EASY MONEY

BY BLAKE HURST

In 1986, folk singer Nanci Griffith offered a message of hope to debt-ridden farmers: "If this rain can fall these wounds will heal / They'll never take our native soil / But if we sell that new John Deere / And if we work these crops with sweat and tears / You'll be the mule, I'll be the plow / Come harvest time we'll work it out / There is still a lot of love / Here in these troubled fields."

The farm crisis has since faded from the front pages, and Nanci Griffith has gone on to other subjects for her ballads. But what has become of the farmers who were caught up in the financial whirlwind that hit agriculture in the 1980s? If they were borrowing from the Farmers Home Administration (FmHA), they are still driving that new John Deere.

Blake Hurst: The Farmers Home Administration encourages delinquent borrowers to soak other taxpayers.

CHUCK HOLLEY

That's because the courts and Congress have eliminated any incentive that FmHA borrowers might have had to repay their loans. In 1983, farmers convinced a federal district court in North Dakota that the FmHA had failed to comply with legislation requiring the agency to accommodate delinquent borrowers. The court enjoined the FmHA from foreclosing on farms until 1988, when the Agricultural Credit Act of 1987 took effect.

The act allows farmers to drastically reduce their debts in two different ways. Farmers can "buy back" their loans from the FmHA at a dramatic discount, canceling their debts by paying a relatively small sum derived from an elaborate formula. Or they can reduce the amount they owe to the value of their remaining collateral. Even if the FmHA ultimately forecloses on a delinquent farmer's property, the act requires that the agency offer to sell it back to him at a discounted price.

Last fall's budget package calls for changing the FmHA's assistance from direct loans to loan guarantees, but taxpayers remain on the hook. According to the most recent estimate, $12 billion of the FmHA's $27-billion portfolio will never be repaid. This is a substantial sum, but it only begins to describe the damage done by the program.

Farmers are proud of their independence, their integrity, their adherence to traditional values. But farmers are human. When their neighbors are rewarded for dishonesty, they are tempted to join the ranks of the delinquent. In the '80s, the FmHA sent farmers a clear message: Only fools pay their debts.

When Nanci Griffith sings about farmers, she tugs at our heart-strings. But if the following examples from a 1990 Government Accounting Office study of the Agricultural Credit Act are any indication, it's our purse strings we should be worrying about.

Farmer A (the report offers no names and few particulars) is no longer farming. He owes the FmHA some $805,000 and has secured assets of only $73,000. The FmHA has offered to write off $738,928 of the debt. But since the farmer hasn't made any payments since 1985, we taxpayers probably shouldn't hold our breath.

The GAO report cites cases that are even more shocking. Consider Farmer B, who stands to benefit from a $10.7-million writedown on a debt of $11.8 million, even though the FmHA freely admits that he has committed fraud in his dealings with the agency.

Under the 1987 law, farmers acting in "bad faith" are still eligible for benefits. A 1989 GAO report offers numerous examples of such abuse. One farmer had $83,400 in cash and recreational vehicles but refused to pay the FmHA the $43,000 he owed. Many borrowers have sold secured equipment without informing or paying the FmHA.

Another farmer who owed the FmHA some $348,000 applied for restructuring because he was in arrears for $76,269. He had made no payments for at least six months. Although he had $91,284 in his checking account, he still qualified for a plan that let him "buy back" his loan for $151,000, thereby costing taxpayers nearly $200,000. (Due to such abuses, Congress recently instructed the FmHA to consider unsecured assets when offering loan-buyback and debt-reduction deals.)

The Agricultural Credit Act also ensures that if the FmHA repossesses a farm and sells it, the new owner will be as insolvent as the original borrower. First, the FmHA must offer the farm to the original owner at a price equal to the "net recovery value": the market value minus the projected cost of disposing of the property elsewhere. Until recently, if he refused this sweetheart of a deal, the

FmHA would then offer the farm to members of his family. If they turned it down, the farmer's neighbors would get the next shot. Last fall Congress passed legislation requiring the FmHA to give preference to beginning farmers instead. But simply selling the property to the highest bidder remains illegal.

The first-refusal right has been a bonanza for delinquent borrowers. An article in the February 1989 issue of *Farm Journal* reported that in one county audited by the Department of Agriculture in 1987, six borrowers resold at a profit farms they had bought back from the FmHA. In five of these cases, the farmers bought and sold the properties on the same day.

The financial problems of farmers in the 1980s sprang largely from the lending policies of the FmHA. In the mid-'70s, the agency lent farmers between $1 billion and $2 billion a year. By 1980, annual lending had reached $8 billion, all at rates at least a few points below what commercial lenders were getting, and sometimes as low as 5 percent. In an industry with $30 billion to $40 billion in yearly profits, that amount of subsidized lending had the predictable result of inflating land and equipment values. When farm income faltered and interest rates rose in the early '80s, a lot of farms went out of business or were forced to cut back their operations.

Agricultural economist F. Clifton Lutrell, formerly of the Federal Reserve Bank in St. Louis, notes that a variation on Gresham's Law was at work. Only farmers who can't borrow money from commercial banks are eligible to borrow from the FmHA. As subsidized borrowers bid up the price of things that farmers buy, and as the influx of cheap capital into agriculture increases the supply of the things that farmers sell, profits go down. The next year, more farmers are turned down by commercial lenders and can borrow from the FmHA. Although farmers fondly remember the '70s as the decade of high prices and record profits, it was also a decade of subsidized borrowing. The share of all farm loans provided by the FmHA rather than private banks rose by 400 percent in those years.

Congress originally envisioned the FmHA as a temporary lender to beginning farmers, who were supposed to "graduate" from the program to commercial banks as they learned the ropes and their financial situations improved. But more than 40 percent of the agency's borrowers are still taking taxpayers' money after seven years; nearly a quarter of them remain in the program after 10 years.

One of my neighbors recently retired. Well into his 60s, he still used the FmHA for his operating capital. Obviously a poor student.

Blake Hurst is a Missouri corn grower.

THE REBIRTH OF WATTS

BY RAOUL LOWERY CONTRERAS

Twenty-five years ago, South-Central Los Angeles, the Watts area, erupted into riots and flames. Across 100 square miles of the city, people ran amok, looting, burning, and killing. The country had not seen anything like it since the Detroit race riot of 1943. Watts became a symbol of explosive violence fed by social discontent.

The black leaders of the time rationalized the riots, the destruction, the deaths, as results of white America's entrenched racism, parasitic capitalism, and patronizing attitudes toward what are now called "people of color." Caught between black rioters, white police, and National Guardsmen sent in to restore peace, the city's Mexican-American population hunkered down and waited for the riots to spend their fury. The day after order was restored, Mexicans began a mass exodus from their traditional neighborhoods in South-Central Los Angeles, heading for East Los Angeles and the San Fernando Valley.

Korean and Latino entrepreneurs are bringing about a commercial renaissance in South-Central Los Angeles.

JONATHAN NOUROK

Los Angeles's white establishment turned its back on Watts, as did the black middle class, which moved out as quickly as the Mexicans had. Like the Mexicans, middle-class blacks refused to suffer because of perceived wrongs against a growing group of uneducated, unskilled blacks flooding in from the Southern states. White businessmen, particularly Jewish businessmen, the backbone of free enterprise in Watts, boarded up their shops as their leases ran out and left.

In the wake of the riots, block after block of what had been a thriving business district died overnight. Watts became a cultural and industrial wasteland.

After a quarter century, capitalism is returning to Watts, and it speaks Korean and Spanish. Capital, which speaks all languages, is finding its way into the neighborhood to provide shelter and amenities for Koreans, Mexicans, and other Latinos determined to work for themselves.

In the 1980s, hundreds of thousands of Spanish-speaking immigrants flooded into Los Angeles. They spilled out of East Los Angeles to form barrios, Spanish-speaking communities, in the San Fernando Valley, Pomona, the Inland Empire of San Bernardino and Riverside, and Orange County. But most, looking for cheap housing, headed into South-Central Los Angeles—Watts.

On a recent visit to Watts, I interviewed a man who told me his earliest memory is of the riots. He is 32 years old, didn't finish high school, and hasn't worked for several months. At his last job, as a construction worker, he didn't always show up on time, so they fired him.

He says he applies for work everywhere, but no one will hire him because he wears a beard and isn't "clean-cut." He says dust reddens his eyes and makes it look like he's on drugs. He doesn't use drugs, just drinks a little beer. He complains that Mexicans take all the jobs. He doesn't like the "rich" blacks who move out as soon as they can afford to. He says they should stay and help people like him.

A block away is a grocery store that a black family ran for 30 years. They recently closed the store because too many customers owed them money for groceries bought on credit. For a generation, children could pick up milk and bread, and the store would run tabs. For a generation, people would come in on payday or once a month, when their welfare or Social Security checks came, and settle their bills. But people stopped settling up, so the elderly black couple closed their store, and black capitalism lost two more practitioners.

Korean grocers will probably reopen the store any day, but they won't give credit. Nor do the hundreds of Mexicans, Salvadorans, and Guatemalans renting space on Central Avenue in order to sell groceries, clothing, tacos, straw hats, radios, televisions, and furniture.

Central Avenue, the principal street of Watts, used to have the appearance of a bombed-out city. Plywood sheets were ubiquitous. Now Central Avenue is coming back to life. Investors who sense a commercial renaissance are building strip shopping centers and buying up land and buildings willy-nilly.

The new entrepreneurs not only rent stores, they rent or buy houses in Watts and fix them up so they can be close to their businesses. They are displacing the blacks. Those who can afford it move to the suburbs, to Riverside County, where the black population has increased by more than 30 percent in recent years. Or