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AGRICULTURAL AND FOOD POLICY DECISIONS

A 1989 Perspective from South Dakota's Agricultural Producers

by
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SUMMARY AND CONCLUSIONS

Federal government policies greatly affect farmers and ranchers. Most South Dakota farmers and ranchers favor proposals to retain present commodity programs or to gradually eliminate commodity programs. Most producers favor a variety of proposals to reduce trade barriers and liberalize world trade, but are reluctant to give up existing trade barriers. Most producers favor an increased Federal role in environmental programs related to soil conservation and water quality. These are key findings from a 1989 statewide survey of South Dakota farmers and ranchers opinions on agricultural policy issues.

Agricultural Policy Survey and Response

The major purpose of this research effort is to document attitudes of South Dakota farmers and ranchers on agricultural policy alternatives. South Dakota is one of 21 states across the nation participating in this survey. Results from each state and survey totals will soon be published and used as input to Congressional debate on comprehensive farm and food legislation in 1990.

A random sample of farmers in each state received copies of the survey questionnaire in February and March 1989. In South Dakota, 490 farmers and ranchers completed the survey - 33% of the 1500 producers contacted. Most major characteristics of South Dakota respondents are similar to those of all South Dakota farmers. A higher proportion of respondents operate medium size farms with annual sales of $40,000 to $250,000 and receive most (75 - 100%) of their family net income from the farming.

Federal Budget Policies

Federal budget deficits have occurred each year since 1969 and remain a major public policy issue. Most South Dakota respondents (over 60%) favored: (1) increasing collection of taxes due the Federal Government, (2) reducing

the defense budget, and (3) **reducing every budget item by a set percentage** as methods to reduce the Federal budget deficit. Few respondents (less than 20%) favored **raising taxes** or **reducing social security payments** as deficit reduction measures.

Respondents were about evenly divided (41% agree, 39% disagree and 20% are not sure or had no response) on the need for **reducing farm program expenditures**. If farm program cutbacks are required, a majority of respondents favored reducing payments to operators of larger farms with annual sales exceeding $250,000 and maintaining payments to smaller farms.

Commodity Policy Directions and Program Options

The Food Security Act of 1985 is a classic compromise of gradually reducing farm income support, reducing government controlled grain stocks, and regaining export markets. Since 1985, target prices have declined 6% which is a gradual reduction of farm income support. Commodity loan rates have been reduced 35% - 40% to help U.S. farm exports become price competitive. Given the low market prices of 1986 and 1987, deficiency payments per bushel greatly increased, which led to increased Federal farm program outlays and increased farmer dependence on farm program benefits. Most respondents (88%) participated in 1988 Federal farm programs.

Most respondents favored proposals to either **retain present commodity programs** (33%) or **gradually eliminate commodity programs** (35%). Comparatively few respondents (13%) favored **mandatory supply control programs** which require all farmers to participate if approved in a farmer referendum. **Decoupling,** a policy option to separate government payments from production requirements, is favored by only 11%.

Respondents were deeply divided on future policy options for target prices and loan rates. More than 40% of respondents favor: (1) **increasing target prices each year to match the rate of inflation,** and (2) **setting loan rates on previous 5 year average market prices** to keep prices competitive. However, there is also considerably support (30 - 34%) for phasing out target prices and loan rates, while 24% want to raise loan rates as a primary means to support prices. Cash grain producers generally favored increasing target prices, while most livestock producers favored reductions in or elimination of target prices and loan rates.

A majority of respondents favored continuation of paid land diversion and farmer owned grain reserve (FOR) programs in the farm policy tool kit, but were opposed to continued use of generic (PIK) certificates as a method of income support.

Two thirds of South Dakota respondents favored directing commodity program benefits to small and medium size farms with annual sales of less than $250,000. Nearly 44% of respondents favored keeping present direct payment limits of $50,000 per farm, while 40% preferred a lower limit.

Respondents were very divided on the future direction of dairy price support programs. No major policy alternative (**higher price supports and producer quotas, present program, or phasing out dairy price supports)** received support from 30% of respondents.

<u>Conservation and Environmental Policies</u>

Conservation and environmental issues are currently on the "front burner" of the farm policy agenda. South Dakota respondents indicated substantial support for (64%-70% in favor) and relatively little opposition (15%-21%) to three major environmental policy issues: (1) **soil conservation and water quality compliance should be a condition for receiving farm program benefits,**

(2) **government should regulate certain farming practices and land uses to reduce pollution of underground and stream water,** and (3) **Federal farm policies need to give greater attention than it does at present to encourage reduced use of synthetic chemical fertilizers and pesticides.** This suggests that producer groups and environmental groups may have some common interest in formulating specific policies to address these issues. Cost sharing payments were preferred to regulation of farming practices as the most effective method in achieving environmental objectives.

The Conservation Reserve Program (CRP) is a long term (10 year) land retirement program targeted to highly erodible cropland. Most respondents (75%) supported the Conservation Reserve Program, but were about evenly divided on the issue of how many acres should be included in the program: (1) current level of 30 million acres, (2) 45 million acres, or (3) 60 million acres.

International Trade and Development Policies

U.S. farmers compete in an international marketplace, which improves farm incomes over the long term but also increases volatility of farm incomes and prices. U.S. exports of farm products expanded rapidly in the 1970's, declined from 1981 to 1986 and have rebounded since then. Expanding agricultural exports and reducing agricultural trade barriers throughout the world are major policy objectives of the U.S. Outcomes of current international trade negotiations (GATT) can have major impacts on South Dakota agriculture.

Most respondents favored a variety of policy proposals to reduce trade barriers and liberalize world trade, but were hesitant about reducing U.S. agricultural import barriers or giving low income nations preferred entry to

U.S. markets. Trade proposals favored by 63%-78% of respondents and opposed by less than 10% of respondents include: (1) **negotiate world-wide reductions in trade barriers**, (2) **rely more on separate trade agreements between the U.S. and individual countries**, and (3) **negotiate reductions in domestic farm subsidies of major importing and exporting countries worldwide.**

A majority of respondents favored policy proposals to continue the use of export subsidies and opposed reducing agricultural import barriers to encourage more trade. A plurality of respondents favored providing more funds for food aid to hungry nations.

Most respondents opposed policy proposals to: (1) assist developing countries to increase their agricultural productivity and trade potential, or (2) give selected low income countries preferred entry to our U.S. agricultural markets.

Other Agricultural Policy Issues

A majority of respondents (58%) received Federal disaster assistance payments in 1988 and most respondents favored some type of Federal policy to help producers cope with production losses from natural disasters. A majority of respondents (54%) favored using Federal crop insurance programs, while 25% favored using Federal disaster payments and discontinuing Federal crop insurance.

Two thirds of respondents approved South Dakota's farm mediation laws. However, a plurality of respondents opposed making the Family Farm Reorganization Bankruptcy (Chapter 12) law permanent.

INTRODUCTION

Federal government policies greatly affect farmers and ranchers. During the 1980's, Federal policies affected and were later shaped by the farm finance crisis, which was especially acute from 1984 - 1987. The combination of Federal Reserve restrictive monetary policies, increased Federal budget deficits, and changing international economic events led to sharply increased interest rates and declining U.S. agricultural exports in the early 1980's. The trio of higher interest rates, lower inflation rates and decreased exports precipitated the farm finance crisis. During this period, farm real estate values sharply declined; debt servicing became very difficult for over one-fifth of Midwestern farmers and ranchers; record numbers of post World War II farm foreclosures, reorganizations and bankruptcies occurred; and many agribusinesses were forced to close their doors.

Since 1984, Federal farm policies have been shaped by the political desire to reduce the impacts of the farm finance crisis and restore the ability of the U.S. agricultural sector to compete in international trade. By 1988, the farm economy was improving and concern was expressed about continuing high Federal farm program outlays. Also, environmental and conservation issues have become "front burner" issues. All of these factors are entering the debate on the content of Federal farm legislation in the 1990's.

This research was conducted to document the attitudes of South Dakota farmers and ranchers on agricultural policy alternatives. South Dakota is one of 21 states across the nation participating in the 1989 Survey on

Agricultural Policy Alternatives.[1] The survey instrument (shown in Appendix I) contains questions about farm commodity policies, natural disaster policies, conservation policies, international agricultural trade and development policies, agricultural credit policies and Federal spending policies. Most survey questions are identical across states, but each state survey contains a few local interest questions that differ from those in other surveys. Results from each state survey totals from the 21 states will be published and used as input to Congressional debate and action on comprehensive food and farm legislation in 1990.[2],[3].

A random sample of farmers and ranchers in each of 21 participating states received copies of the survey questionnaires in February and March, 1989. In South Dakota, 490 farmers and ranchers completed the survey - 33% of the 1,500 producers contacted[4].

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[1]States participating in the 1989 Survey on Agricultural Policy Alternatives are Alabama, Arizona, Arkansas, Florida, Idaho, Illinois, Indiana, Iowa, Kansas, Michigan, Mississippi, Missouri, Nebraska, New York, North Dakota, Oklahoma, South Carolina, SOUTH DAKOTA, Texas, Washington, and Wisconsin.

[2]The 21 state composite report will be available, November 1989 as Harold Guither and others. Farmers Preferences for Agricultural and Food Policy in the 1990s. North Central Regional Research/Extension Publication.

[3]Similar interstate cooperative research efforts on agricultural policy alternatives have been conducted in the years prior to farm legislative acts of 1977, 1981 and 1985. South Dakota was a participant in the 1984 survey. These research efforts are conducted by Cooperative Extension and/or Agricultural Experiment Station personnel in each participating state.

[4]Statisticians in the National Agricultural Statistics Service in each state randomly selected the sample of producers from their state wide master list of agricultural producers. Sincere appreciation is expressed to Mr. John Ranek and staff of the South Dakota Agricultural Statistics Service for their assistance in this effort.

Most major characteristics of South Dakota respondents are similar to those of all South Dakota farmers. The major differences between respondents and all South Dakota farmers are a higher proportion of respondents: (1) operate medium size farms with annual sales of $40,000 to $250,000 and (2) receive most of their family net income from the farm operation. In addition, 67% of respondents are members of one or more farm organizations.

Discussion of South Dakota Agricultural Policy Survey findings are reported in the following policy issues sections: (1) Federal budget policies, (2) Federal agricultural commodity programs, (3) conservation and environmental policies, (4) international trade and development policies, (5) production risk and natural disaster policies, and (6) selected farm finance issues. Key differences in policy issue response by respondent characteristics are reported in each policy issues section.[5] The final section of this report is a detailed discussion of respondent characteristics.

FEDERAL BUDGET POLICIES

Federal budget deficits remain a major public policy issue. Deficits occur when annual Federal spending exceeds revenues. A budget deficit has occurred in every year since 1969. The amount of the budget deficit has exceeded 140 billion dollars in each of the past 6 years (1983-1988). This represents an average of 19% of Federal spending in this period. Budget deficit reduction requires either revenue growth and/or reduced spending. The

[5]Cross tabulations, chi-square tests and, where appropriate, multiple regression procedures were used to examine relationships between responses to policy issues and respondent characteristics. Statistically significant relationships (at the 5% probability level of significance) are reported in this paper.

Federal debt is the net accumulation of Federal budget deficits. Total Federal debt as a percent of Gross National Product (GNP) has increased from 36% in 1975 to 42% in 1984 to 54% in 1988. Since 1980, interest expense to finance Federal debt has increased more rapidly in percentage terms than any other portion of the Federal budget. In 1988, interest expense on the Federal debt was about $154 billion - 13.7% of Federal spending and 3.2% of GNP. (U.S. Statistical Abstract, 1989) In 1985, interest expense on the Federal debt has increased in absolute amount, but has decreased as a percent of Federal spending or GNP.

Farmer respondents were asked their opinion on eight policy options that could be used to reduce Federal budget deficits. The two most preferred options were: (1) **increased collection of taxes due the Federal Government** and (2) **reducing the defense budget**. Both policy options were favored by more than two-thirds of respondents and opposed by less than 17% of respondents, with remaining respondents undecided or not responding (Table 1).

Reducing every budget item by a set percentage was another popular policy option favored by 61.6% of respondents, 20.9% opposed this idea and 17.5% were unsure or did not express an opinion. A majority of respondents (52.1%) also favored **increasing user fees for government services**, with remaining respondents almost evenly split between those opposed to or unsure about using this policy option.

Reducing social programs (excluding social security) and **reducing farm program expenditures** were policy options favored by 46 - 47% of farmer respondents, but substantial disagreement was also prevalent.

Most respondents were opposed to **raising taxes or reducing social security payments** as methods of reducing the Federal budget deficit. Only

18.6% of South Dakota farmers respondents favored **raising taxes to reduce the Federal deficit**, 61.4% were opposed and 20% were not sure or did not respond. Only 11% of respondents favored **reducing social security payments** as a method of reducing the Federal deficit, 73% were opposed and 16% were not sure or did not respond (Table 1).

Respondents less than 50 years old and those with a high school education were more likely to favor across the board percentage cuts in the Federal budget and were more likely to oppose raising taxes than other respondents. Respondents reporting more than $10,000 of off-farm income were less likely than other respondents to favor reducing social programs (except social security). All respondent groups were strongly opposed to reducing social security payments.

Grain farmers were strongly opposed to reducing farm program expenditures, while a majority of livestock producers favored this approach. Many respondents wrote comments indicating that farm programs should not be "targeted" for deeper cuts than those required of other Federal programs.

<u>Budget Issues: Agriculture, Food Assistance and Rural Development</u>

Farm commodity programs have recently cost $15-20 billion each year. These programs are currently targeted for some reduction in expenditures. Respondents were asked for their preferences on how commodity program budget cutbacks should be made if reductions are required. A majority (53.5%) favored **continuing payments to operators of small to moderate size farms (gross sales under $250,000) and reducing payments to large farm operators**. Large farm operator respondents were strongly opposed to this policy option. A second policy approach favored by 27.8% of respondents is to **make across the board percentage cuts in all commodity programs**. The policy options of: (1)

TABLE 1. RESPONDENTS OPINIONS ON POLICY OPTIONS TO REDUCE FEDERAL BUDGET DEFICIT.

The Federal deficit should be reduced by:[a]	Response: Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	No Response[b]
	percent of 490 respondents					
Increased collection of taxes due the Federal Government	32.5	44.9	8.0	7.8	7.6	3.1
Reducing the defense budget	29.0	39.0	10.4	13.7	3.4	4.5
Reducing every budget item by a set percentage	20.2	41.4	11.6	17.0	3.9	5.9
Increasing user fees for government services	13.1	39.0	23.1	16.3	5.5	3.1
Reducing social programs (excluding social security)	15.1	32.9	13.9	26.1	6.7	5.3
Reducing farm program expenditures	8.6	32.0	14.9	28.8	10.4	5.3
Raising taxes	3.1	15.5	13.1	34.9	26.5	6.9
Reducing social security payments	3.9	7.3	10.2	44.7	28.2	5.7

[a]Policy responses are listed in descending order of preference (most preferred to least preferred).

[b]The "No Response" category in this table and in many subsequent tables indicates the percentage of 490 South Dakota respondents that did not provide a response to a specific question. All respondents answered most survey questions, but some respondents did not necessarily answer all questions.

Source: 1989 South Dakota Agricultural Policy Survey completed by 490 farmers and ranchers.

making payments only to farmers with the most severe financial need or to (2) **cut some commodity programs more than others** were each favored by less than 7% of respondent farmers.

Food assistance programs are usually the largest program budget outlays in the U.S. Department of Agriculture. From 1984-1988, annual budget outlays for Federal food and nutrition assistance programs (includes food stamps, school lunch, and other targeted food assistance programs) have been relatively stable at $18-20 billion. A plurality of respondents (48.6%) favored **increasing the amount spent on food assistance programs to more adequately meet the needs of those eligible**, 33.9% were opposed and 17.5% were uncertain.

Most respondents (73.2%) agreed with the policy proposal that **"the Federal government should increase funding for rural development programs to expand employment and economic activity in low income rural areas"**. Only 15% were opposed to this idea and nearly 12% were not sure.

Overall, respondents favored **across the board percentage cuts or defense program budget cuts** as preferred means to reduce Federal budget deficits and were strongly opposed to **reductions in social security payments or increased taxes**. Respondents were reluctant to suggest major reductions in farm commodity program budgets and provided general support for increasing budget outlays for rural development and food assistance programs.

FEDERAL AGRICULTURAL COMMODITY PROGRAMS

Federal commodity programs providing price and income support have been modified since their origin in 1933. Present wheat and feed grain programs for producers combine the policy tools of: (1) price support loans, (2) deficiency payments and target prices, (3) acreage reduction programs, (4) farmer owned and CCC grain reserves, and (5) PIK certificates (Knutson, et al, 1983; Robinson, 1989).

Farm commodity programs were originally designed to assist an industry with chronic low income and excess capacity of labor and land. In 1933, over 20% of the U.S. population lived on farms, export markets were not a major outlet for farm products, and the scientific-technological revolution in agriculture was in its infancy.

Since the 1930's, U.S. agriculture has become internationalized and commercialized. American farmers, now 2.5% of our nation's population, are divided into two segments: (1) commercial, full-time farmers producing most of our food and fiber and (2) a larger number of small, mostly part-time farmers who receive most of their family income from nonfarm employment sources. Both trends have major implications for the role of and design of commodity programs. For example, do we design commodity programs for the 20% of farms that produce 80% of the food and fiber or for 80% of the farms that produce 20% of the nation's food and fiber? Since international markets are very unstable, how can commodity programs simultaneously provide price stability, income protection, and maintain or expand agricultural exports? In this economic environment, policy choices for commodity programs remain complex.

Farm commodity legislation adopted in the 1985 farm bill (Food Security Act) was a classic compromise among policy choices of maintaining income support (during the depth of the farm finance crisis), reducing government controlled grain stocks, and regaining farm export markets. From 1985 to 1987 target prices remained constant and have since declined by 6%. Target price policy helped maintain farm income during the remaining years of the farm finance crisis. Since 1985, loan rates have been drastically reduced by 35% - 40% to help U.S. farm exports become price competitive. In the early 1980's, higher loan rates combined with production control and storage program, encouraged other export nations to increase production and capture former U.S. export markets.

Deficiency payment per bushel is the difference between the target price and the greater of the national average loan rate or national average market price. Deficiency payments per bushel greatly increased in 1986 and 1987 when grain market prices were very low, which led to increased Federal farm program outlays and increased farmer dependence on farm program benefits. Improved export markets and the 1988 drought resulted in higher grain prices in 1988-1989 and reduced deficiency payments.

Target prices, national average loan rates and deficiency payments per bushel of corn and wheat from 1985 to 1989 are:

	Corn			Wheat		
	Target Price	Loan Rate	Deficiency Payment	Target Price	Loan Rate	Deficiency Payment
1985	$3.03	$2.55	$0.48	$4.38	$3.30	$1.08
1986	3.03	1.92	1.11	4.38	2.40	1.98
1987	3.03	1.82	1.09	4.38	2.28	1.78
1988	2.93	1.77	0.38 est.	4.23	2.21	0.69 est.
1989	2.84	1.65	0.89 est.	4.10	2.06	0.50 est.

Source: USDA. Agricultural Situation and Outlook, May 1989.

Major consequences of the 1985 Food Security Act from 1986 to 1989 were: (1) increased agricultural exports, (2) stabilized net farm incomes and farm asset values, (3) reduced grain reserves (4) increased Federal budget outlays for Federal commodity programs, and (5) increased farmer dependence on Federal farm program benefits. A substantial amount of reduced U.S. grain reserves and grain/oilseed price improvement is due to reduced production caused by the 1988 drought. Federal budget outlays for farm commodity programs increased from $7.7 billion in 1985 to $11.8 billion in 1986, $16.8 billion in 1987 and an estimated $14.8 billion in 1988. From 1986-1988, Federal payments to U.S. farm producers were 32 to 36% of net farm income, compared to about 25% of net farm income in 1984 and 1985, and less than 10% of net farm income from 1979-1981 (U.S. Statistical Abstract, 1989). The search is on for means to reduce Federal farm budget outlays and to reduce producer dependence on Federal farm program benefits.

Future Commodity Program Directions

South Dakota producer attitudes about the future direction of commodity programs have changed between 1984 and 1989. Based on responses to similar questions in both surveys, respondents to the 1984 Agricultural Policy Survey (Janssen and Edelman) were more likely to favor increased regulation of production and marketing practices and were less satisfied with existing commodity programs than respondents to the 1989 survey.

Most respondents to this survey favored proposals to **retain present commodity programs** (33.1% of respondents) or to **gradually eliminate commodity programs** (35.3%). Another 11.6% favored the policy option of **"decoupling"** which involves separating government payments from production requirements on program base acres (Table 2). Decoupling is a policy option to immediately reduce Federal regulation of farm production decisions and gradually reduce Federal payment benefits.

Mandatory supply control programs require increased Federal regulation of production decisions, but may reduce Federal budget outlays and increase net

TABLE 2. SOUTH DAKOTA PRODUCERS PREFERENCES ON FARM COMMODITY POLICY, 1989 AND 1984.

1989 Policy Survey		1984 Policy Survey	
Policy Option	490 Respondents	Policy Option	480 Respondents
	percent		percent
Keep present program	33.1	Keep present programs	25.5
Mandatory supply control programs[a]	13.3	Mandatory supply control programs[a]	13.5
----------		Re-establish acreage allotments and market quotas[b]	11.5
Separate government payments from production requirements (decoupling)[c]	11.6	----------	
Gradually eliminate commodity programs	35.3	Eliminate commodity programs	27.7
Other/no response	6.7	Undecided/other	21.8
Total	100.0	Total	100.0

[a]Mandatory supply control program (set aside and price supports) with all farmers required to participate if approve in a farmer referendum.

[b]Re-establish acreage allotments and market quotas is a policy option to increase Federal regulation of farm program decisions similar to commodity programs in the 1950's and 1960's.

[c]Decoupling is a policy option to immediately reduce Federal regulation of farm production decisions and gradually reduce Federal payment benefits.

Sources: 1989 and 1984 South Dakota Agricultural Policy Surveys.

farm income, especially for grain farmers. Only 13.3% of respondent farmers favored **mandatory supply control programs with all farmers required to participate if approved in a farmer referendum.**

Respondent's economic interests and education levels were significantly related to their policy preference on the future direction of commodity programs. Respondents with higher levels of nonfarm income, lower gross farm sales, or some post-high school education were much more likely to favor gradual elimination of commodity programs. Respondents with little or no off-farm income, higher gross farm sales, or with a high school degree were much more likely to favor maintaining present programs. One half of livestock producers favored gradual elimination of commodity programs, compared to only 23% of cash grain producers. Cash grain producers and dairymen were most likely to favor maintaining present programs.

Loan Rates and Target Prices

The level of price and income support is almost always a major issue in farm commodity programs. The present system of loan rates (price supports) and target prices (used to calculate deficiency payments) was established in 1973, but has become more important and controversial since passage of 1985 farm legislation. Since 1985, target prices have declined 6%, loan rates have been reduced 35-40% and Federal budget outlays (in the form of deficiency payments) have more than doubled.

Respondents were deeply divided on future policy options concerning target prices and commodity loan rates. Almost half (48%) of respondents favored **increasing target prices each year to match the rate of inflation,** while two-fifths (39.5%) favored **lowering target prices** or **completely phasing out target prices over a 5-10 year period.** Comparatively few respondents

(8.2%) favored **keeping target prices at current levels** and even fewer respondents (4.3%) had no opinion (Table 3).

Respondents were further split on loan rate policy preferences. Two-fifths (40%) favored **setting loan rates on previous 5 year average market prices to keep prices competitive**, one third (33.7%) favored **complete elimination of loan rates and commodity programs**, and one-fourth (24.7%) favored **raising loan rates as the primary means of providing price/income support to producers**. Only 2.2% of respondents indicated no preference.

Economic interests of respondents were strongly related to respondents' policy preference on loan rates and target prices. A majority of livestock producers favored reductions in or elimination of target price and loan rates, while cash grain producers favored increased target prices. Respondents with larger amounts of nonfarm income tended to favor decreasing or eliminating target prices, while commercial farm respondents with little off-farm income favored increasing target price levels.

Other Grain Commodity Program Provisions

Since 1973, farm commodity legislation has given the Secretary of Agriculture more latitude in setting specifics for loan rates, set asides and other program provisions. This provides for administrative flexibility to meet changing agricultural and economic conditions in the U.S. or in other nations. It may also create additional uncertainty for producers, if program changes are announced after management decisions have been made.

Comparatively few respondents (17.8%) favored granting more discretionary authority to the Secretary of Agriculture. Nearly four-fifths of respondents were evenly divided between those favoring the status quo and those favoring less discretionary power (Table 4).

TABLE 3. RESPONDENT PREFERENCES ON COMMODITY TARGET PRICES AND LOAN RATES

"What should be the policy toward target prices":	Percent of 490 respondents
Keep target prices at current levels	8.2
Raise target prices each year to match the rate of inflation	48.0
Lower target prices 2% to 4% each year	9.5
Phase out target prices completely over a 5-10 year period	30.0
Other/no response	4.3
Totals	100.0
"What should be our commodity loan rate policy":	
Base loan rate on previous 5 year average market price to keep prices competitive	40.0
Raise loan rates as a primary means to support prices	24.1
Eliminate loan rates and commodity programs completely	33.7
No response	2.2
Totals	100.0

Source: 1989 South Dakota Agricultural Policy Survey completed by 490 farmers and ranchers.

Although producers were reluctant to give the Secretary of Agriculture more discretionary authority, they favored greater flexibility in planting crops of their own choosing on their farm program acreage base. Previous farm legislation has stated that each farmer has a program acre base for specific crops based on past production history. The 1988 Disaster Act permitted farmers to plant soybeans or sunflowers on a portion of their program crop base and still protect their future program base.

A majority of respondents (53.3%) favored greater cropping pattern flexibility on their program base acres, 34.2% favored the present practice of crop specific program acreage base and the remainder expressed other ideas or no opinion.

<u>Paid land diversion</u> In recent farm programs, farmland set aside acres have been required of program participants as a condition of eligibility for loan rates and deficiency payments. In addition, the U.S. Secretary of Agriculture can authorize additional paid farmland acreage diversion. For example, the 1988 feed grain program had a 20% set aside requirement and a 10% optional paid land diversion.

A majority of respondents (54.7%) favored continuation of paid land diversion as an option in the farm policy tool kit (Table 4). Cash grain producers and large farm producers were much more likely to favor this policy option than other respondents.

<u>Marketing loan</u> A marketing loan is a policy option that permits program participants to repay CCC loans at a price lower than the stated loan rate. The marketing loan rate would typically be at the world price level as announced by the Secretary of Agriculture. Marketing loans encourage producers to participate in the commodity program, but not seal their grain.

Marketing loans can greatly increase Federal program outlays if world grain prices are substantially lower than the CCC loan rate. This policy option has been used for rice, but has not been used for wheat, feed grains or soybeans.

A plurality of respondents (42.7%) favored extending the marketing loan program to wheat, feed grains and soybeans, and 29.4% were opposed (Table 4). A high percentage of respondents (27.9%) were not sure or had no response, which may indicate lack of experience with this program. A majority of respondents operating farms with gross sales exceeding $100,000 were in favor of a marketing loan program.

Generic PIK certificates PIK certificates were authorized in the 1985 farm bill and were widely used by program participants and other buyers of agricultural commodities stored by the CCC. PIK certificates enable the Federal Government to reduce CCC stocks, which has been a major policy objective in recent years. Commodity program participants received a portion of their program benefits (deficiency payments and paid land diversion) in cash and the remainder in PIK certificates. These generic certificates could be traded, redeemed in cash at face value (within a specified time period), used to redeem grain sealed by the producer, or redeem other CCC commodities. Market value of PIK certificates (as a percentage of face value) changes on a daily basis. PIK certificates can be used in a variety of commodity marketing strategies to increase profits, but can also reduce profits if producers do not know how to use them properly.

A majority of respondents (55%) were opposed to continuation of PIK certificate programs in the 1990 farm bill, 31.2% favored continuation and 13.8% were not sure or had no response (Table 4). Respondents operating large farms were the only group favoring this program.

Table 4. RESPONDENT OPINIONS ON GRAIN COMMODITY PROGRAM PROVISIONS (PERCENT OF 490 RESPONDENTS)

I. Should an annual paid land diversion program to control production be continued as an option available to the Secretary of Agriculture?

Yes	No	Not Sure	No Response
54.7	23.7	19.8	1.8

II. Should the marketing loan be extended to include wheat, feed grains and soybeans?

Yes	No	Not Sure	No Response
42.7	29.4	25.3	2.6

III. Should generic (payment-in-kind) certificate continue to be part of price and income support programs as long as Government-controlled stocks exist?

Yes	No	Not Sure	No Response
31.2	55.0	11.6	2.2

IV. Should some of farmer owned grain reserve (FOR), with national minimum and maximum amounts to be stored, be continued?

Yes	No	Not Sure	No Response
55.7	27.6	14.5	2.2

V. For a new farm bill, how much discretion should the Secretary of Agriculture have, compared to the present, in setting loan rates, set aside acreage and export subsidies.

More	Less	No Change	No Response
17.8	39.0	39.6	3.7

Source: 1989 South Dakota Agricultural Policy Survey completed by 490 farmers and ranchers.

Farmer Owned Grain Reserve The farmer owned grain reserve (FOR) program was adopted in 1977. The FOR program is a 3 year loan program with reserves remaining in producer hands until release is authorized by the Secretary of Agriculture. The FOR program was modified in 1985 by establishing specific commodity maximum and minimum bushel limits. This program tends to stabilize grain prices and allows producers more time to market their grain. It also stabilizes U.S. grain supplies to insure sufficient amounts to meet export or emergency demand in case of shortfall.

A solid majority (55.7%) of respondents favored continuation of the farmer owned reserve program, 27.6% were opposed, and 16.7% were not sure or had no response (Table 4). This distribution of response is nearly identical to those reported by South Dakota respondents to the 1984 survey (Janssen and Edelman, 1985).

Payment Benefits

The distribution of commodity program benefits by farm size and maximum payment limits per farm has been an important social and political issue for many years. Congress enacted the first program payment limitations in 1970 to a maximum of $55,000 per farm per crop. Since 1981, the direct cash payment limit has been set at $50,000 per person per year. PIK certificate payments, marketing loan payments and a portion of deficiency payments are exempt from this payment limitation. Disaster payments are subject to different payment limits.

In general, the amount of commodity program payments and Conservation Reserve (CRP) payments are related to farm size either through production volume or acres. Strict payment limits per farm would limit the amount of program benefits received by large farms, but would also reduce their incentive to participate in production control programs.

Respondents were asked for their recommendation on future payment limits. A plurality of respondents (44.1%) recommended **no change** and 39.2% recommended **decreasing the payment limit**. Only 10.2% favored **increasing or eliminating payment limitations** (Table 5). More than one third of large farm operators favored increasing or eliminating payment limits, while 58% of small farm operator respondents recommended decreasing the payment limit.

Most respondents (67.7%) agreed that **"future farm programs should be changed to give a higher proportion of price and income support benefits to farms with gross annual sales under $250,000."** This proposal was favored by most respondents operating small and medium size farms and opposed by those operating large farms.

Most respondents did not favor or were uncertain about using Federal commodity programs to directly influence the number and size of farms. This policy option would involve explicit use of many commodity program provisions to encourage particular farm sizes and discourage other farm sizes.

Dairy Programs

Federal regulation of the dairy sector is extensive and involves the use of price supports, CCC dairy product purchases, marketing orders (for Grade A milk), import controls and selected production control programs (whole herd buyout). The milk production termination program (whole herd buyout) was implemented in 1986-1987 to reduce U.S. milk production by reducing the number of milk cows and dairy farmers. This program was implemented because the 1981-1986 average CCC purchases of surplus dairy production was 12.7 billion pounds or 9% of total annual milk production of 140-146 billion pounds. A major policy objective is to reduce Federal dairy program outlays by reducing

Table 5. RESPONDENT OPINIONS ON COMMODITY PROGRAM PAYMENT LIMITATIONS AND RELATED ISSUES

I. There is now a $50,000 limit on direct price support payments to each farmer with certain exceptions. What recommendations would you make for the future?

	Percent of 490 Respondents
Eliminate payment limitations	5.5
Increase the limit	4.7
Make no change	44.1
Decreasing the limits	39.2
Other, no response	6.5
Total	100.0

II. Future farm programs should be changed to give a higher proportion of price and income support benefits to farms with gross annual sales under $250.000.

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	No Response
percent of 490 respondents					
42.0	25.5	9.0	14.9	8.4	0.2

III. Government commodity programs should be used to influence the number of size of farms with allowance made for type of farm and geographic conditions.

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	No Response
percent of 490 respondents					
11.4	23.3	22.9	22.0	18.2	2.2

Source: 1989 South Dakota Agricultural Policy Survey completed by 490 farmers and ranchers.

CCC dairy product purchases to less than 5 billion pounds per year. (USDA, Dairy Situation and Outlook Report, Feb. 1989)

Since 1985, Federal dairy price policy has included mandated price support reductions if CCC annual purchases remain above 5 billion pounds (3-4% of total production) and price support increases if CCC annual purchases are less than 2.5 billion pounds. From 1987-1989, annual CCC purchases have been between 6.7-8.9 billion pounds, dairy price support levels have declined, but net cash returns per cow have slightly increased as cash production costs per cwt. also declined.

Respondents were very divided on the future direction of dairy price support programs. None of the three major policy alternatives **(higher price supports and producer quotas, present program, or phasing out dairy price supports)** received support from more than 29% of respondents. A high percentage (27%) of respondents had no opinion (Table 6). Comparatively few respondents (7.6%) were dairy producers, who tended to favor the present program or higher price supports.

CONSERVATION AND ENVIRONMENTAL POLICIES

Environmental and conservation issues are currently on the "front burner" of the farm policy agenda. This is a major change from the previous limited emphasis on soil conservation.

Since 1933, the Federal government has been involved with soil conservation programs on our nation's farms and ranches. Past conservation programs have been voluntary, have emphasized technical assistance and cost sharing programs, and have not been linked directly to income and price support benefits of commodity programs.

Table 6. RESPONDENTS DIVIDED ON FUTURE DAIRY PROGRAM POLICY

"What should be the future price support program for milk producers?"

Policy Option	Percent of Respondents
Continue the present program adjusting the price support up or down based on production and expected Government purchases	21.4
Set support price based on acreage production costs and establish a production quota for each producer	19.4
Phase out all dairy price supports over a period of several years	28.8
Give the Secretary of Agriculture more authority to set the price support	3.5
No opinion/no response	27.0
Total	100.0

Source: 1989 South Dakota Agricultural Policy Survey completed by 490 farmers and ranchers.

The 1985 farm legislation contains several major changes in conservation policy including (1) conservation compliance, (2) sodbuster and swampbuster provisions, and (3) Conservation Reserve Program (CRP).

Conservation compliance provisions prohibit U.S. Department of Agriculture program benefits to farmers who produce crops on highly erodible land without the use of appropriate conservation practices. This provision requires farmers to work with the Soil Conservation Service (SCS) to develop conservation plans for their farm. These plans must be filed by January 1990. Implementation of these conservation practices would be required by the early 1990's or the farmer would lose all USDA program benefits.

Sodbuster provisions prohibit USDA program benefits to farmers converting highly erodible rangeland and forestland to crop production after 1985. Swampbuster provisions prohibit USDA program benefits to farmers converting wetlands to crop production after 1985 (Glaser, 1986).

Conservation compliance, sodbuster and swampbuster provisions are the first time that selected farming practices are regulated if farmers want to remain eligible for USDA program benefits.

Conservation Reserve Program (CRP) is a long term (10 year) land retirement program targeted to highly erodible cropland. The goal is to have 40-45 million acres enrolled in this program by 1991. Farmers submit bids to enter highly erodible cropland into the program. If their bid is accepted, they receive an annual rental payment for each year of the 10 year contract period. They also receive cost sharing payments for establishment of grass or trees. Grazing and haying CRP land is not allowed, unless a drought disaster has been declared for the county in which the land is located. By March 1989, nearly 31 million acres were enrolled in the Conservation Reserve Program

(USDA, Ag Outlook, 1989).

These new conservation provisions are part of an emerging environmental agenda for agriculture. Major environmental issues concerning production agriculture include: (1) groundwater pollution, (2) pesticide and chemical use, (3) fertilizer leaching and runoff, and (4) sustainable agricultural practices. Some observers contend the American public increasingly views agriculture as a polluting industry which should be subject to the "polluter pays" principle - a policy approach emphasizing regulation and penalties, instead of cost sharing (Batie, 1988).

Respondents to the South Dakota Agricultural Policy Survey were asked for their views on **emerging issues concerning soil conservation, water quality and environment**. First, respondents were asked to indicate "which of the following approaches do you think would be most effective in achieving improvements in soil conservation and water quality." Multiple responses were permitted. Nearly half (46.3%) indicated that **cost sharing payments was the most effective method**, while only 17.8% indicated that **regulating farming practices** was the most effective method in achieving improvements in soil conservation and water quality. Approximately one-fourth of respondents indicated **taxing certain practices** or **government payments for land retirement and/or modifying cultural practices** were effective methods (Table 7).

Respondents indicated substantial support for (64%-70% in favor) and relatively little opposition (15%-21%) to three major environmental policy issues: (1) **soil conservation and water quality compliance should be a condition for receiving farm program benefits, (2) government should regulate certain farming practices and land uses to reduce pollution of underground and stream water, and (3)** Federal **farm policies need to give greater attention** than it does at present to encourage reduced use of synthetic chemical fertilizers and pesticides (Table 7). This suggests that producer groups and environmental groups may have some common interests in formulating specific policies to address these issues. However, respondents operating large farms or cash grain farms were less likely to agree with these positions than other groups of respondents.

Most respondents supported the Conservation Reserve Program, but were about evenly divided on the issue of how many acres should be included in the program: (1) current level of 30 million acres, (2) 45 million acres specified as a goal in the 1985 farm legislation, or (3) further expand CRP to around 60 million acres (Table 8).

INTERNATIONAL TRADE AND DEVELOPMENT POLICIES

U.S. agriculture competes in an international marketplace. U.S. grain exports have increased from 15% of annual production in the 1950's to about 30% of annual production in the 1980's. In the recent period of 1987-1988, nearly three-fourths of U.S. wheat, two-fifths of U.S. soybeans and one-third of U.S. corn production was exported. However, the U.S. continues to remain a net importer of livestock and dairy products.

U.S. agricultural exports declined from $43.8 billion in 1981 to $26.3 billion in 1986 and has since increased to $35.3 billion in 1988 (USDA, Ag Outlook). The decline in U.S. agricultural exports occurred in a period of slow growth in world agricultural trade and the U.S. lost export market shares. The decline in U.S. exports was related to: (1) Federal monetary and fiscal policies which increased the exchange rate value of the U.S. dollar in relation to other currencies, (2) Federal farm policies which made it

TABLE 1. RESPONDENTS OPINIONS ON POLICY OPTIONS TO REDUCE FEDERAL BUDGET DEFICIT.

The Federal deficit should be reduced by:[a]	Response: Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	No Response[b]
	------------percent of 490 respondents-------------					
Increased collection of taxes due the Federal Government	32.5	44.9	8.0	7.8	7.6	3.1
Reducing the defense budget	29.0	39.0	10.4	13.7	3.4	4.5
Reducing every budget item by a set percentage	20.2	41.4	11.6	17.0	3.9	5.9
Increasing user fees for government services	13.1	39.0	23.1	16.3	5.5	3.1
Reducing social programs (excluding social security)	15.1	32.9	13.9	26.1	6.7	5.3
Reducing farm program expenditures	8.6	32.0	14.9	28.8	10.4	5.3
Raising taxes	3.1	15.5	13.1	34.9	26.5	6.9
Reducing social security payments	3.9	7.3	10.2	44.7	28.2	5.7

[a]Policy responses are listed in descending order of preference (most preferred to least preferred).

[b]The "No Response" category in this table and in many subsequent tables indicates the percentage of 490 South Dakota respondents that did not provide a response to a specific question. All respondents answered most survey questions, but some respondents did not necessarily answer all questions.

Source: 1989 South Dakota Agricultural Policy Survey completed by 490 farmers and ranchers.

Table 7. RESPONDENTS OPINIONS ON EMERGING ISSUES CONCERNING SOIL CONSERVATION, WATER QUALITY AND ENVIRONMENT

A. "Which of the following approaches do you think would be most effective in achieving improvements in soil conservation and water quality" (check any item that you feel is appropriate).

Item (Policy Option)	Percent of Respondents[a]
Regulation of farming practices	17.8
Taxing certain practices such as "high" levels of chemical and fertilizer use	27.6
Cost sharing only for conservation and water structures	46.3
Government payments to modify cultural practices or to remove land from commercial production	26.3
No response to any item	5.9

B. "Should soil conservation and water quality compliance be a condition for receiving farm program benefits?"

Yes	No	Not Sure	No Response
------------percent of respondents------------			
70.4	20.8	8.4	0.4

C. "Government should regulate certain farming practices and land uses to reduce pollution of underground and stream water."

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	No Response
-------------------percent of respondents-------------------					
27.6	47.7	8.6	10.6	4.5	1.0

D. "Federal farm policies need to give greater attention that it does at present to encourage reduced use of synthetic chemical fertilizers and pesticides."

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	No Response
26.9	40.2	16.1	11.4	4.9	0.4

Source: 1989 South Dakota Agricultural Policy Survey completed by 490 farmers and ranchers.

[a]Percent of 490 respondents, the percentage sum exceeds 100% as many respondents checked more than one item.

Table 9. RESPONDENTS OPINIONS ON INTERNATIONAL AGRICULTURAL TRADE AND DEVELOPMENT POLICY ISSUES

United States should:	Response					
	Strongly Agree	Agree	Not Sure	Dis-agree	Strongly Disagree	No Response
	-----------percent of 490 respondents-----------					
a. Negotiate world-wide reductions in trade barriers.	27.6	50.6	10.0	5.7	1.4	4.7
b. Rely more on separate trade agreements between the U.S. and individual countries	13.5	51.6	21.0	7.6	0.6	5.7
c. Negotiate reductions in domestic farm subsidies of major importing and exporting countries world wide	12.4	50.6	23.1	6.1	2.2	5.5
d. Join with other major exporting countries to establish production and marketing controls.	10.4	40.8	17.1	21.2	5.1	5.3
e. Provide more funds for food aid to hungry nations	10.0	32.9	23.5	19.8	7.1	6.7
f. Encourage additional farmer-financed foreign market development programs	8.6	43.9	20.8	16.7	4.7	5.3
g. Continue the export enhancement program established by the 1985 farm bill and other government export subsidies	10.0	41.4	28.2	11.8	3.5	5.1
h. Reduce our agricultural import barriers to encourage more trade	8.8	26.3	18.8	29.2	12.4	4.7
i. Assist developing countries to increase their agricultural productivity and trade potential	2.4	20.4	22.4	32.9	16.3	5.5
j. Give selected low income countries preferred entry to our U.S. agricultural markets.	3.3	33.3	27.1	21.6	9.4	5.3

Source: South Dakota Agricultural Policy Survey completed by 490 farmers and ranchers.

TABLE 11. RESPONDENT PROFILE: PERCENT OF RESPONDENTS BY SELECTED PERSONAL AND INCOME CHARACTERISTICS

Operator age (years)	%	Operator education	%
Under 35	16.1	Grade school or some high school	20.6
35-49	33.3	High school graduate	35.5
50-64	35.1	Some college or vocational school	26.7
65 or over	14.3	College graduate	17.2
No response	1.2	Total	100.0
Total	100.0		

Gross farm sales ($)	%	Principal enterprise	%
Under $40,000	26.5	Cash grain	26.9
$40,000 - $99,999	36.8	Mixed grain & livestock	20.2
$100,000 - $249,999	25.9	Beef cattle	29.0
$250,000 or more	9.2	Dairy	7.6
		Hogs or sheep	7.1
No response	1.6	Other/no response	9.1
Total	100.0	Total	100.0

Off-farm employment income ($)	%	Proportion of family income from off-farm income and investments	%
None	25.1	None	25.1
Under $10,000	47.8	1 - 24%	49.2
$10,000 - $19,999	14.0	25 - 49%	10.8
$20,000 or more	14.1	50 - 100%	14.9
Total	100.0	Total	100.0

Source: 1989 South Dakota Agricultural Policy Survey completed by 490 farmers and ranchers.

Table 7. RESPONDENTS OPINIONS ON EMERGING ISSUES CONCERNING SOIL CONSERVATION, WATER QUALITY AND ENVIRONMENT

A. "Which of the following approaches do you think would be most effective in achieving improvements in soil conservation and water quality" (check any item that you feel is appropriate).

Item (Policy Option)	Percent of Respondents[a]
Regulation of farming practices	17.8
Taxing certain practices such as "high" levels of chemical and fertilizer use	27.6
Cost sharing only for conservation and water structures	46.3
Government payments to modify cultural practices or to remove land from commercial production	26.3
No response to any item	5.9

B. "Should soil conservation and water quality compliance be a condition for receiving farm program benefits?"

Yes	No	Not Sure	No Response
------------	percent of	respondents	------------
70.4	20.8	8.4	0.4

C. "Government should regulate certain farming practices and land uses to reduce pollution of underground and stream water."

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	No Response
------------------	------------------	percent of	respondents	------------------	------------------
27.6	47.7	8.6	10.6	4.5	1.0

D. "Federal farm policies need to give greater attention that it does at present to encourage reduced use of synthetic chemical fertilizers and pesticides."

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	No Response
26.9	40.2	16.1	11.4	4.9	0.4

Source: 1989 South Dakota Agricultural Policy Survey completed by 490 farmers and ranchers.

[a]Percent of 490 respondents, the percentage sum exceeds 100% as many respondents checked more than one item.

Table 8. RESPONDENTS OPINION ON FUTURE POLICY DIRECTION FOR CONSERVATION RESERVE PROGRAM (CRP)

Policy Direction	Percent of Respondents
Eliminate the CRP program	22.4
Limit CRP to current level of about 30 million acres	21.0
Expand CRP to 45 million acres as provided in the 1985 act	28.4
Further expand CRP to around 60 million acres	22.4
Other/no response	5.8
Total	100.0

Source: South Dakota Agricultural Policy Survey completed by 490 farmers and ranchers.

difficult to competitively price our agricultural exports in the above economic environment, (3) Debt limits of many Third World nations were reached which discouraged further imports and (4) increased agricultural production and export capability of selected nations (Argentina, Brazil, France and other nations) that produce competing products.

The recent increases in U.S. agricultural exports are primarily due to reduced exchange rates and U.S. farm policy reforms (lower loan rates and export enhancement program are two examples) that improve our ability to compete in world agricultural trade.

Although international trade has been greatly expanded and liberalized since World War II, trade protectionism remains a major policy concern. Trade protection policies arise because many domestic producer interests and consumer interests do not immediately benefit from freer trade policies. Protectionism is very common in agricultural trade because domestic farm programs in many nations attempt to support producer prices above world market price levels. Trade barriers (such as export subsidies, import tariffs and quotas) are then needed to protect domestic price levels (Tutwiler, ed., 1988).

Since 1986, U.S. trade negotiators have taken the lead in proposals to liberalize world agricultural trade by reducing agricultural subsidies and other barriers in agricultural products. The U.S. proposal is to greatly reduce nations' use of nontariff barriers (import and export quotas, import and export subsidies, variable levies) and further reduce tariff rates on agricultural products. This would require many nations (including the U.S.) to make numerous changes in their domestic farm policies and in their trade policies. These and other controversial proposals are currently under discussion and negotiation in the Uruguay Round of the GATT (General Agreement on Trade and Tariffs) Multilateral Trade Negotiations (Runge and Stanton, 1988).

Since **agricultural trade** is in the world spotlight, farmers and ranchers responding to the South Dakota Agricultural Policy Survey were asked for their views on many agricultural trade issues (Table 9). In general, most respondents favored a variety of policy proposals to reduce trade barriers and liberalize world trade, but were hesitant about reducing U.S. agricultural import barriers or giving selected low income nations preferred entry to U.S. markets.

Trade proposals favored by 63%-78% of respondents and opposed by less than 10% of respondents include: (1) **negotiate world-wide reductions in trade barriers, (2) rely more on separate trade agreements between the U.S. and individual countries** (the recent U.S.-Canada Free Trade Agreement is one example), and (3) **negotiate reductions in domestic farm subsidies of major importing and exporting countries world wide.** All of these policy proposals are measures to reduce trade barriers, promote freer trade, and are likely to increase U.S. agricultural exports.

The conflicting benefits of freer trade versus benefits of protectionism are reflected in respondent's opinions on export market cartels, reducing agricultural import barriers, and continuing export subsidy programs. A majority of respondents (51%) agreed with policy proposals to: (1) **continue the export enhancement program and other government export subsidies, and (2) join with other major exporting nations to establish production and marketing controls.**

A majority of cash grain farmer-respondents favored reducing import

Table 9. RESPONDENTS OPINIONS ON INTERNATIONAL AGRICULTURAL TRADE AND DEVELOPMENT POLICY ISSUES

United States should:	Response					
	Strongly Agree	Agree	Not Sure	Dis-agree	Strongly Disagree	No Response
	percent of 490 respondents					
a. Negotiate world-wide reductions in trade barriers.	27.6	50.6	10.0	5.7	1.4	4.7
b. Rely more on separate trade agreements between the U.S. and individual countries	13.5	51.6	21.0	7.6	0.6	5.7
c. Negotiate reductions in domestic farm subsidies of major importing and exporting countries world wide	12.4	50.6	23.1	6.1	2.2	5.5
d. Join with other major exporting countries to establish production and marketing controls.	10.4	40.8	17.1	21.2	5.1	5.3
e. Provide more funds for food aid to hungry nations	10.0	32.9	23.5	19.8	7.1	6.7
f. Encourage additional farmer-financed foreign market development programs	8.6	43.9	20.8	16.7	4.7	5.3
g. Continue the export enhancement program established by the 1985 farm bill and other government export subsidies	10.0	41.4	28.2	11.8	3.5	5.1
h. Reduce our agricultural import barriers to encourage more trade	8.8	26.3	18.8	29.2	12.4	4.7
i. Assist developing countries to increase their agricultural productivity and trade potential	2.4	20.4	22.4	32.9	16.3	5.5
j. Give selected low income countries preferred entry to our U.S. agricultural markets.	3.3	33.3	27.1	21.6	9.4	5.3

Source: South Dakota Agricultural Policy Survey completed by 490 farmers and ranchers.

barriers, while a majority of livestock and dairy farmers opposed this measure. This difference in viewpoints was expected, as the U.S. is a major grain exporter, but a net importer of livestock and dairy products. Overall, 41.6% of South Dakota producer respondents opposed **reducing U.S. agricultural import barriers to encourage more trade,** 35.1% were in favor and 23.5% were not sure or did not respond to this issue.

Respondents were selective in their support of agricultural development programs. A majority of respondents (52.5%) supported a policy proposal to **encourage additional farmer-financed foreign market development programs** and a plurality (42.9%) favored **providing more funds for food aid to hungry nations.** Between 21-27% of respondents were opposed to each proposal.

Developing agricultural productivity and trade potential of lower income nations has been a long-term development policy of the United States which has led to increased agricultural exports to many Asian, African and Latin American nations. However, most respondents did not favor policy proposals to: (1) **assist developing countries to increase their agricultural productivity and trade potential**, or (2) **give selected low income countries preferred entry to our U.S. agricultural markets**. The greatest amount of opposition to these two proposals were from respondents less than 50 years old.

PRODUCTION RISK AND NATURAL DISASTER POLICIES

Weather is a major source of risk in agriculture. Federal policy has shifted between crop insurance and disaster payments as methods available to reduce the financial consequences of production shortfalls. Current Federal policy favors all-risk (multiple peril) crop insurance programs, but disaster assistance payments have also been available to farmers in drought distressed areas. For example, 58% of South Dakota respondents participated in the 1988 Disaster Program. Producers accepting disaster payments and experiencing a 65-100% crop loss in 1988 were generally required to purchase Federal crop insurance in 1989.

In the Federal crop insurance program, the Federal government subsidizes all program administration costs and 30% of the premium cost up to 65% yield protection. Premiums are actuarially determined and costs vary according to yield protection level (50%, 65%, or 75% of normal yield) and price level selected.

A majority of respondents favored the continued use of Federal crop insurance programs. Three-eighths (37.8%) of respondents favored **continuation of the present voluntary crop insurance program**, while another 16.3% favored **requiring all farmers to buy crop insurance to be eligible for government benefits**. One-fourth (24.5%) preferred to have the **Federal government provide limited disaster assistance in years of several natural disturbances, but have no Federal crop insurance program**. Another 8.8% of respondents favored **elimination of Federal disaster assistance and crop insurance programs**, while 12.7% were not sure or had no response.

SELECTED FARM FINANCE ISSUES

The farm finance crisis of the 1980's has led to renewed criticism of Federal farm credit and farm bankruptcy policies.

Federal credit policies

The Farmers Home Administration (FmHA) was established in 1946 to provide credit to farmers who were unable to obtain credit from other sources. Today, FmHA finances a variety of farm credit, rural housing, industry and commercial loan and grant programs. Nearly one third of South Dakota farmers and ranchers are FmHA borrowers.

Total farm debt held by Farmers Home Administration increased from $17.4 billion in 1980 to $24.3 billion in 1985 and declined to $22.8 billion in early 1989. Market share (percent) of farm debt held by FmHA increased throughout the 1980's. By early 1989, FmHA held 11.8% of farm real estate debt, 21.8% of farm nonreal estate debt and 16.4% of total farm debt in the U.S. One-third of total FmHA farm loan principal outstanding is delinquent (USDA, Agricultural Income and Finance- Situation and Outlook Report, AFO-32, February 1989).

Respondents were sharply divided on whether the government **should continue to loan money to farmers with limited capital who cannot get credit from other sources?** A plurality of respondents (45.1%) **favored continuation of government farm loan programs for these farmers**, 36.1% were opposed, and 18.5% were not sure or had no response (Table 10).

Farm Bankruptcy

Farm loan delinquencies, loan foreclosures and bankruptcies increased to record levels during the farm finance crisis of the 1980's. For example, farm bankruptcies filed in South Dakota increased from 37 in 1980-1981 to a high of 622 in 1987. Changes were made in Federal and state laws to cope with increased farm loan problems.

Chapter 12 was added to Federal bankruptcy statutes in November, 1986 to address the reorganization needs of "family farms" in the farm finance crisis. Since its enactment, over 2/3 of all South Dakota farm bankruptcy filings have been in Chapter 12. This chapter is limited to qualifying farmers with less

Table 10. RESPONDENT OPINIONS ON SELECTED FARM FINANCE ISSUES

I. "Should the government continue to loan money to farmers with limited capital who cannot get credit for other sources."

Yes	No	Not Sure	No Response
-------percent of respondents------			
45.1	36.4	16.9	1.6

II. "Family Farm Reorganization Bankruptcy law (Chapter 12) is in effect from 1986 to 1993. Congress should extend this law and make it permanent."

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	No Response
------------------percent of respondents----------------					
9.2	22.4	26.1	22.0	19.2	1.0

III. South Dakota mediation laws, requiring lenders to negotiate with farm borrowers before foreclosure, should be retained.

Strongly Agreed	Agree	Not Sure	Disagree	Strongly Disagree	No Response
-----------------percent of respondents-----------------					
26.9	40.2	16.1	11.4	4.9	0.4

Source: South Dakota Agricultural Policy Survey completed by 490 farmers and ranchers.

than $1,500,000 in debt, 80% of which must be related to agriculture. The farmer-debtor presents a reorganization plan to the Federal Bankruptcy Judge for approval/rejection; creditors have no voting rights on proposed reorganization plans. In most approved Chapter 12 plans, debt held by secured creditors is written down to the present value of the security (collateral) and very little of remaining debt is expected to be repaid. (Janssen and Peterson, 1989)

Chapter 12 (Family Farm Reorganization Bankruptcy) expires (sunsets) in 1993. Respondents were sharply divided on the issue of Congress extending this legislation and making it permanent. A plurality of respondents (41.2%) did not favor making Chapter 12 permanent legislation, 31.6% were in favor, 26.1% were not sure and 1% had no response (Table 10). A plurality of younger farmers and full owners (those who own all land farmed) favored extending Chapter 12, a position opposed by all other respondent groups.

Loan Mediation Policies

Many states, including South Dakota, enacted farm credit mediation laws requiring lenders to negotiate with farm borrowers before foreclosure. Farm credit mediation brings the debtor, creditor and mediator together to listen to each other and attempt to work out an agreement that resolves the financial disputes outside of courtroom proceedings (foreclosure or bankruptcy). In South Dakota, the mediation process is usually required before foreclosure proceedings can start, but the mediation results are non-binding on debtors and their creditors (Peterson and Pflueger, 1988).

South Dakota's farm mediation law expires in 1991, unless it is retained by the State legislature. Two thirds (67.1%) of South Dakota farmer-respondents favored retaining this law (Table 10).

RESPONDENT PROFILE

Throughout this report, South Dakota producer-respondent preferences on many agricultural policy issues have been presented. In many cases, respondents policy preferences were reported as related to specific respondent characteristics (including age, type of farm, gross farm sales and amount of off-farm income). In this section, South Dakota respondents characteristics are discussed in detail and compared to characteristics of all South Dakota farmers as reported in recent U.S. Agricultural Census publications.

The major difference between respondents and all South Dakota farmers is: (1) a larger proportion of respondents operate medium size farms and (2) a lower proportion operate small farms. Five-eighths (62.7%) of South Dakota respondents operate medium size family farms with gross farm sales of $40,000 to $250,000. Another 26.5% operate small farms generating less than $40,000 of annual sales and 9.2% operate large farms with $250,000 or more of annual sales, 1.6% did not respond (Table 11). The 1987 South Dakota Census of Agriculture indicates that 53% of all South Dakota farmers operated small farms, and 47% operated large or medium size farms.

Most respondents (74.3%) reported receiving none or very little (less than 25%) of their family net income from off-farm sources. However 28% of respondents reported more than $10,000 annual off-farm employment income.

Over two thirds (68.4%) of respondent operators are 35-64 years of age, with the remaining respondents almost evenly split between younger and older farm operators. Almost 80% of South Dakota respondents have completed high school and 17.2% are college graduates (Table 11).

More than three fourths of respondents reported beef cattle, cash grains or a combination of grain and livestock as their principal enterprises.

TABLE 11. RESPONDENT PROFILE: PERCENT OF RESPONDENTS BY SELECTED PERSONAL AND INCOME CHARACTERISTICS

Operator age (years)	%	Operator education	%
Under 35	16.1	Grade school or some high school	20.6
35-49	33.3	High school graduate	35.5
50-64	35.1	Some college or vocational school	26.7
65 or over	14.3	College graduate	17.2
No response	1.2		
Total	100.0	Total	100.0

Gross farm sales ($)	%	Principal enterprise	%
Under $40,000	26.5	Cash grain	26.9
$40,000 - $99,999	36.8	Mixed grain & livestock	20.2
$100,000 - $249,999	25.9	Beef cattle	29.0
$250,000 or more	9.2	Dairy	7.6
		Hogs or sheep	7.1
No response	1.6	Other/no response	9.1
Total	100.0	Total	100.0

Off-farm employment income ($)	%	Proportion of family income from off-farm income and investments	%
None	25.1	None	25.1
Under $10,000	47.8	1 - 24%	49.2
$10,000 - $19,999	14.0	25 - 49%	10.8
$20,000 or more	14.1	50 - 100%	14.9
Total	100.0	Total	100.0

Source: 1989 South Dakota Agricultural Policy Survey completed by 490 farmers and ranchers.

Dairy, hogs and sheep are each principal enterprises on 7% or more of respondents's farm operations (Table 11).

A majority (52.5%) of respondents are from eastern South Dakota, 29.6% are from central South Dakota and 16.7% are from western South Dakota (Table 12). The regional distribution of respondents and all farm operators are nearly identical.

Respondents' land use, farm size, and ownership patterns reflect the diversity found in South Dakota. Based on mean (average) statistics, the typical respondent operates 1607 acres, owns 942 acres and has 770 acres of cropland. However, there are major regional differences in these characteristics as shown by data in Table 12.

Two thirds of South Dakota respondents are members of one or more farm organizations and 22.9% are members of a general farm organization <u>and</u> a commodity organization. More South Dakota respondents are members of the National Farmers Union (27.6%) than are members of any other farm organization. Farm organization memberships listed by 9-16% of respondents include: American Farm Bureau, Wheat Growers, Soybean Association, Cattlemen's Association, Corn Growers, and Pork Producers (Table 13).

Dependence on federal farm programs in the latter 1980's is dramatically shown by 88.8% of South Dakota respondents reporting participation in Federal farm programs (Table 13). The impact of the 1988 drought and Federal drought assistance in South Dakota is demonstrated by 58% of respondents obtaining disaster assistance payments.

TABLE 12. SUMMARY OF RESPONDENTS AGRICULTURAL LAND OPERATED, OWNERSHIP, TENURE, REGIONAL LOCATION AND USE.

Acres operated[a]	Percent of Respondents	Tenure Class	Proportion of land owned[a]	Percent of Respondents	Acres Operated
					mean
Under 260	11.4	Tenant	0%	9.8	670
260 - 499	15.3				
		Partowner	1-49%	27.6	1760
500 - 999	26.1		50-99%	24.7	2570
1000-1999	18.0				
		Full owner	100%	28.6	995
2000-4999	18.0				
5000 or more	5.9				
No responses	5.3	No response		9.3	--
Total	100.0	Total		100.0	
Mean	1607	Mean		59%	
Median	850	Median		60%	

	Respondents		Average (mean) number of[b]:		
Region	Number	%	Acres operated	Acres owned	Acres cropland
Eastern	257	52.5	750	377	568
Central	145	29.6	1950	1092	1018
Western	82	16.7	3709	2427	959
No response	6	1.2			
Total	490	100.0	1607	942	770

[a]Median and median statistics for acres operated and proportion of land owned.

[b]Average (mean) number of acres operated, acres owned and acres cropland based on the number of respondents reporting each item: acres operated - 465 respondents, acres owned - 440 respondents, cropland acres - 418 respondents.

Source: 1989 South Dakota Agricultural Policy Survey completed by 490 farmers and ranchers.

TABLE 13. FARM ORGANIZATION AND FEDERAL FARM PROGRAM CHARACTERISTICS OF RESPONDENTS

FARM ORGANIZATIONS:	
Percent of Respondents Indicating Membership In:	
Any farm organization	66.7%
Any general farm organization	42.6%
Any commodity organization	47.1%
General and commodity farm organization	22.9%
Specific General Farm Organizations:	
National Farmers Union	27.6%
American Farm Bureau	15.9%
National Farm Organization	4.3%
American Agricultural Movement	0.6%
Specific Commodity Organization:	
Wheat Growers	13.1%
Soybean Association	12.2%
Cattlemen's Association	12.0%
Corn Growers	10.2%
Pork Producers	9.0%
Milk Producers	6.3%
FEDERAL PROGRAMS:	
Percent of Respondents Indicating Participation in:	
Any farm program	88.8%
Feed grain program	72.7%
Wheat program	50.0%
1988 Disaster Assistance	58.0%
Conservation Reserve Program	17.8%

Source: 1989 South Dakota Agricultural Policy Survey completed by 490 farmers and ranchers.

Interactions Among Respondent Characteristics[6]

Respondents' age is interrelated to most other characteristics. Senior farmers (65 years of age and older) on average, had the least amount of schooling, lowest gross farm sales and 60% owned all of the land that they operated. Middle age farmers, 35-64 years of age, operate the largest farms, tend to be partowners and have the highest percentage of memberships in farm organizations.

Respondents with some post-high school (vocational or college) education generally have higher gross farm sales <u>and/or</u> greater off-farm income than other respondents. Operators of small farms, regardless of primary income source, are least likely to belong to farm organizations, while operators of large farms are most likely to participate in commodity and general farm organizations. Most operators of small farms are either young, tenant farmers or senior farmers who own all of the land that they operate. Almost all operators of large farms are middle-age farmers operating owned and leased lands.

These interrelationships are important aids in understanding the changing structure of South Dakota agriculture and interpreting responses of different groups of farmers to agricultural policy issues.

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[6]Information reported in this section are based on cross tabulations between selected respondent characteristics and associated chi-square (X 2) tests of independence. Cross tabulations statistically significant at the 1% probability level <u>and</u> containing useful information on socio-economic interrelationships are discussed.

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