income ratio means that, consciously or otherwise, farmers are committing more of their future income to debt repayment. And that translates into less income available for expansion, reinvestment in the farm, or a better standard of living.

When you think about what's happened on Delmarva farms over the past two decades, this debt-to-income ratio business makes a lot of sense. Back in the mid-sixties, farmers couldn't buy equipment and land fast enough. Debts were low, equities high, and the promise of the boom years ahead provided a tremendous attraction. So they borrowed and expanded and the debt-to-income ration increased until the 1970s when it was five-to-one. Ten years later and it's doubled.

Boehlje summarizes the current farm crisis this way: "In essence, today's farmers are trying to pay higher principal and interest payments with less cash and liquid assets and less predictable capital gains." While this may be a particularly dark time for some of those farmers who jumped on the expansion bandwagon, there is hope. If they can only hang on until the late 1980s things will be better. To do this, the economist says they must play by the "new rules," as he calls them, for farm financial survival. Here they are as the Iowa economist sees them.

* Understand the difference between cash flow and profit.
* Focus on being efficient rather than big. The growth oriented strategy of the 70s work with high interest rates and tighter profit margins.
* Reduce cash expenditures by optimizing feed rations and crop production plans and by using new production methods such as minimum tillage.
* Reduce capital expenditures. That means serious consideration of any expenditure that might include an interest payment.
* Adjust land rental arrangements. Boehlje sees cash rent as high risk and less desirable in these troubled times than crop share leases or a more flexible bushel lease arrangement.
* Insure against risk by making sure that property and casualty insurance policies are up-to-date. He favors crop insurance, price insurance and other procedures to reduce production risks.
* Refinance to lengthen long repayment schedules. Although this may not be as attractive as it was in the 1970s, lengthening repayment plans may allow a farmer to master a cash flow problem without having to take some more drastic action.
* Consider sale-lease backs. Under this plan a farmer can sell part of his land, reduce his debt load and interest payments, ease a cash-flow problem, and still have the land to farm.
* Consider partial liquidation. Boehlje believes a partial sell-out now may be a lot better than total liquidation a few years later.

Some of Boehlje's ideas may sound drastic, but so is a bankruptcy sale. As he points out, in a period of hard times in the farm economy the last thing a farmer wants is a forced sale situation. Not only does he lose everything, but chances are good he won't even get fair market value for what is sold.

There's a lot of wisdom in farmers admitting that they took too big a step based on a promised bright tomorrow. Plenty of them are now stepping back from some of those commitments. It seems to me to be a lot smarter to sell off an expensive and unneeded four-wheel-drive tractor or to find a buyer for that extra 80 acres than it is to wait for the lenders to force a sale. There might be some face lost in that process, but much less than in a total failure. And it might also leave a farmer in a position to take another big step in the late 80s or whenever the long-promised prosperity returns again.

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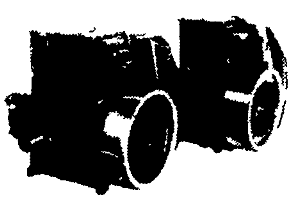

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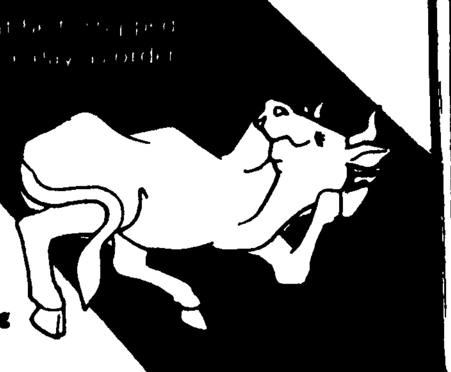

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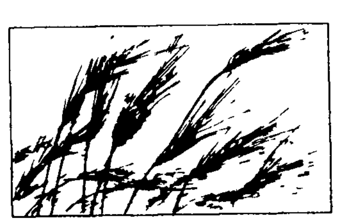

Indeed, farming can be a richly rewarding profession. But it can also be a very risky one. For the farmer is subject not only to the changes in the marketplace, but to those of nature as well.

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