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Paul S. Estenson

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Farm Debt and Financial Instability

Paul S. Estenson

Today the agriculture of the midwest and that of the United States as a whole is under great economic and social stress. The wealth of the nation's farm sector has declined substantially since 1981.[1] Net farm income has been falling while the debt load of farmers has increased to record levels.[2] The result of this combination has been the beginning of a new migration out of the rural United States, as farms have failed and debts have been foreclosed. The consequences of the current problems are evident even to the administration's chief trade representative, Clayton Yeutter, who believes that the "farm crisis could result in a disaster that will dwarf the Great Depression."[3]

While the troubles currently afflicting farmers and rural communities are apparent, I believe that the ultimate reasons for the agricultural crisis are rooted deeply within the structure of the agriculture that emerged after World War II. This new agriculture was the product of a technological transformation.[4] The agriculture that emerged from this transformation was dominated by larger, more specialized farms that were increasingly dependent on fossil fuels, chemicals, and capital inputs obtained with financial leverage, that is, debt. On one plane, this could be viewed as a shift from inputs largely supplied from the farm, to inputs supplied by off-farm sources.[5]

The author is Assistant Professor of Economics, Gustavus Adolphus College, Saint Peter, Minnesota. *He would like to thank Don Kanel for his helpful comments. This article was presented at the Annual Meeting of the Association for Evolutionary Economics, New Orleans, Louisiana, 27–30 December 1986.*

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