Deficit cuts "a must" for ag economy, expert says

ITHACA, NY – "Too much is being made about President Reagan's veto of the emergency farm credit legislation," says a Cornell University agricultural finance expert. "That measure was only stopgap, anyway."

"What we need immediately is strong action by the President and Congress that will attack the root causes of agriculture's problems. The battle could be won now; it need not take years," says John Brake, the William I. Myers professor of agricultural finance in the New York State College of Agriculture and Life Sciences at Cornell.

The legislation vetoed by the President would have provided additional short-term credit to financially distressed farmers. In many cases, the legislation would only have traded government credit for debt that already cannot be repaid by farmers.

Brake suggests two parallel courses of action to revive agriculture.

"The first step is to bring the budget deficit down substantially," Brake says. "A near-zero deficit is possible within only a few weeks if the Congresss and the President would seriously address the problem. That would immediately drop the interest rate several points. Interest on farmers' debt should then drop to more reasonable rates."

Brake argues that bringing interest rates down sharply and quickly is not impossible.

"If President Reagan and Congress would agree on spending cuts of $60 billion to $80 billion (the President has already proposed cuts of $50 billion), and if they could then agree to $100 billion to $120 billion in tax increases, the expected deficit could drop to near zerp by April first," Brake predicts.

Before the ink dries on any such legislation, Brake says that "interest rates would plummet." He claims that current high interest rates hurt farmers much more than they affect other businesses

"Agriculture is a capital-intensive industry," Brake explains, "and compared to other industries, it requires more dollars invested per worker. Farmers have to borrow to buy land, equipment, and supplies, among other inputs."

The second step in Brake's proposal is to initiate a government plan for agriculture that would put a safety net under farmers without spending the huge sums of money the present price-support system now requires.

In addition, Brake calls for immediate government aid to help relocate and retrain farmers who are being forced out of business. During the next few years, Brake believes that up to one-fourth of the nation's farmers may leave farming.

Borrowing by farmers takes two forms. First, farmers borrow periodically – perhaps every few years for major investments such as land or equipment. Second, many farmers borrow every spring for the spring planting. They then carry that debt until the fall or winter when income from the sale of crops pays off the debt.

"If you or I buy a house or a business, we borrow only occasionally, and often at a fixed rate. We have jobs; we know our income and our payments" Brake explains. "Farmers, on the other hand, must borrow repeatedly just to stay in business. They have no control over the interest rates. Indeed, for many farmers, all of the money they owe, including past debt, is tied to variable interest rates; the rate goes up or down as outside economic conditions dictate."

Tracing much of the staggering $212 billion farm debt to the period from 1977 to 1981, when interest rates climbed sharply from eight to 18 percent, Brake says that it was during this time that the total interest farmers paid on their debt began outpacing income.

As for the government's role in agriculture, Brake says that the government should focus on a stable, long-range plan that farmers can rely on over many years. Such a plan would include disaster relief assistance for farm income maintenance, and short-term aid measures to help displaced farm families.

"Government should formulate an overall plan which would include price supports much lower in cost than today's – so low that they would bail out farmers only in years of drought or other disastrous events," Brake says.

Calling such a price-support program disaster income maintenance, Brake says: "The goal would be to keep good farmers farming in disaster years."

"No one in agricultural circles wants to talk about it, but government cannot shrink from its responsibility to help farmers adjust to life after farming," Brake points out. "Perhaps we do have too many farmers and perhaps we may not need all of them to produce the food we eat."

Farmers forced out of farming, however, are not like other people who simply lose their jobs. Often, these farm families lose their homes as well as their means of livelihood, Brake points out.

"Our government must step in with unemployment benefits, relocation, and retraining programs for farmers displaced in this way," he stresses.