

## OHIO FARM CRISIS COMMITTEE

Comments by

Allan E. Lines  
Agricultural Economist  
The Ohio State University

Good afternoon. I welcome the opportunity to be a member of this Governor's Committee assigned with the task of developing and examining alternative courses of action that might help alleviate a serious problem in Ohio agriculture.

I will attempt to provide you with some factual information and some educated best guesses concerning the farm financial situation in Ohio. In addition, I hope to provide some food for thought concerning the why's and wherefore's of the current situation that hopefully will help us as we develop and assess possible alternative actions.

Let me first provide you with some first-hand examples that will describe the range of the current situation. Within the last five days these two situations have been discussed with me:

- a) A family farm carrying approximately \$1.5 million of debt with the ability to service about half of that and just yesterday receiving notification requesting payment be made that will result in a foreclosure action and bankruptcy filing within the month.
- b) Another family agonizing and losing sleep because of money that it found necessary to borrow; very disturbed because "the farm has been in the family for three generations and this is the first dollar the farm has even had to borrow."

Let's keep things in perspective. In my best judgement, after talking with numerous farmers and lenders, it is only a small portion of our farmers that are in this "crisis" situation at the moment. Make no mistake, I fully appreciate and understand that all of our grain farmers are feeling the heat of a much reduced cash flow. To rationally deal with the problem we must also be cognizant of the fact that while some farmers are electing bankruptcy or being served foreclosure notices many others are weathering the storm and some are simply depositing less in their savings accounts. Keep in mind that the statistics suggest that approximately 50 percent of our farmers on a January balance sheet report \$0 debt. Without hard data it is my best judgement, that the other 50 percent would be configured as follows:

- 3% unsalvageable even with good prices
- 2% in difficulty--unlikely to be carried by creditors
- 5% in difficulty--likely to be carried by creditors
- 15% will be in difficulty if price situation persists beyond 1983 crop
- 25% will survive if current conditions persist

Some selected financial characteristics of Ohio's agriculture can help us put the situation in perspective.

## FARM FINANCIAL CONDITION SELECTED CHARACTERISTICS

OHIO, 1978-1983

ITEM	1978	1979	1980	1981	1982 <sup>1/</sup>	1983 <sup>2/</sup>
% Equity	87	88	88	87	84	82
Equity (\$ billions)	23	27	31	32	27	25
Deposits and Cash (\$ millions)	441	257	184	198	183	175
Net Farm Income % of Gross	18	23	12	6	5	6
Net Farm Income % of Debt	20	25	14	6	6	7

<sup>1/</sup> Preliminary<sup>2/</sup> Educated Guesses

In summary:

- 1) Ohio's agriculture has a strong balance sheet.
- 2) Ohio's agriculture has a rapidly deteriorating ability to meet cash flow commitments.

Little more can be said, for it is very difficult to document the specifics of who and who isn't going out of business because of the current situation. "We know the bitch is going to pups but it's impossible to know which will have black tails until after they are born." We will not really know the full effect of this adjustment in agriculture until the adjustment period is past.

The above figures do not speak to specific situations of difficulty. I would categorize the difficult or if you prefer, "crisis" situations as follows:

- 1) Part-time Farms
  - a. Pre-recession: held off-farm job to afford the privileges of:
    - 1) being a farmer
    - 2) holding rapidly appreciating assets
  - b. Recession: lost job and farm cannot support family (never intended to)
- 2) Commercial Farmers
  - a. Rapid highly levered growth in late 70's
    - 1) risk takers (less than prudent borrower)
    - 2) income not sustained to carry high debt load
    - 3) dealt a poor hand
  - b. Series of natural disasters
    - 1) good managers/prudent borrower/moderate growth
    - 2) low prices compound problem
  - c. a + b

Current crisis situations are a mix of three elements:

- 1) General uncontrolled circumstance
  - i.e. -- decrease in crop prices coupled with increase in interest rates
- 2) Localized uncontrolled circumstance
  - i.e. -- sequence of natural disasters
- 3) Overt calculated decisions and risk taking
  - i.e. -- rapid highly-levered growth

Now some thoughts on policies and/or alternatives to alleviate crisis situations:

- 1) Part-time Farmers
  - a. is more of a non-farm unemployment problem
  - b. little to be done by ag sector
- 2) General Circumstance
  - a. if this were culprit all or most of farms would be in trouble
  - b. not in purview or where-with-all of state
  - c. must be and is being addressed at national level (i.e., set-a-side and PIK programs)
- 3) Localized Circumstance
  - a. room for possible action
  - b. may be so far behind will never catch up given normal years ahead
  - c. problem how to identify and treat differentially
  - d. who is going to define eligible situation
- 4) High Rollers
  - a. do we really want to reward risk takers that lost their gamble?
  - b. do we want to reward something less than prudent financial management?

There are no easy solutions. One solution will not treat everyone in "crisis" equitably. Anything done and restricted to distress situations in some instances will reward poor risk and/or financial management and will in some sense penalize those who are not in a crisis situation.

Assistance restricted to crises resulting from "uncontrolled localized circumstances" would fall within the social responsibility of state agencies. Care must, however, be taken to carefully determine which situations are truly resultant from "uncontrolled circumstance" and which can demonstrate renewed fiscal solvency. This will be no easy task. Who will volunteer to create the guidelines?

process. Finally, construction of an annotated bibliography is discussed. This tool will help organize the material read or consulted and speed development of the final report.