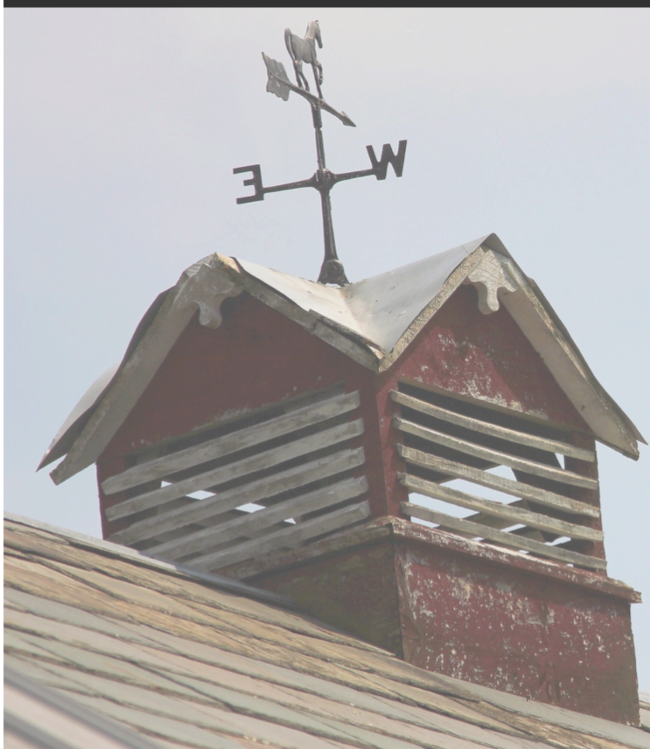
A Looming Crisis on American Farms



Farmers are enduring a multiyear slump in crop and livestock prices that is pushing many to the financial brink. Since 2013, America's farmers and ranchers have weathered a 45 percent drop in net farm income, the largest three-year drop since the start of the Great Depression.

The strain in today's farm economy is no accident; it's the result of policies designed to enrich corporations at the expense of farmers and ranchers. If the American family farmer is to survive, farm policy needs a massive shift in direction – one that delivers fair prices to farmers that allow them to make a living.

Photo Credit: Alicia Harvie

FARM ECONOMY HURTING IN 2017

Price crashes for corn, wheat, dairy, beef and other products have spurred a sharp dip in farm income that is pushing many farmers into debt. Some are declaring bankruptcy, raising concerns that we are on the cusp of the biggest wave of U.S. farm foreclosures since the 1980s.

Unfortunately, little relief is in sight. Farmers saw a 45% drop in net farm income between 2013 and 2016 and the U.S. Department of Agriculture expects net farm income to fall by another 8.7% this year. That's a 50% drop from 2013's record high and the lowest level since 2009. With the average farm now losing money, farmers feel increased pressure to secure off-farm income just to keep their farms afloat. And while production expenses are expected to even off at $350 billion in 2017, a notable drop from 2014's record $390 billion, they're not low enough to offset the income crash.

Farm Solvency Weakening

In addition to income, several factors influence a farm's financial health. While conditions are not as worrisome as in the 1980s, many anticipate a sharp rise in delinquent or defaulted loans, which can imperil farm viability. The following trends indicate that farmers and ranchers are feeling pressure in a strained farm economy:

- The farm sector's debt-to-income ratio is the highest it's been in three decades.
- Farm real estate values represent a huge portion of farm assets in a given year, and thus are critical to the viability of farms. In 2016, key regions experienced declines in real estates values, including the Northern Plains and Corn Belt, which declined by 4.3% and 0.9%, respectively.
- 2017 represents the fifth consecutive year that farm solvency ratios have weakened, while liquidity ratios and working capital have deteriorated to their weakest levels since 2002.

Farm Credit Tightening

Farmers rely heavily on credit to buy the seeds, fertilizer, machinery, livestock and other inputs that keep their farms running. If they can't secure affordable and timely credit, they face an economic uncertainty that threatens the survival of their farms.

The downturn in the farm economy has lead to deteriorating credit conditions. Many banks are increasing their interest rates and collateral requirements, both of which make it more expensive and risky for farmers to borrow. The Federal Reserve Bank of Kansas City also reports that toward the end of 2016, bankers reduced the amount of funds available for financing. These conditions are challenging for all farmers, but beginning farmers, smaller and midsized farmers, and other disadvantaged farmers in particular will struggle to secure the credit they need.

Impact on Rural America

America's farmers and ranchers are pillars of their communities and the foundation of their local economies. When farmers do better we all do better; the opposite is also true. As farmers are forced into bankruptcy, a ripple effect on farm service providers, input manufacturers and local purchasers and processors further taxes the economy of rural communities. As economic conditions worsen, the stress farm families face can have demonstrable impacts on the health of rural Americans. A 2016 Centers for Disease Control report found national suicide rates for people working in agriculture are more than 50% higher than they were during the 1980s Farm Crisis.

HARDEST HIT

While the entire farm economy is facing a tough down cycle, there are several sectors where conditions are especially bad.

Wheat Growers

In 2016, wheat prices continued to plummet to an average $4.11/bushel, a 46% drop from their high in 2012. As prices fall below the "break-even" point, farmers in states like Kansas, Oklahoma, Oregon, Washington and Idaho are now reducing wheat acreage and switching over to other crops. USDA anticipates a $1.4 billion decline in cash receipts for wheat in 2017 and the lowest level of wheat acreage planted since the government began keeping records in 1919.

Dairy Farmers

Dairy farmers took a huge hit in 2016 when milk prices fell as low as $13.10 per hundredweight (cwt) and averaged $14.80/cwt for the year. This was a 55% drop from their peak levels in 2014, a loss felt every single day by farmers who work with a perishable product. The milk price for 2017 is forecast to be between $17.80 and $18.40/cwt, sometimes enough to break even but not nearly enough to recover losses from the last several years. According to the National Farmers Union, dairy farmers receive just $1.59 for a gallon of skim milk that retails for $4.69.

Cattle Ranchers

The net farm value of cattle fell from an all-time high of $3.67 per pound in November 2014 to as low as $2.19 in October 2016. This is the lowest value since 2010, causing U.S. cattle ranchers to lose billions of dollars in equity. The average retail price for beef nationwide fell more than 9% in the last six months of 2016, dropping to an average of $5.96 per pound. The direction cattle prices take this year will be pivotal for ranchers who endured historic losses in 2015 and 2016.

Icons from Noun Project: Wheat created by Megan Strickland, Dairy created by Hardini Dwi Lestari; Cow created by Alena

BETTER FARM POLICY

All too often, food is treated like any other commodity and farming like any other profession. This could not be further from the truth. While many blame the current economic downturn on the oversupply of major commodities, the real root cause is one of failed policy. If we're going to save the family farm, we need policies that support the success of small and midsized farmers and the communities they call home – not the profits of multinational companies. The long and short of it is this: without sound policies, it is nearly impossible for farmers to consistently make a good living from the land.

Fair Prices & Parity

Agriculture doesn't fit neatly into most economic curves. As a sector, farming is relatively *inelastic,* with farmers and eaters both unable to alter their consumption or production dramatically in any given year. People must eat and what they eat only shifts marginally in a given period of time, no matter how much farmers produce. Farmers, meanwhile, almost always have an incentive to produce as much as possible to squeeze a profit from their land and build a cushion for the tough times that will inevitably come. The greater the supply of a particular crop on the market, the lower the price drops. Since consumers are buying more or less the same amount of food from week to week, a farmer can actually make less money when production is good.

There are many ways we can secure fair farm prices. Historically this has been achieved through a combination of **supply management** programs like grain reserves, and by setting **floor prices** – analogous to the minimum wage for other jobs. These programs ensure that the people who grow our food can at least recover their cost of production for those goods. Many have advocated for **parity pricing** for farmers, which helps them recover their cost of production *plus* a little more so they don't just break even, but actually make a profit. The idea of parity pricing is analogous to the concept of **living wages**.

Equitable Access to Credit

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Affordable credit is essential for farmers, who have to spend money to plant their crops and care for their animals months before they reap a financial benefit.

But the banking industry has been on a rollercoaster ride since the 2008 financial crisis and risk tolerance among agricultural lenders has been subdued since then. Combined with the consolidation of financial institutions nationwide, affordable and accessible credit has been increasingly scarce in rural areas. Historically, there have also been inequities in *who* can access agricultural financing. Beginning farmers, organic farmers or those engaged in diversified production or more local and regional markets have often struggled to secure credit or find loan packages that make sense for their farms. What's more, there is a long history of racial discrimination at USDA Farm Service Agency offices (something the last Administration took strides to rectify), where Black, Latino, Native American and other socially disadvantaged farmers were denied the loans needed for their farms, ultimately leading to dispossession of their land.

While there have been many important improvements in farm credit policy at the federal level, there is still much work needed to ensure that farmers of all kinds can secure the credit they need to thrive on the land.

Fair Trade

Especially when large corporations write the rules, opening up trade through free trade agreements often translates to weakening hard-fought environmental protections, worker protections, food safety standards, financial regulations, and so forth. And far too often, our rural communities are hit hard as trade deals undermine supply control and price support policies that keep prices stable for family farmers.

Farm Aid supports **food sovereignty**, the right of communities and nations to determine their own food and agriculture policies and the broader democratization of food and farming systems. Trade deals should not undermine the food sovereignty of farmers and eaters here and abroad. Instead, trade with foreign nations should strengthen our economy and create jobs, while preserving the environmental, labor, health and safety standards that Americans depend upon.

Reigning in Corporate Control

A handful of corporations control our food from farm to fork. Their unbridled power grants them increasing political influence over the rules that govern our food system and allows them to manipulate the marketplace – pushing down the prices paid to family farmers and driving them out of business. Below are some of the policies Farm Aid advocates for in order to reign in corporate power in our food system:

- ✓ **Enforce America's antitrust laws**, including the Sherman Antitrust Act, Clayton Antitrust Act and Packers & Stockyards Act.
- ✓ **Stop mega mergers** occurring throughout the food and agricultural sector, particularly in the seed sector where the "Big Six" seed and agrichemical firms are consolidating into the Big Three.
- ✓ **Enact comprehensive pricing reform in the dairy industry** and expose corporations' price manipulation on the Chicago Mercantile Exchange.

- ✓ **Finalize the USDA Farmer Fair Practice Rules** to increase market transparency, establish fair contracts and protect the first amendment rights of livestock and poultry growers.
- ✓ **Reform federal checkoff programs** that tax cattle ranchers, hog producers, dairy farmers and other farmers on their goods in order to fund marketing campaigns that tend to benefit corporate agribusiness.
- ✓ **Reinstate Country of Origin Labeling (COOL)** and other programs that increase transparency in the food system and allow eaters to support American farmers and ranchers.
- ✓ **Preserve local control laws** and defend the rights of local communities to stop the creation or expansion of factory farms that threaten their air, water, soil and quality of life.
- ✓ **Advance food sovereignty** and limit the role corporations can play in writing our trade deals.

WHAT FARM AID IS DOING

Farm Aid started in the midst of the 1980s Farm Crisis, a time when the farm economy contracted severely and pushed hundreds of thousands of family farmers off the land. The core strategies of Farm Aid's work that emerged during that time – raising awareness, providing support for farmers in crisis and advocating for policies to create a more fair and just agricultural system – have remained to this day.

Farm Aid is collecting the data and stories we hear from farmers on our hotline and through our partners to highlight the urgency of the farm economy and credit situation in rural America; to advocate for critical policies the help the situation; and to secure policies that provide farmers with fair prices. We are also strengthening our Farm Advocate Link, a national network of Farm Advocates who work with farmers to increase their ability to stay on the land and be successful.

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