

IOWA IN THE '90s

Iowans march into a new decade on legs still wobbly from the economic blows received during the 1980s. It was a decade of lost jobs, lost population, lost fortunes. The hard lesson of the turbulent '80s is that Iowa's agricultural economy is far from recession-proof.

DAVID PETERSON/The Register



Planted white crosses on county courthouse lawns, each representing the forced sale of a farm, were not an uncommon sight in Iowa during the 1980s.

The 10 tough years that reshaped Iowa

By LARRY FRUHLING

Register Staff Writer

VINTON, IA. — On Saturday, Oct. 6, 1979, the talk of Vinton was Friday night's 16-15 victory over Manchester in football and the coronation of Lisa Lutz as homecoming queen.

Like the rest of Iowa, Vinton was blissfully unaware that a few men and women, meeting that Saturday in Washington, D.C., were about to rip the stitches from the state's economy.

A decade of incredible prosperity — one that made millionaires of thousands of ordinary Iowa farmers — was coming to a brutal close.

Ahead lie the Awful '80s, a decade that made paupers out of many of those same millionaires — a decade whose most powerful symbols were fields of white crosses erected on courthouse lawns to count the farms seized by lenders for unpaid debts.

By the time the hardship had begun to ease,

Iowa had become a far different place. There were 39 fewer banks, 27 fewer savings and loan associations, 458 fewer grocery stores, 257 fewer automobile dealers, 1,458 fewer gas stations, and, worst of all, 80,000 fewer people.

In a series of articles that will run this month and next, the Des Moines Sunday Register will tell what the coming decade may hold for Iowa, its people and its economy. This article concerns the 1980s, the foundation on which the future will be built.

For the first six or seven years of the '80s, it seemed as if that foundation might crumble under the pounding of farm foreclosures, plant closings, shuttered Main Street businesses and the exodus of tens of thousands of people from the state.

The trouble started in Washington, 1,000 miles to the east.

Paul Volcker, President Jimmy Carter's newly appointed head of the Federal Reserve Board, was determined to curb the inflation that Volcker felt was threatening to destroy the American economy.

At times in 1979, the annual inflation rate exceeded 14 percent, eroding the value of savings accounts and threatening to bankrupt the lenders who could not raise interest rates fast enough to keep up with inflation. Overseas, the dollar lost more and more of its value, reflecting the fears of foreign governments and investors that the

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Barbara Merchants walks through a recently harvested cornfield on her farm near Garrison. She and her husband struggled, successfully, to save their farm.

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American economy was spinning out of control.

"The sky was falling," Roger Guffey, president of the Federal Reserve Bank of Kansas City, said recently.

Under Volcker's prodding, the Federal Reserve decided upon a radical remedy on Oct. 6, 1979. It voted for the first time to put tight limits on the amount of money available to the U.S. economy, a move designed to curb borrowing and spending by driving up interest rates drastically.

"All of us understood that what we had launched upon was good and worthwhile but that there was going to be a cost to it," says Guffey, who was a participant in the Fed's historic decision.

One of the few people in Vinton to grasp quickly what had happened was Charles Barron, then the president of the Vinton State Bank.

Barron was buying and selling bonds for the bank. Interest rates on the bonds shot up immediately. But most people, Barron said, "didn't realize the effects of the Fed's decision on themselves."

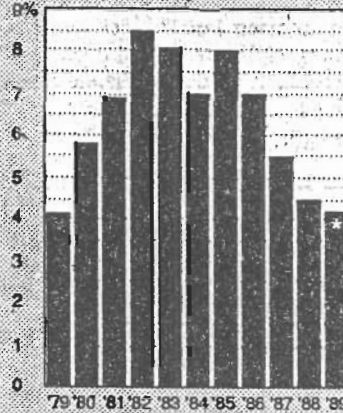
The impact became apparent soon enough.

Although the farm economy of Iowa was so hyperactive that the effect of the high interest rates took awhile to catch hold, the value of agricultural land — the basic unit of wealth in Iowa — was in a free fall by

NANCY IHLENFELDT/The Register

Iowa's unemployment picture

Average Iowa jobless rate



Through August
SOURCE: Iowa Department of
Employment Services

the end of 1981.

In 1970, the average price of an acre of Iowa farmland was \$419. In 1981, it was \$2,147, a fivefold increase. Iowa land prices went up twice as fast as the overall inflation rate in the United States.

Inflation may have been the enemy of savers and lenders, but it was a good friend to borrowers and landholders — in other words, to farmers and the merchants and manufacturers whose fortunes were tightly knitted to agriculture.

In the '70s, it was plain good sense to be a borrower. Inflation made the dollar worth less and less. You could borrow a dollar and pay it back in a couple of years with another dollar that, by then, was worth only 75 or 80 cents.

Furthermore, until 1980, the laws of Iowa and most other states set a ceiling on the interest rates lenders

could charge.

Farmland was one of the most appealing investments of all.

A dollar kept in a savings account might be drawing 8 percent a year interest, but when inflation hit 12 percent a year, the saver was losing ground rapidly.

Farmland was a different matter. In Iowa, its value increased by an average of nearly 20 percent a year throughout the '70s, beating the rise in inflation by a big margin.

Farming had been one of the most superheated elements of the U.S. economy in the '70s, and when the Federal Reserve Board determined to bring inflation to heel, agriculture took one of the hardest, longest-lasting hits.

The Fed's decision to cool the economy by pushing up interest rates drove all hope of profits out of farming. When that happened, the land-price bubble exploded with a fury that spread to merchants, factory workers and many of the lenders who had financed the land boom.

At the depth of the plunge, in 1986, farmland prices in Iowa averaged \$787 — 63 percent less than in 1981. More than \$4 billion had disappeared from the ledgers of Iowa farmers.

"Farmland prices reflect the buying power of the farm community," said Barron, now retired from banking and serving as Vinton's mayor. "Farmers set up a line of credit based on their net worth, and if the value of their land goes from \$400,000 to \$175,000, their line of credit is diminished substantially."

"They can't come to Vinton to buy new farm machinery or cars, and they aren't going to bring Junior in to buy him his new outfit."

The land-price boom "made a lot of millionaires on paper," he said. "When prices went down, they

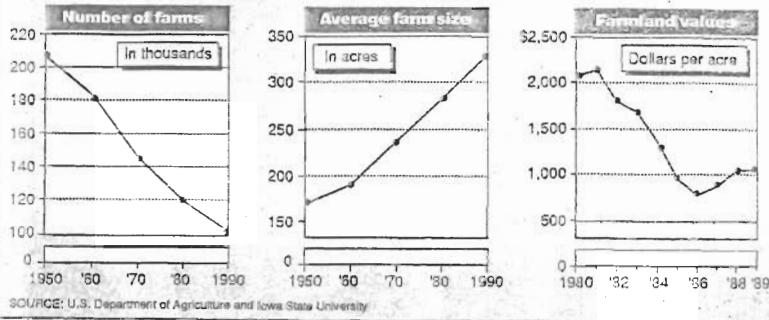
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CE ESSES

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Farms in Iowa



The 10 tough years that reshaped Iowa

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couldn't raise \$100 if they had to." Like most other towns in the state, Vinton suffered.

The Chevrolet dealer and three of the four full-line farm implement dealers went out of business, as did 50 or so additional businesses, including Hawk Bilt Manufacturing, an agricultural equipment maker that employed more than 100 workers.

Although Vinton's population remained fairly stable at about 5,400, the surrounding Benton County area from which the town's merchants drew dwindled by 4 percent, a somewhat worse decline than the state as a

whole suffered during the decade.

About 10 miles southwest of Vinton, near the community of Garrison, Barbara Merchants explains the departure of five of the approximately 950 residents that Benton County lost during the bust.

These five were Merchants' son, Steve, and his wife and three sons. Steve had rented 400 acres in 1977, went broke in 1985 and moved to Oklahoma. Even after selling his farm machinery and livestock, he was \$50,000 in debt.

Barbara Merchants and her husband, Wayne, have managed to stay on their own farm, but only by making a number of painful adjustments.

"Things were going great in 1979," Barbara Merchants says. "We were millionaires on paper."

The crush of high interest rates, plummeting land values and lower prices for the grain and livestock the Merchants produced changed everything rapidly. Interest rates rose to as high as 24 percent on the nearly

\$100,000 the family borrowed each year for its farm operations," Merchants said, and the value of the 280 acres the Merchants owned declined by half.

Many farmers, Merchants said, never really understood the intricacies of the Federal Reserve's management of the economy or why their world seemed to be crumbling.

"Most of them were too busy farming," she says. "All they knew was that every time they went in to the bank, the interest rate was higher. They got so they hated to go in."

Twenty-five miles northwest of Vinton, at Waterloo, thousands of workers at John Deere lost some of the world's best-paying factory jobs when farmers quit buying the farm equipment whose manufacture was a central element of Iowa's economy.

One often-overlooked statistic best tells the story of Waterloo and of Davenport, another city that was heavily into farm-equipment manufacturing 10 years ago. It is the annual pay study kept for individual American cities by the U.S. Bureau of Labor Statistics.

In 1980, the bureau's annual survey showed that wages in Waterloo and Davenport were in the top 10 percent of all the cities in the country.

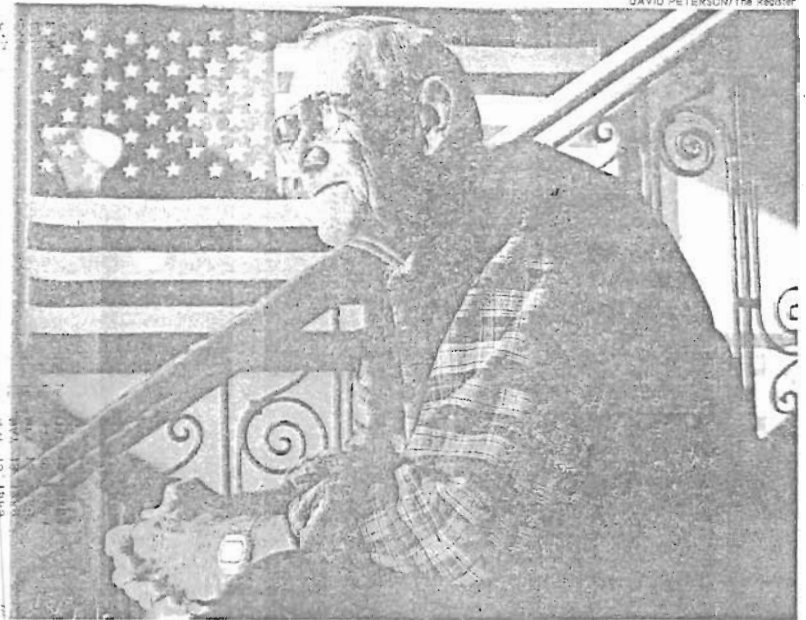
Pay in the two Iowa cities was more than \$1,300 a year higher than the national average. But by 1988, wages in Waterloo and Davenport were more than \$2,000 below the national average.

For Iowa as a whole, the salaries of city dwellers were about \$300 below the national average in 1980 but more than \$3,000 below the national average in 1988 — one of many indications that Iowa was left in the dust when much of the country began enjoying an era of prosperity starting in 1983.

Iowa's problem was its great reliance on agriculture, says Mark Drabenstott, an economist with the Federal Reserve Bank in Kansas City.

"Agriculture is five times more important in Iowa than the nation," Drabenstott says. "The comparison is even greater when one takes into account that a sizable portion of Iowa manufacturing is tied to agriculture."

During the '80s, after the big bust in farming, Iowa's economy grew at



Vinton Mayor Charles Barron has been involved in city politics for 34 years — 30 years as treasurer and four as mayor. A retired banker, he chose not to run for re-election this term, but may run again for office in two years.

PATTY FERNANDEZ/The Register

Iowa jobs in the '80s

The kinds of work that waxed and waned from 1980 to 1989

All Manufacturing	-10%
Farm machinery	-16%
Construction machinery	-52%
Food and kindred products	-7%
Printing and publishing	+20%
Rubber	+28%
All Nonmanufacturing	+10%
Construction	-25%
Wholesale, retail trade	+8%
Finance, insurance and real estate	+16%
Services	+29%
Federal government	-2%
State government	+14%
Local government	-2%

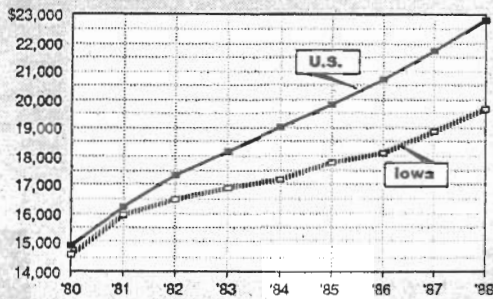
SOURCE: Iowa Department of Employment Services

Iowa's wages

How they took a beating

Average annual pay in more than 300 U.S. cities is compared with average pay in six cities in Iowa — Cedar Rapids, the Quad Cities, Des Moines, Iowa City, Sioux City and Waterloo-Cedar Falls.

Only a few hundred dollars below the national average in 1980, Iowa's pay had fallen to more than \$3,000 below the U.S. average by the end of 1988.



SOURCE: U.S. Bureau of Labor Statistics

only half the pace of the national economy and significantly more slowly than the economies of neighboring Missouri, Minnesota, Nebraska and Illinois.

In fact, the economic production of the labor and property in Iowa — a measurement called the Gross State Product — actually declined for two years in the early '80s.

Iowa did not begin righting itself until 1987, the year that land prices began to rise after a five-year plunge. But even now, farmland values are only a little better than half of what they were at their apex.

"There was a dramatic structural change in agriculture, but those who adapted have done quite well in the last few years," Drabenstott says. "The other side is that the coins are falling into fewer pockets."

But even the recovery of the last few years in agriculture is built on a platform that some experts believe is shaky.

Michael Duffy, an extension economist at Iowa State University, says that direct federal payments to Iowa farmers have risen dramatically through the 1980s, from less than \$2 an acre in 1980 and 1981 to \$61 in 1987 and \$51 in 1988.

In the past two years, more than three-quarters of farm profits in Iowa have come from government payments.

"It really worries me," Duffy says. "I don't think that level of support is sustainable or healthy."

The population loss that began in mid-1981 had reversed itself by mid-1988 and experts now believe that Iowa will end the decade with about 2,855,000 residents. That would be

about 58,000 fewer than when the decade began and would mark the first population decline in the state since the 1900-1910 period.

Even so, the change in the raw population numbers was not that great of a departure from the trends in Iowa through nearly all of this century, says Willis Goudy, a population expert at Iowa State University.

Iowa's population growth trailed far behind the nation as a whole even when the state was enjoying the best of times.

"The downturn we had in the '80s was not that much different," Goudy said. "We'd had slow growth before. Now we had a slight decline."

What was striking, Goudy said, was the extent to which the state's population grew older in the '80s. "In 1980, Florida was the only state with more people 75 and older than with people younger than 5," he said. "In 1988, it is estimated that we became the second state."

Next Sunday: Who will live in Iowa in the 1990s, and where they are likely to reside.