

## Agriculture by Cynthia Parsons

### FmHA dries up the dairy industry

*FmHA lending to the dairy industry must be constricted, says Agriculture Secretary Block, to inhibit 'overproduction.'*

**F**or over 40 years, the Farmers Home Administration (FmHA) has been the lender of last resort for farmers who are unable to borrow elsewhere. But FmHA has been not just a money lender for hard-pressed farmers. It has provided advice for farmers, operating loans for their yearly purchase of seed and fertilizers, and infrastructure-creating credit to build new barns and silos and houses, for rural development, sewage systems, and farm-related businesses.

Now, in a period of high interest rates which have rendered a growing number of farmers unable to even pay off their back debt, the FmHA is holding back allocated funds that would in the past have been used to help out such farmers. In 1978, Congress provided \$600 million for Economic Emergency loans for farmers suffering hardship after the drought. Yet not one penny of this money has been allocated since fiscal year 1981. In fact, the administration has asked the FmHA to tighten its regulations regarding the use of these funds, with a view toward terminating this loan program by 1983.

In the case of the dairy industry, the administration is using the FmHA in a way that contradicts the agency's own guidelines and operating principles, in fact making it a party to the dismantling of America's high-technology dairy industry. The administration is targeting the dairy industry on the issue of

"overproduction," taking the position that it is a glut of milk and dairy products on the market, and not high interest rates, that are the cause of the industry's problems.

The administration asserts that the overproduction is the result of the system of federal price supports, which for the past three years has set milk prices paid to the farmer at \$13.10 cwt (hundredweight), and is now threatening to drop federal supports to \$12.00 on Jan. 1, 1983. According to the American Agriculture Movement, this will result in the bankruptcy of one in four U.S. dairy farms.

The current price support system guarantees dairy farmers only 75 percent of parity—the farmers' total production costs plus an operating profit. Although 100 percent of parity was never established, the 30-year-old federal price support system has allowed modernization.

One New York State dairy farmer was recently refused an FmHA operating loan by the agency's area supervisor, who had spent 15 minutes inspecting the farm last year. This farmer is carrying a heavy debt load, but is by no means bankrupt, or near delinquency in loan payments. His farm is well-managed, the cows are clean and healthy, and he earns enough to pay \$200,000 yearly in debt payments. Yet his application for an FmHA loan to consolidate his debt and buy a new tractor was rejected on the grounds that he did not have

enough equity.

I questioned an official in the Washington, D.C. office of the FmHA about this case. He said that Secretary of Agriculture John Block was concerned about dairy overproduction, reporting that Block has kept price support levels even for three years in a vain effort to stem production.

The official also reported that in April Block sent a memo to all FmHA area supervisors urging caution on loans because of the oversupply situation on the dairy markets. The gist of Block's memo was that it was preferable to lend to farmers to help them meet their yearly operating costs, rather than to lend for capital investment and improvement.

The FmHA official then assured me that the yearly \$100,000 insured direct operating loan was the most common type of loan now being made by the agency. In all cases, the "best managers"—that is of financial matters and not production—are being given the most consideration, he said.

Has the FmHA, on Secretary Block's orders, abandoned its traditional role as a provider of federal credit to American farmers who wish to increase their capital investment, efficiency, and production? This seems to be the case.

"Many farmers do not understand that a new tractor is not just a pretty piece of machinery, but an integral part of the process of production," the above-mentioned New York State dairy farmer told me. "They don't understand that without increased modernization, you can't have increased efficiency."

Neither does the FmHA anymore.