

Reasons Why Some Ranchers are in Financial Trouble

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Editor's Note: This paper was presented at the 1986 Winter Meeting of the International Mountain Section. The author is a long time member of SRM and has been in the range livestock business for over 70 years. He operates out of Alder, Montana.

I would like to share with you my observations of why some ranchers are in financial trouble. Usually all we hear is that ranchers are in trouble just because they are in the ranching business, but I don't think that is the whole story.

This matter of being in financial trouble is not new to ranchers, especially in the northern plains areas. It has happened before and will possibly happen again. At the close of World War I and again in the 1930's there were a few dry years; most of the homesteaders and a lot of ranchers abandoned their land because of drought and low prices. Loan companies, banks, and even the counties found themselves in the land business. To get the industry working, banks and loan companies were forced to take large losses and rewrite contracts that operators could live with.



During the 1930's the government stepped into the agricultural picture with farm programs and loans to help ranchers stay in business. Jobs were created, bank deposits insured, and we were assured that financial problems were a thing of the past. From the late thirties on to early eighties the ranching business was generally good. There were a few ups and downs but because of the Second World War, Korean War, Vietnam War, and government farm programs, things were steadily moving up. And then in the early eighties things fell apart again, and I believe that we should think a little about why.

In the first place I think we have not profited by our past mistakes to the extent that we have really changed our management plans. This may be partly due to the fact that there are always new and younger operators who have not been through the wringer, and who are anxious to try their ideas. Their decisions have been supported by new, inexperienced bankers and financial experts who encouraged the adoption of government loans and farm program supports. Everyone concerned was over-optimistic. They felt that land values and commodity prices would go up forever. For many years credit had been so easy to get that most everyone was accustomed to buy now and pay later. Expansion through refinancing was the way to go. Unfortunately, much of this refinancing was done at higher interest rates.

The higher interest rate was beyond the ranchers' control. Because of big government activity in farm support programs, assistance and aid to under-developed countries, the

government entered the money market in competition with private industry. Consequently, interest rates rose. Now agricultural investors were in a situation where their investments were declining in value—and as they pulled out of agriculture, land values dropped, just as they did in the 1920's and 30's. This had made it impossible for many ranchers to acquire the finances necessary to meet operating and fixed costs. As a result, lending institutions are being forced to repossess many ranches. It is only a matter of time before the banks are forced to put these ranches on the market. When this happens land values will probably drop drastically just as they did in the 1920's and 30's. Until this happens, the present financial problems will persist.

It is my observation that in practically every case where ranchers are in trouble now we find that there was over expansion and investments at increasingly high costs. Land acquisition was probably the major cause, while the development of intensive irrigation systems with the associated expenses was also an important factor in western Montana. Others got in trouble as a result of buying too much new farming equipment, livestock, or simply living too high-on-the-hog. But, I fully recognize that one's life style is his decision.

I have not found many ranches where over-investment in range improvements such as seeded pastures, fences and water development, have caused serious problems. But, I feel that too many ranchers have over-emphasized production and neglected the business management aspects of their operation. It is time for us to realize that more production does not necessarily mean more net income.

It is my observation that ranchers who have not over-expanded, but have maintained a stable operation where livestock numbers are in balance with range condition and with the hay base, are in much less serious trouble. However, some of these operators are also facing lower economic returns because of higher costs. One of the most important ways of minimizing yearlong costs is to maintain range in good to excellent condition. This reduces haying and supplemental feed costs, and requires less investment in equipment. The end result is a more favorable debt-to-asset ratio.

In summary, these are the points that I feel need to be emphasized:

1. Economic problems facing ranchers are not new.
2. The ranching community is not entirely to blame. Bankers, economists, and government are also at fault. Before the dust settles, someone is going to have to take a loss to reach the conditions that agriculture can live with.
3. For individual operators who are in economic trouble—over-optimism leading to over-investment has been the major cause.
4. Individual ranchers should: 1) pay more attention to business management, 2) avoid unnecessary capital investment, and 3) increase their economic efficiency.