High Interest Eats Up Your Food Money

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Clarence Achgill has been reporting market news at the Oklahoma National Stockyards about as long as anyone can remember.

Last Monday he was puzzled by a sharp drop in prices on stocker and feeder cattle, while slaughter animals sold well. Achgill asked a number of people, "Why?" He got the same answer from each of them: "High interest rates."

The cost of borrowing money probably will have more effect on the American diet in the months ahead than the latest efforts of Washington bureaucrats to reshape our menus to government specifications.

A Kiowa County farmer told this writer that he bought 12 steers at auction to graze wheat pasture. He estimates that it will take the profit on seven of them to pay interest on the bunch.

A week after he bought them, one steer died of unknown causes. That cut his potential gross profit 20 percent, out of which he has to pay transportation and other expenses, and hope for a profit.

High interest rates have been cited as a major factor in the leveling-off of cattle numbers at around 111 million head, in spite of strong consumer demand for beef and other meats.

Prime interest has gone past 18 percent, but farmers and ranchers usually have to pay one, two or more percentage points above prime.

Inflation has pushed up prices, so that larger investments are required to buy a bunch of cattle for grazing or feeding. A 400-lb., medium-to-good steer calf will cost close to $400. When you multiply that by any herd number and add 18 to 20 percent interest, you can run up a sizable chunk of indebtedness pretty fast.

If the market should drop when the cattle are ready to sell, it is the rancher's or feeder's profits that disappear first.

An article in the current issue of Business Week magazine deals with "The Big Bank Battle on the Farm." It says that because rural banks are unable to meet the soaring demand for loans, the Farm Credit System is in position "to expand its position enormously."

The article reports that the Farm Credit System has $57 billion in outstanding loans, including land, amounting to 37 percent of agricultural credit in the United States. Commercial bankers think that is too much, but farmers owe commercial lenders about $114 billion.

Like most industries, agriculture operates largely on borrowed money. Farmers, ranchers, marketers, transporters and processors must borrow in order to produce food, package it and deliver it to retail stores where consumers can reach it.

Unquestionably, high interest rates will add to inflation of food prices, but it is possible only to speculate on effect the cost of borrowing money will have on quantities and varieties of foods available to the public.

Crop farmers are in just about as difficult position in regard to interest rates as are ranchers and feeders. Farmers must borrow to finance costly tractors and equipment, seed, fertilizer, fuel, storage facilities, trucks and, in some cases, labor.

Current discussion of rigid wage-and-price controls does not provide solace to food producers. In fact, it scares them.

The latest overall parity price ratio calculated by the U.S. Department of Agriculture is 67 percent, meaning that prices received by farmers is running one-third behind prices paid by farmers.

If wheat were selling at parity, farmers would get $6.27 per bushel for it, instead of the current price of about $3.70.

With the certainty of high interest and high overhead, and the threat of a price freeze, farmers are justified in reluctance to commit themselves to big loans they might need to produce food.

Taking into consideration interest paid at all stages of the food production chain, consumers pay a lot of interest when they shop at the supermarket. Interest has become a big "input" cost.