

FARMING WITH UNCLE SAM

High Finance Comes to Rural Missouri

BLAKE HURST

Ten years ago, I graduated from the University of Missouri and returned to our family's farm in the far northwest corner of the Show-Me state. My brothers and I are the third generation to farm here in Atchison county. Grandpa founded our business after his first farm was lost in the late '20s in an earlier agricultural downturn. The enterprise has grown and today it includes some 2,700 acres of corn, soybeans, and beef cattle. Last year, we produced about 125,000 bushels of corn. We don't really like accepting subsidies. But if we didn't enroll in government farm programs, our corn would be worth about \$1.80 a bushel; because we participate, we receive about \$3 a bushel. Everybody has his price. Now you know ours.

Bunker Mentality

Northwest Missouri is a patchwork of corn and soybean fields, pastures, small towns, hills, and rivers. Lately a new feature has been added. These days, nearly every small town has a grain bunker. Grain bunkers are football field-sized piles of corn 30 feet high in a plywood base covered with a huge white plastic sheet. My hometown of Tarkio is in a particularly fertile area, so we have not one, but two bunkers. Each holds one-half million bushels of corn stored under a three-year contract with the federal government at a cost to the taxpayer of \$500,000 per year. These bunkers, which resemble nothing so much as truncated stadiums like the Minnesota Homer Dome, are necessary because the more traditional forms of grain storage are already full. Billions of bushels of grain are stored all over the Midwest in bins, sheds, and bunkers: grain raised by farmers like me in response to government payments that hold little relation to any market signals. During a rain storm this past summer, the dikes along the local river broke, surrounding the bunkers with four feet of water—sort of a floating monument to a failed farm policy.

From 1977 to 1985, government support levels for program crops increased each year regardless of supply and demand. This policy probably did the most to fill Tarkio's bunkers, but there were other reasons. Exports have fallen because of the strong dollar. Third World countries are under pressure to cut imports of farm products and increase exports of their agricultural products to reduce their horrendous debts. The European Economic Community

has embarked on a massive export dumping program to protect its own farms. The federal government's tax and farm credit policies have also contributed to our woes.

Cheap Money, Costly Land

When I started farming, the Farmers Home Administration was lending money for 40 years at 5 percent interest to farmers unable to get commercial credit. Not many farms in Atchison county were purchased on those terms, but since price is set on the margin, land costs rose much higher than they would have without the subsidized credit. This credit-led boom increased costs for all farmers.

Today the FmHA is trying to deal with the results. In neighboring Nodaway county a farmer borrowed money from the FmHA to purchase a farm. Unable to make payments he simply packed up his family and left. A commercial lending institution would have begun foreclosure proceedings, taken possession of the farm, and sold it in order to recover at least a portion of the original loan. The FmHA couldn't react as a normal lender would have because it was under a court injunction prohibiting it from foreclosing on its borrowers. Today the farm lies idle and the house has been looted because the FmHA could not protect the taxpayers' investment.

Arbitrage vs. Hog-Feeding

A farmer down the road fared better. Also unable to make payments, he voluntarily conveyed the farm back to FmHA. The FmHA received an appraisal of the farm and offered to sell it at the appraised value to the original borrower. The rules say the FmHA has to first offer any land in its inventory to the farmer who lost the farm. If he refuses, only family farmers who can't get credit from commercial lenders can buy the farm from the FmHA. Well, the appraised value on this farm was so low (and why not, with those stipulations on its sale) that the delinquent borrower was able to sell half of the farm to a neighbor for enough to buy the rest of the enterprise with cash. High finance comes to rural Missouri.

Nationwide, the FmHA has \$14 billion in outstanding

BLAKE HURST helps operate the family farm established by his grandfather in Missouri.



Blake Hurst on the family combine

loans. Two-thirds of that debt is delinquent and 70 percent of the delinquent debt is at least three years overdue. The disaster and emergency loan programs of the '70s were a national scandal. In some Southern states, 80 to 90 percent of those loans were never repaid. Small Business Administration loans were available to farmers at an interest rate of 3 percent. Now, most farmers don't know what arbitrage is, but I do know neighbors who figured out that borrowing money from SBA at 3 percent and buying CDs paying 10 percent at the local bank sure beat the hell out of feeding hogs!

Although the Reagan administration has attempted to tighten lending procedures at the Farmers Home Administration, some things never seem to change. Recently Congressman Whitten of Mississippi slipped a provision into the budget reconciliation act cutting the FmHA administrator's office budget by 25 percent. Before you get your hopes up; it wasn't a move toward fiscal sanity. Nope, it seems Jamie Whitten was piqued at FmHA administrator Vance Clark for refusing loans to borrowers who were not only delinquent in their payments, but who showed no signs of being able to rectify the situation. Only in Washington does the size of your office budget reflect how much taxpayer money you can waste.

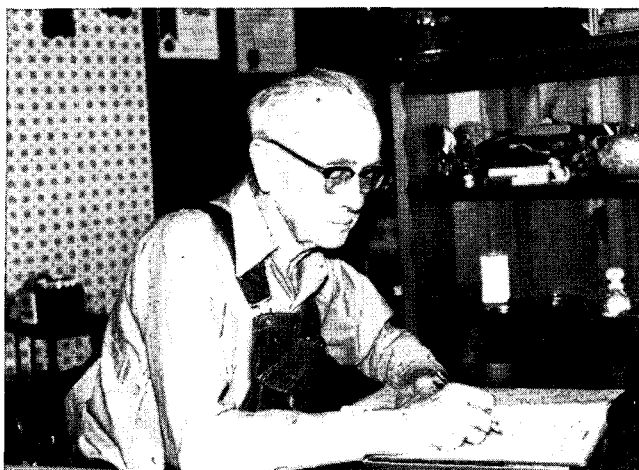
I guess the Reagan administration has finally gotten the message. On March 1 of this year, the FmHA announced a new policy to fulfill the mandates of the Agricultural Credit Act passed by Congress in December of last year. In essence, the FmHA has admitted defeat. As much as \$7 billion in bad debt will be written off. Farmers who lost their farms as long as 10 years ago will be able to get back in business. (This is a rather startling breakthrough in economic policy. If you have any Penn Central, Lockheed, or Wickes stock lying around the house, I'd recommend call-

ing your congressman.) No provisions have been made for farmers who have paid their debts. As mentioned before, many of the delinquent loans are located in the South. The announcement of this decision a week before Super Tuesday can hardly be called a coincidence.

Willie Nelson's Tax Loss

"Crazy, crazy for feeling so blue," sang Willie Nelson at his FarmAid concerts. And Willie had every right to be blue. After all, not only were we family farmers in terrible shape, but Willie himself testified to a several-hundred-thousand-dollar cattle feeding loss. Of course, Willie's cattle feeding problems weren't what they seemed. Family farmers, including Willie Nelson, are eligible to use cash accounting for tax purposes. Now this may seem rather arcane, but bear with me. Cash accounting is deemed necessary for farmers because we aren't sophisticated enough to pay income taxes on an accrual basis like every other business. We may not be sophisticated, but it didn't take us

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Farmer's optimism: 87-year-old Grandpa Hurst fills out a 16-year crop rotation report.

long to figure out that cash accounting is a terrific tax dodge for an expanding business. By advancing purchases and delaying sales, which would normally show up as inventory changes, a farmer can report a tax loss even though his business is profitable. As long as he keeps expanding, he has what amounts to an interest-free loan from Uncle Sam. Willie Nelson's tax advisors know this. Consequently, family farmers like myself are faced with larger supplies and lower prices than would otherwise be the case.

Plowing Up Chicken Bristle

Farm surpluses are not a new problem. In the 1960s, the government cut production through a program of long-term rental agreements with farmers. The Soil Bank program made it more profitable for farmers to retire marginal land from production than to farm it. The program was devastating to agribusiness in those areas with high participation. Some counties essentially shut down their crop-producing plant.

But agriculture is a highly cyclical business and the 1970s saw a turn for the better. Exports increased and in response to this demand, highly erodible pastures and rangelands sprouted grain. The Soil Bank contracts were allowed to lapse and production rose to meet the demand from overseas. Across the road from where my grandpa grew up in the community of Chicken Bristle, a large farm that had been in grass for generations was plowed up and planted to corn. Yields were low, but subsidies made it profitable.

Conditions changed again in the '80s. There was renewed interest in conservation as grain supplies moved from shortfall to surplus. You can guess what came next. An uneasy coalition of farm groups wanting to cut production, environmental groups wanting to reduce erosion, and politicians wanting more votes, presided over the birth of the "Son of Soil Bank," otherwise known as the Conservation Reserve Program. Hailed as a new breakthrough in farm policy, the CRP buys land out of production through the use of long-term rental agreements between farmers and the government. Once again, participation is high and agribusiness is suffering in areas poorly suited to crop production. Of course, one of the first farms to enter the program was the Chicken Bristle farm. Farmers who plowed fragile land are being bailed out by a so-called

conservation program. What programs like the Soil Bank and CRP really do is remove the risk from farming highly erodible, unproductive land that doesn't lend itself to continuous cropping. When times are good, plow it up and let it blow or wash away. Don't worry about the bad times; you can always rent it to Uncle Sam.

A final note on the Conservation Reserve. Twelve thousand acres have been plowed out of pasture in Atchison county since 1978. Two miles north of my home, a fellow from Las Vegas purchased a grass farm and planted it to corn. As a grass farm, it might have rented for \$40 an acre per year. As a crop farm, it would be worth slightly more. It's now rented for 10 years to Uncle Sam for \$70 an acre. Better odds than he is used to.

Time for Massive Subsidies Is Past

All of these policies had an unintended result. They kept resources in agriculture at a time when the market was clearly signaling that resources needed to leave farming. Excess resources led to surpluses, which led to low prices, which increased the pressure for more subsidies. But the United States is not alone in pursuing misguided farm policies. Estimates of worldwide farm subsidies run as high as \$250 billion annually. France sells corn to Algeria for \$1.80 a bushel while paying its farmers \$6 a bushel. Italy pays its farmers \$15 a bushel for soybeans that they could buy from me for \$6 a bushel. Japanese farmers recently compared U.S. requests for less protectionism in beef to the Hiroshima atomic bomb. President Reagan's proposal for a gradual phaseout of farm subsidies worldwide has been roundly criticized as "unrealistic." Unrealistic as those proposals may be, they offer our only hope for the future.

Meanwhile, back at my farm, we've spent the winter preparing to comply with the conservation provisions laid out in the 1985 farm bill. We're writing crop rotation plans for the next 16 years to qualify for continuing subsidies. (Farmers are known for their optimism. Requiring my 87-year-old grandfather to fill out a 16-year crop rotation takes optimism to a new extreme.) We can't drain wet spots or change the location of drainage ditches. The USDA tells us what to plant, how much to plant, and where to plant. If we opt out of the program, we're forced to compete with farmers in the program who will receive nearly twice as much for their crops. Consequently, we have little choice but to follow the rules.

In the small town near our home, the local branch of the Farm Credit System has closed its office. A group of farmers and local businessmen has purchased the building, refurbished it, and opened a taco joint. West of town, land that used to grow the best corn in Atchison county is now planted to potatoes, a crop that doesn't depend on subsidies, but rather on America's appetite for potato chips. North of town, some neighbors are experimenting with broccoli, another nonsubsidized crop. Further north, a group of farmers' wives distribute their handsewn clothing to yuppies nationwide. And behind my house, my wife and I have four greenhouses, where we plant what we want to plant and sell what we grow without filling out a single Department of Agriculture form. I guess we farmers know something that hasn't occurred to the folks in Washington—the time for massive farm subsidies is past. 📌

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THE ADMIRAL WHO JUMPED SHIP

Inside the Center for Defense Information

MICHAEL JOHNS

There are over 5,000 retired admirals and generals in the United States, but one retired rear admiral—Gene La Rocque—has provoked more attention and discussion than most.

It isn't that La Rocque was a military standout of any sort. While his career had its highlights—he was aboard the USS *MacDonough* at Pearl Harbor the day of the Japanese attack, participated in World War II raids on Palau, Truk, and the Philippine islands of Leyte and Luzon, commanded several ships, and served as Director of the Inter-American Defense College at Fort McNair—most of his superiors found his 31-year service in the U.S. Navy rather unexceptional. Nor is La Rocque's prominence a product of any immensely influential position he held in the service. He did rise to the level of flag officer, but was asked to retire after being passed over for third star rank.

Instead, the 69-year-old La Rocque owes his prominence to his position since 1972 as director and chief spokesman for the Washington-based Center for Defense Information (CDI), the favorite military and strategic think tank of disarmament activists, congressional liberals, and isolationists. As director of CDI, La Rocque has lent his military credentials—and those of several other retired military officers on the CDI staff—Rear Admiral Eugene Carroll, Air Force Major General Jack Kidd, Navy Captain James Bush, Marine Colonel James Donovan, and others—to an extensive campaign for significant cuts in America's defense budget and for a "fortress America" strategic philosophy. It is an extremely unusual position in which to find a retired Navy officer, which makes this retired rear admiral more than just another liberal recruit; Gene La Rocque has become the left-wing counterpart of some former radicals who have embraced conservatism—an ally all the more useful to the Left in light of what he once was.

Defense without Weapons

CDI claims to stand for a "strong defense"—a position boastfully printed atop every issue of CDI's flagship newsletter, *Defense Monitor*—but it has proposed the cancellation of the B-1 bomber, anti-satellite weapons, the Stealth bomber, the MX missile, civil defense programs, the DIVAD air defense gun, the Trident submarine, the Midgetman mobile missile, the C-17 cargo aircraft, sea-

launched cruise missiles, intermediate-range nuclear missiles, chemical weaponry, the Strategic Defense Initiative, the AMRAAM radar-guided missile, the J VX vertical lift aircraft, and the A-6E Navy attack aircraft. CDI has also advocated removing all nuclear weapons from U.S. aircraft carriers, scrapping tactical nuclear modernization, removing all aircraft and surface-to-surface missiles capable of hitting targets in the Soviet Union, and removing all forward deployed atomic demolition munitions. As La Rocque explained his views before a forum of religious leaders in 1982: "There is no way to defend against [Soviet] ballistic missiles carrying nuclear weapons. So 'superiority' has become meaningless in military terms."

Although it has paid occasional lip service to the need for a modest nuclear-armed submarine capability, there is not one noteworthy weapons system that CDI has worked to support over its 16-year existence. And in the past 30 issues of *Defense Monitor*, which is published 10 times a year, CDI has derided almost every major new weapons system or defense program as either provocative, a waste of tax dollars, or not in the security interests of the nation.

The organization has also advocated a reduction in U.S. arms sales overseas, a complete phased withdrawal of our ground forces from Korea and Europe, closing of U.S. military installations in the Philippines, a freeze in U.S. military spending, the giveaway of the Panama Canal, decreased spending for Special Operations Forces, demilitarization of the Indian Ocean, a comprehensive nuclear test ban, and abandonment of anti-Communist guerrillas in Afghanistan, Angola, and Nicaragua.

Yankee Armageddon

CDI's studies consistently conclude that the United States and the Soviet Union are moving irrefutably toward nuclear war, a dismal situation for which the United States can take most of the blame. La Rocque declared at a special United Nations session on disarmament in 1981: "Make no mistake about it, we in the United States are planning, training, and arming for a nuclear war." He told the American Academy of Political and Social Science in 1983: "War is inevitable sooner or later if we believe our

MICHAEL JOHNS is assistant editor of Policy Review.