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DOUBLE STANDARDS FOR DEBTORS

The saddest stories in daily newspapers in recent weeks have been about the foreclosures and forced sales of family farms. The eyewitness news accounts of the auctions, during which every parcel of land and item of farm equipment is sold off to pay the bank holding the mortgage, produce both tears and anger in the readers.

They tell how farms held four and five generations in the same family are being put on the auction block. These farmers are the victims who took the advice given a few years ago by "experts" who urged farmers to expand their holdings, to buy larger tracts of land and more and more expensive equipment on credit. Bigger was better, they counseled.

A combination of bad weather, falling commodity prices, high interest rates, and declining land values have caused a fatal financial squeeze. Some banks are demanding foreclosure even against farmers who have faithfully kept up their interest payments. The bankers claim that the value of the land has shrunk and no longer justifies the size of the current loan.

The same newspapers that carry these heartrending stories also report another kind of loan default which has brought very different consequences to the borrowers and their bankers. When it's a matter of bad loans to Third World countries, the borrowers are getting all sorts of special privileges denied to U.S. farmers and small businessmen.

The incredible sums owed to U.S. banks by foreign countries were prominently in the news last summer. Deals were worked out at the highest levels to renegotiate the loans and to postpone repayment.

When the foreign countries couldn't even pay the interest (much less the principal), the International Monetary Fund rushed to the rescue by lobbying an $8.4 billion handout through Congress. The same international bankers who foolishly made the bad foreign loans in the 1970s continued to delude themselves, arguing that the foreign debtors could muddle their way through their debt problem with this emergency help from the taxpayers.

Now the Mexicans are talking about scrapping last August's agreements and cutting an even better deal that would include still lower interest rates and much more time to

repay. Of course, any debtor can dream that his creditor will forgive the debt or not demand repayment until some undetermined date far into the future.

Only if you are a Third World nation, however, does the Federal Reserve run interference for you with the bankers so that you can be protected from the consequences of your own folly. The Federal Reserve is prodding Third World countries to seek -- and U.S. bankers to give -- significant breaks on new loans and stretched-out debt.

The Wall Street Journal says that "the trend is clear." The Third World nations will be given more time to repay and lower interest rates, in some cases interest rates even below the banks' own cost of funds.

The bankers have a pocketful of euphemisms to conceal their kind-heartedness (or soft-headedness). They call this "a trend toward realism." They call it "revisiting" previous agreements. They call it "restructuring old loans" and giving "breathing room" to borrowers. In plain language, that means forgiving the debt while concealing the preferential treatment from the public.

Paul Volcker won't answer questions from reporters, but he hasn't denied Wall Street Journal reports that he is pressuring banks to forgive the interest on their loans to Mexico. Mexico's interest bill this year is $8 billion on $65 billion in foreign debt.

Nor has he denied other newspaper reports that the Fed's regional administrators are pressuring smaller banks to join the bad-loan bunch so that all the risk won't hang on the ten largest U.S. banks. U.S. commercial banks are being asked to lend (give) another $3.8 billion to Mexico in 1984.

Even though farmers and small businessmen go under every week, you can be sure that the banks will not meet the same fate for their bad business judgment. In the last six months, the Department of Agriculture has paid U.S. banks $431 million to cover the defaults on loans they had made to Brazil, Rumania, Peru, and Morocco.

The enormous loans and easy terms which the banks give (and the bank examiners encourage) when dealing with massive foreign defaults are in stunning contrast to the harsh treatment which the banks mete out (and the bank examiners require) when dealing with U.S. farmers and small businessmen who fall a little behind in their payments. Why doesn't the Federal Reserve instead devote its energies to figuring out a way for American farmers and businessmen to pay their mortgages and for the U.S. Government to cope with its deficit?