Surviving the Next Farm Financial Crisis

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Prices for virtually all farm commodities were at near record highs during 2007 and, until mid-2008, were projected to continue at record levels into the foreseeable future. Prices for major U.S. crops – including corn, soybeans, wheat, and cotton – doubled between 2002 and 2007 with much of the increase coming during '06 and ‘07. Livestock prices rose 50% during the same period, again with much of the rise coming in '06 and ‘07. Higher commodity prices and farm profits resulted in U.S. farmland setting new records, with a national average of $2,500 per acre on January 1, 2008, while most farmland in the Corn Belt was priced at $4,000-$5,000 per acre. This reflected a doubling of prices since 2001, three-fourths of the increase coming in the past four years. For the past couple of years, farmers have been planting fencerow to fencerow. Many are putting land previously set aside under the Conservation Reserve Program back into crop production as quickly as their contracts expire. The last time we saw such prosperity and such optimism in rural America was more than 30 years ago, during the 1970s.

American agriculture today is in much the same basic situation as it was in the late 1970s. Ethanol, rather than exports, is the main driver of higher prices, but a weak U.S. dollar has also helped keep U.S. farmers competitive in world markets. Once again, government farm programs have remained generous during times of agricultural prosperity, reducing farmers' risks of overproduction. The government also has encouraged expansion in production through ethanol subsidies and generous farm credit programs. Interest rates have been low in relation to inflation, meaning that until recently credit has been affordable and easily available. As in the 1970s, with land prices are at new record highs, farmers have been encouraged to use their land as collateral for loans to expand production or invest in cooperatively owned ethanol and biodiesel plants. No one can foretell the future with certainty. However, the recent U.S. and global credit crisis, with prospects for a deep and prolonged global economic recession, could well signal the beginning of another major farm financial crisis.

So what could farmers do to survive another financial crisis? The world is always changing, but farmers may gain some valuable insights from those who survived the farm crisis of the 1980s. First, the answer is not to do what farmers are been advised to do for the past 50 years. This is not the time to get bigger, give in to corporate control, or get out of farming. The farmers who bought more land and equipment to expand during the 1970s were the ones with the biggest problems during the 1980s. With regard to contract production, the agribusiness corporations do not make legally binding, long term commitments to their contract growers. When times get tough, contract producers are going to be caught with large investments in facilitates and equipment with no animals to feed or no markets for their crops, and thus, no means of making their loan payments.

The farmers who survived the farm financial crisis of the 1980s were those who resisted the temptation to borrow money during 1970s. Those without large debts obviously were not committed to large loan repayments nor were they subject to bankruptcy, even after significant year-to-year losses. Their equity, primarily in the unencumbered value of their land, was more than adequate to cover their modest debts. Diversified farmers also fared much better than those who had specialized in one or two commodities. Those with a variety of crops, or both livestock and crops, were in a better position to manage their financial risks. Even though prices in general were depressed, different commodities were more or less profitable at different times.

As I have written previously in “sustaining people through agriculture” articles, the key to survival and success, in bad times and good, is to manage *intensively*. Conventional commodity producers are *extensive* farm managers. They make more money by managing more acres of land, more hired workers, and more capital, more *efficiently*. They spread their management expertise across more land, labor, and capital. As a result, they need to borrow large amounts of money and rent land they can't afford to own. Their profit margins are small but they have large amounts of commodities to sell. However, relatively small increases in costs or small reductions in prices can have a major impact on their economic bottom line.

In addition, a high portion of the costs of extensively managed farming operations tend to be for purchased inputs or other out-of-pocket or cash commitments. As one farmer recently put it, “you know, we buy the crops these days” – from the seed dealers, fertilizer and pesticide suppliers, equipment manufactures, and oil companies. As a result, these farmers are not in a position to just take a bit less from the farm business for themselves during hard times; the bills have to be paid. And when large-scale commodity producers are unable to borrow enough money to cover production costs, they have to cut production. Even if their profit margins remain positive, they have relatively less to sell and smaller profits to make their loan payments and keep the business afloat.

Successful small farmers must be *intensive* farm managers, in good times as well as bad. They need to make more money while managing less land, less labor, and capital more *effectively*. Efficiency is about doing things right while effectiveness is about doing the right things. Intensive managers concentrate their own management expertise on less land, labor, and capital. Their continuing success doesn't depend on their ability to continually borrow money to buy more land or rent more land that they can't afford to own. Since they have less to sell, their profit margins have to be higher. This means their costs have to be less, their prices higher, or preferably, both.

If they are producers of basic commodities their costs have to be less, which may difficult to achieve on a small farm. In the past, commodity producers with small farms have simply accepted a smaller return for their land, labor, and management. Since they put more management and labor into each bushel or pound sold, they are able to take less out, particularly during hard times. They spend less for seed, fertilizer, pesticides, and fuel by relying more on their management of diverse farming systems to maintain soil fertility and control pests. While being able to take less out increases the odds of survival during times of crisis, this is not the key to long run prosperity.

The key to future small farm prosperity, in good times and bad, will be to get higher prices while reducing costs of production. This was not a possibility for farmers in the 1980s because there were no markets for anything other than agricultural commodities, and all basic commodities of the same quality are worth the same price. However, a variety of new market opportunities have emerged since the 1980s in response to growing environmental and social concerns associated with large-scale industrial agriculture, as I have written in previous articles about the “new food economy.”

A variety of credible sources indicate that those who are searching for alternative to today's industrial foods make up at least a quarter and possibly a third of American consumers, and their numbers are growing rapidly. Over the long run, the potential for this new market is unlimited; it could literally transform the concept of what it means to eat well in America. The new organic-local-sustainable food movement, at its very core, is being driven by concerns for food security – food safety, accessibility, affordability – and these concerns will become even stronger in the times of crisis ahead.

The growing popularity of locally grown foods holds particular promise for those on small farms. Organizations such Slow Food and the Chefs Collaborative are helping to promote the new “locavore” movement, which encourages people to eat food grown as close as possible to their home. Locavores promote economic viability by providing markets where local farmers can earn enough money to take care of the land and to participate fully in the economic and social life of the community. The local food movement is not just about creating new markets; it's about developing lasting relationships among people.

Those who fared best during the farm financial crisis of the 1980s had strong personal relationships within their families and communities. Farmers who have developed personal relationships with their customers, who also happen to be their neighbors, will not only have their moral support during the hard times ahead but will have their continuing financial support as well. Friends don't abandon friends when the going gets tough, they stick it out together. Those who eat locally won't go hungry and those who market locally won't go broke. Instead, they will find ways to work though their problems together and their relationships will grow stronger as a consequence.

So, the most important strategy for surviving the next farm financial crisis may be to get to know your neighbors and turn them into customers as well as friends. Wendell Berry writes that farmers of the future “must tend farms they know and love, farms small enough to know and love, using tools and methods that they know and love, in the company of neighbors that they know and love” – and I might add, producing food for people they know and love. The key to surviving the next farm financial crisis will be a deep and abiding love of land and people.