

Agriculture Facing A Financially Troubled Time

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The outcome of the election and a new Administration will not take away the serious problems that farmers will face in the coming year. As the nation suffers from the most serious financial problems since the 1930s, farmers and agricultural industries face some definite challenges. These leading agricultural economics point out these issues:

Michael Boehlje, Purdue University believes that a global economic slowdown isn't likely to hit agriculture as hard as other industry sectors, but that doesn't mean farmers and their lenders won't see changes ahead.

He believes that credit will be available for crop and livestock producers, but farmers and ranchers might have to "jump through more hoops" to borrow money. Banks could require more information and documentation from borrowers. Farmers are going to have to do a better job of showing their lender what kind of profitability they've had and what kind of income they're generating. A lender may ask for more detail on the inventory side of a producer's balance sheet.

Capital expenditure loans may be more difficult to obtain this next year and lenders may be asking more questions about land purchases. With increased risk and uncertainty, farmers will be wise to stick with their current lender and not shop around for a better interest rate, Boehlje advises.

Jim Richardson, head of the Texas A & M Agricultural Policy Research Center, spoke to professional farm managers and rural appraisers at their recent annual meeting in San Antonio. He cited increasing production costs for corn, soybeans and cotton, rising cash rents, and increasing absentee ownership. Here is how he summed up the situation:

Landowners see new pressures to switch more land to cash rent. They think that high commodity prices should mean higher cash rents, but farmers cannot afford to pay them. Cash rents have increased for most of representative farms studied by the Texas economists. As a result, these higher cash rents will cause lower cash flows and "reduce farm viability." While

Midwest farmers may be able to pay some higher cash rents, wheat and cotton farmers have less pressure to pay higher cash rents, Richardson concludes.

Other farm management economists support adjustable cash leases or crop share leases to spread the risk between farm tenants and owners.

With the 2008 farm bill taking effect in 2009, farmers face complex decisions about which programs to follow. The new ACRE program (Average Crop Revenue Election) requires that farmer choose this program and stay with it, or continue with payments similar to previous programs. Farm management educators in most states will try to help farmers make a sound decision but predicting crop yields on individual farm, in relation to state averages, and future prices make the final choice a difficult and uncertain one.

How the new farm will be implemented in a new Administration remains a big question. With high budget deficits, the money appropriated to farmers will be at risk. A recent summary in Time magazine described farm policy as "a jumble but the basic goal is simple: redistribute money to big commodity farmers...a welfare program for the megafarms that use the most fuel, water and pesticides, emit the most greenhouse gases, grow the most fattening crops, hire the most illegals and depopulate rural America."

The Time writer asks, "How about repealing the \$307 billion farm bill and slashing subsidies – especially for the no-apparent reason "direct payments" we send to commodity farmers in good times and bad."

The Time article concludes, "The farm lobby and its water carriers in Congress are long overdue for a smackdown". While agriculture is strongly represented by members in Congress on the House and Senate agriculture committees who understand the economics of modern farming, the pressures for change and the bail out of failing financial institutions and major industries will require a review of all federal spending.

Farmers and their leaders must look carefully at individual farm operations and the policy decisions on future farm programs in 2009 and years to come if a free family oriented and viable agriculture will survive. Δ

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