

Agriculture's Adjustment Paves Way For Modest Gains

"The farm sector is making the necessary adjustments to position itself for modest gains in the late 1980's and beyond."

This is one of the conclusions presented in a recent briefing for top USDA officials, which was summarized in a recent issue of the Agriculture Department's FARMLINE magazine. The briefing, prepared by several economists of USDA's Economic Research Service, delved into the origins and the likely outcomes of the current farm financial situation.

It is the view of these economists that the strong market signals of the 1970's—signals that encouraged rapid expansion in production, the excessive bidding up of land values, the accumulation of large debts, and increasingly intensive use of productivity boosting inputs—had a limited life span. Agriculture's response to those transitory signals, they say, left many farmers highly vulnerable to what was probably an inevitable return to more sustainable conditions.

It has been the pain of adjusting to the dramatically different financial and economic environment of the 1980's that has come to be called the "farm crisis."

The consensus of the economists is that something similar to these new, slower growth conditions—

rather than those of the 1970's—is likely to prevail through the remainder of this decade and into the 1990's.

What's Ahead

What does this imply for agriculture in the months and years ahead? The analysts recognize that the consequences of agriculture's financial stress are not over—that some farmers who held on through the last few years will be squeezed out in the next few, and that depressed rural communities cannot expect a quick recovery.

On a more positive note, however, they agree that a major portion of the underlying adjustments seem to have already been made. These include lower production costs and land values, a reduction in the sector's debt burden, more favorable dollar exchange rates on world markets, and the implementation of policies designed to improve the competitiveness of U.S. export commodities.

Although the repercussions will continue, many of the economic adjustments still occurring are going to be less severe than those already experienced, says Ron Meekhof, the USDA economist who directed the briefing.

Here is Meekhof's summary of what he and the other analysts had to say about prospects for the future:

- Adjustments are well underway in the farm sector to a lower asset and cost structure that is consistent with the general economic and world agricultural setting of the 1980's. This year will mark the first time since the early 1930's that farmers' cash expenses have dropped for two consecutive years.

- These adjustments should leave the sector in considerably better financial condition and poised for modest growth by the end of the decade. Farm policy, as reflected in the 1985 farm bill, will play an important role in providing income support for the sector throughout this period. As agriculture makes the transition

from the 1970's environment of rapid demand growth, high inflation, and low real interest rates to the slow demand growth, low inflation, and higher real interest rates of the 1980's, the aggregate measures of the sector's performance will improve.

- Nevertheless, the gains from this transition are not expected to materialize fully until late in this decade. In the next two or three years, some farmers are likely to be forced from the sector by economic circumstances; farm financial institutions will continue to suffer financial stress; the real wealth of the sector may decline further; and farm communities dependent on agriculture will be

hard pressed to share in national economic growth. Financial problems will continue until the production capacity of the sector is lowered to levels that are consistent with demand or until production costs and debt have fallen to levels that can be supported by income.

Reducing Excess Capacity

Agriculture's excess capacity and the outlook for demand growth are critical factors affecting the economic outlook for the sector. Meekhof continues:

- The current situation of excess capacity in the farm sector should soon begin to ease. The growth in the use of inputs, especially fer-

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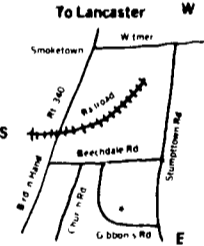
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