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Agriculture Policy Decisions: A 1984 Persepctive from South Dakota Farmers and Ranchers

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AGRICULTURE POLICY DECISIONS

A 1984 Perspective From South Dakota Farmers and Ranchers

by

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SUMMARY AND CONCLUSIONS

Federal government policies greatly affect farmers and ranchers. Most South Dakota farmers and ranchers favor changes in the process used to make farm policy decisions but are split on the desirable future direction of farm commodity programs. A majority of producers favor existing or modified loan rate, target price, and farmer owned grain reserve program but are sharply divided on payment-in-kind (PIK) programs. Most producers favor the market growth provided by world trade but are not willing to give up minimum trade barriers, these barriers provide some cushion from the instability caused by international trade system. In addition, farmers are overwhelmingly in favor of Federal deficit reduction policies. These are key findings from a 1984 statewide survey of farmers and ranchers opinions on agriculture policy issues.

Farm Policy Survey and Response

The main purpose of this farm policy survey research effort was to document attitudes of South Dakota farmers and ranchers on agriculture policy alternatives. A secondary purpose was to examine the relationship between producer-respondent characteristics and their attitudes on specific agriculture policy issues.

South Dakota was one of 17 states across the nation participating in the farm policy survey. Results from each state and survey totals from the 17 states have been published and used as input to Congressional debate on comprehensive farm and food legislation in 1985.

A random sample of farmers in each state received copies of the survey questionnaire in late February and early March 1984. In South Dakota, 480 farmers and ranchers completed the survey - 32% of the 1500 producers contacted. Across the 17 states, 30% of 26,600 producers contacted completed the survey.

The characteristics of South Dakota producer-respondents were similar to those of all South Dakota farmers. A higher proportion of respondents operated medium size farms with annual sales of $40,000 to $200,000 and received almost all of their family income from the farm operation.

Federal Budget Policies

Farmer-respondents in all 17 states were greatly concerned about the policy direction of continued Federal deficit spending. Federal budget deficits have occurred each year since 1969 and exceeded $160 billion in both 1983 and 1984. In South Dakota, 85% of respondents agreed with various statements about the need to greatly reduce Federal deficit spending. Respondents were more divided on specific proposals to reduce Federal budget deficits. The preferred approach was substantial cuts in all Federal programs, including farm programs, instead of freezing expenditures at present levels and raising taxes.

On Federal farm spending priorities, 39.4% favor export expansion and international market development as the highest priority of three options, 24.4% favor price and income support programs, and 24.2% favor soil conservation and erosion programs.

Commodity Programs - Who Should Decide?

Many producers are dissatisfied with the process and outcomes of farm policy making and are interested in more stable, longer term approaches to policy decisions. When asked "who should make the major farm policy decisions" only 19% of respondents favor continuation of the present system in which Congress and the Administration make the key decisions. Almost two-thirds of the respondents are evenly divided between those (32.3%) favoring an independent decision-making board of farmers, agribusinessmen, and consumers and those (32.9%) favoring a farmer organized and financed commodity program of their own.

Commodity Policy Directions and Program Options

Respondents were almost evenly split on three future directions for commodity policies: (1) continuation of present voluntary programs, (2) mandatory commodity programs or (3) eliminating all acreage reduction, price support and grain reserve programs.

Although divided on future commodity program directions, respondents were in greater agreement on specific programs. If some form of voluntary programs are retained, South Dakota respondents by greater than 2-1 margins favor continuation of (1) loan rates, (2) target prices, (3) acreage diversion payments, and (4) farmer owned grain reserve programs. Most respondents prefer target prices and loan rates at 1984 levels or higher. Only 9% of respondents favor lowering loan rates or lower target prices.

Almost 70% of South Dakota respondents favor directing commodity program benefits to small and medium size farms with annual sales of less than $200,000. Nearly one-half of respondents favor keeping the present direct payment limit of $50,000 per farm while one-third prefer a lower limit.

South Dakota respondents are evenly divided (42.5% - yes, 43.6% - no) on whether a PIK program should be used again if large stocks reappear. Grain producers and farm program participants favor PIK programs, while livestock producers and nonparticipants are strongly opposed.

The dairy program for 1984 includes production control payments for the first time. Less than one-third of South Dakota respondents favor continuation of production cutback payments to dairy farmers in 1985 and in later years if milk production is excessive.

International Trade Policies

U.S. farmers compete in an international market which has improved farm incomes over the long term but has also greatly increased annual price and farm income fluctuations. Exports expanded rapidly in the 1970's but have declined in recent years.

Respondents generally favor strengthening multi-country trade negotiations to provide a relatively open market for all food exporting and importing nations and/or more agreements with food importing nation to insure that the U.S. receives a minimal share of the international market. Only 18% favor agreements with other food exporting nations to control production and raise prices.

Respondents were also asked about strategies to increase U.S. agricultural exports. In general, they are not satisfied with existing conditions and are strongly in favor of making changes in U.S. trading strategies. More than 60% of the respondents agree with (1) establishing an international trade marketing board, (2) lowering federal budget deficits to lower the exchange value of the dollar, and (3) providing more food aid to hungry nations.

A plurality of respondents agree with (1) farmer financed international market development and (2) matching the export subsidies of our competitors.

A plurality are opposed to (1) lowering U.S. import barriers and (2) lowering U.S. price supports. A much higher percentage of respondents were "undecided" on all international trade issues than on domestic policy issues.

Production Risk/Natural Disaster Policies

Present Federal policy emphasizing all-risk crop insurance programs is supported by only 29% of South Dakota respondents, and less than 15% feel that Federal crop insurance is a good buy, provides adequate coverage and is easy to understand. This suggests a major educational effort is needed to assist farmers in understanding the potential of crop insurance in their own operation.

Soil Conservation Policies

Present soil conservation programs are voluntary, emphasizing cost sharing and technical assistance. Proposed policy changes requiring farmers to follow recommended soil conservation measures before their farm could qualify for price and income support programs are popular with South Dakota respondents (69% favor, 22% oppose and the rest were unsure). A plurality of respondents (43%) also favor targeting soil conservation funds to states with the most severe erosion problems.

Farm Credit (Farmers Home Administration) Policies

Nearly one-third of South Dakota farmers borrow money from the Farmers Home Administration (FmHA), a Federal Government credit agency, and the percentage of farm debt financed by FmHA has increased in recent years. FmHA credit policies are often controversial when economic times are rough.

Almost one-half of South Dakota respondents favor continuing present policy of not foreclosing unless all repayment efforts have failed, 26% favor general or selective moratoriums on farm foreclosures and nearly 15% favor a stricter policy on delinquent loans.

Diversity of Responses

Respondent's age, education, farm business sales volume, major enterprise and farm program participation was often related to their position on many agricultural policy issues. For example, grain producers overwhelmingly picked export market development as their top priority for Federal agriculture funding while livestock producers are evenly split on soil conservation and export market development. On another issue, farm program participants and grain producers favor PIK programs if large grain stocks reappear, while nonparticipants and livestock producers are strongly opposed. Overall, on these and other agricultural policy issues, respondents attitudes were closely related to their economic interest and socioeconomic status.

INTRODUCTION

Federal government policies greatly affect farmers and ranchers. In recent years, South Dakota agricultural producers have been especially impacted by:

(1) The combination of Federal Reserve restrictive monetary policies, increased Federal budget deficits and changing Federal tax policies

(2) International trade policies, including export subsidies, trade agreements with the Soviet Union and China and the 1980 grain embargo

(3) Commodity program changes, including the 1983 payment-in-kind (PIK) program

(4) Agriculture credit policies and deregulation of the banking industry

By 1984 several factors were creating a high degree of interest and debate on the proper relationship of the Federal government and production agriculture:

(1) relatively low farm incomes and commodity prices

(2) high interest rates

(3) sluggish export market prospects

(4) declining farm asset values, especially farmland values

(5) substantially increased farm financial stress among indebted farmers

(6) differing impacts of the PIK program on producers and agribusiness

(7) increasing Federal expenditures on agriculture programs

All of these factors would enter the debate on the content of Federal farm legislature in 1985 and subsequent years.

This research was conducted to document the attitudes of South Dakota farmers and ranchers on agriculture policy alternatives. A secondary purpose was to examine the relationship between producer-respondent characteristics (age, education, type of farm, gross farm sales and other attributes) and their attitudes on specific agriculture policy issues.

Press releases and SDSU Economics Newsletters publications (No. 211 and 212) "Farm Policy Decision - What do South Dakota Farmers Think" were written and released by the authors during the summer months of 1984. These outlets were used to quickly reach the largest possible audience and provide them with summary findings and highlights. This research report provides much greater detail on and analysis of survey findings.

This report is organized as follows: First, survey procedures and the profile of respondent characteristic are reported. This is followed by discussion of South Dakota Agricultural Policy Survey findings for the following sets of public policies: (1) Federal budget policies, (2) agricultural commodity programs, (3) international agricultural trade policies, (4) production risk/natural disaster policies, (5) soil conservation programs, and (6) farm credit policies.

Survey Procedures and Response

The 1984 South Dakota farm policy survey documents attitudes of South Dakota farmers and ranchers on 1985 agriculture policy alternatives. The survey was a joint effort of economists in the SDSU Cooperative Extension Service and Agricultural Experiment Station. The survey contained questions about domestic commodity policies, international agricultural trade and food assistance policies, soil conservation policies, production risk and natural disaster policies, Federal agricultural credit policies and Federal budget/taxation policies. A copy of the survey is shown in Appendix A.

South Dakota was one of 17 states across the nation participating in the farm policy survey.[1] Most survey questions were identical across states but each state survey contained a few local interest questions that differed from those in other surveys. Results from each state and survey totals from the 17 states have been published and will be used as input to Congressional debate and possible action on comprehensive food and farm legislation in 1985.[2] A random sample of farmers in each state[3] received copies of the survey questionnaire in late February and early March 1984. In South Dakota, 480 farmers and ranchers completed the survey – 32% of the 1,500 producers contacted. Across the 17

[1]States participating in the 1984 Agricultural Policy Survey are Illinois, Indiana, Kansas, Michigan, Minnesota, Nebraska, Ohio, South Dakota and Wisconsin in the North Central region. Participating states in other regions are Alabama, Florida, Maryland, Oklahoma, South Carolina, Texas, Idaho and Washington. These 17 states represented 50% of U.S. farm number and farm cash receipts. Producers in these states also marketed 58% of the meat animals, 50% of the dairy products, 51% of the good grains and oilseeds and 67% of the feed grains in the United States.

[2]The 17 state composite report is available as Harold Guither, et. al. U.S. Farmers View Agricultural and Food Policy: A 17 State Composite Report North Central Regional Research Publication No. 300, December, 1984.

[3]Statisticians in the Statistical Reporting Service in each state randomly selected the sample of producers from their state wide master list of agricultural producers. In South Dakota, the South Dakota Crop and Livestock Reporting Service cooperated.

states, 8,085 producers completed the survey - 30% of the 26,600 producers contacted.

RESPONDENT PROFILE

A respondent profile was developed to compare characteristics of South Dakota respondents to all South Dakota farmers as reported in recent U.S. Census publications and to respondents in the other 16 states, Key differences in policy issue response by respondent characteristic are reported in each policy issue section of this paper.[4]

Respondent Profile Compared to All South Dakota Farmers

The major differences between respondents and all South Dakota farmers are (1) a larger percent of respondents operate medium-sized farms and (2) a lower proportion of respondents operate small farms and/or receive a majority of family net income from off-farm sources.

A majority (53.3%) of South Dakota survey respondents operated medium-size family farms with gross farm sales of $40,000 to $200,000. Another 34.2% of respondents operated small farms with less than $40,000 of annual sales and 7.5% operated large farms with $200,000 or more of annual sales, five percent did not respond, (Table 1). The 1982 South Dakota Census of Agriculture indicates that 54.2% of all South Dakota farmers operated small farms, 40.8% operated medium size farms and 5.0% operated large farms.

Most respondents received none or very little (less than 25%) of their family net income from off-farm sources.

[4]Cross tabulations, chi-square tests and, where appropriate, stepwise multiple regression procedures were used to examine relationship between responses to policy issues and respondent characteristics. Statistically significant relationships (at the 5% probability level of significance) are reported in this paper. Supporting documentation of statistical tables and multiple regression results can be obtained by contacting the authors.

Respondent age and schooling are similar to all South Dakota farmers and to respondents in the other 16 states. Almost 72% of South Dakota respondents had completed high school and 15.4% were college graduates.

A combination of grain and livestock enterprises was most often reported by respondents (46.5%) as their principal enterprise, followed by livestock (30.6%) and cash grain (17.3%).

More than five of every eight South Dakota respondents (63.8%) reported grain as a major enterprise. Major livestock enterprise and percent of respondent reporting each were: beef cattle (24.2%), hogs and pigs (11.7%), dairy (10.6%), sheep (2.3%) and poultry (1.9%). In each case a larger percentage of producers probably raised some livestock but did not report any particular livestock enterprise as a major activity.

Respondents' land use, farm size and ownership patterns reflected the diversity found within South Dakota. Based on mean (average) statistics, the typical respondent operated 920 acres and owned two-thirds of it. This compares to 1982 Ag Census findings that South Dakota farmers operated an average of 1042 acres and owned 68% of it.[5]

Part owners (farmers who own land and rent additional land from others) were more heavily represented among respondents (54.4%) than among all South Dakota producers (44%) in the 1982 Census.

Comparisons to Respondent Profiles in Other States

The major difference between South Dakota respondents and those reporting from other states was greater reliance on the farm operation in providing 75% or more of the net family income. This finding is also consistent with those in a recent study by Janssen and Edelman indicating that South Dakota farm families

[5]The 1982 Census of Agriculture findings reported here exclude ownership of tribal (Indian reservation) lands.

rely on farm income for their family well-being more than producers in all other states (Janssen - Edelman, pp. 73).

South Dakota respondents had the highest participation rate in the 1983 feed grain program among respondents in the 17 states and the fourth highest participation rate (after Kansas, Oklahoma and Texas) in the 1983 wheat program. Two-thirds of the South Dakota respondents participated in the Payment-in-kind Programs and 76.2% participated in wheat or feed grain programs in 1983.

Two-thirds of South Dakota respondents belong to one or more farm organizations and one-fourth are members of a general farm organization and a farm commodity organization. More South Dakota respondents were members of the National Farmers Union (31%) than were members of other farm organizations. Farm organization memberships listed by more than one-tenth of respondents were the American Farm Bureau, Pork Producers, Cattlemens Association and Wheat Producers (Table 3). South Dakota was the only surveyed state reporting a larger proportion of Farmers Union than Farm Bureau members.

Interactions Among Respondent Characteristics [6]

Respondents' age is interrelated to most other characteristics. Senior farmers (65 years of age and older) on average, had lesser years of schooling, lowest gross farm sales, lowest farm program participation rate and a majority owned all of the land they operated. Middle-age farmers, 35-65 years of age, operated the largest farms, tended to be part-owners and had the highest percentage of membership in farm organizations. Respondents less than 50 years old had a greater tendency to belong to commodity organizations while older farmers had a greater tendency to belong to general farm organizations.

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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 5% probability level and containing useful information on socio-economic interrelationships are discussed.

Respondents with post-high school (vocational or college) education generally had greater gross farm sales <u>or</u> a higher percentage of off-farm income than other respondents. Two-thirds of respondent families receiving a majority of family net income from off-farm sources operated small farms (less than $40,000 gross farm sales). However 70% of families living on small farms received most of their family income from the farm operation.

Operators of small farms, regardless of primary income source, were least likely to belong to farm organizations or to participate in Federal farm programs. They were also more apt to own all of the land that they operated.

Farm program participation in 1983 was highest for part-owners, young and middle-age farmers operating large or medium-size farms and receiving most of their family net income from farm operations.

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

TABLE 1: RESPONDENT PROFILE: PERCENT OF RESPONDENTS BY SELECTED PERSONAL AND INCOME CHARACTERISTICS

Operator age (years)	%	Operator education	%
Under 35	18.1	Grade school	15.6
35-49	28.8	Some high school	9.8
50-64	38.3	High school	36.7
65 or over	12.9	Some college or technical school	19.6
		College graduate	15.4
No response[a]	1.9	No response	2.9
Total	100.0	Total	100.0

Gross farm sales ($)	%	Proportion of family income from off-farm employment or investments	%
Under $40,000	34.2	0-24%	60.0
$40,000 - $199,999	53.3	25-49%	9.0
$200,000 or over	7.5	50-100%	11.6
No response	5.0	No response	19.6
Total	100.0	Total	100.0

Principal enterprise	%	Participation rates in 1983 wheat or feed program	%
Grain	17.3	Wheat: Acreage reduction	42.5
		Payment-in-kind	37.7
Mixed Grain & Livestock	46.5		
		Feedgrain:	
Livestock	30.6	Acreage reduction	64.0
		Payment-in-kind	53.8
No response	5.6		
Total	100.0	Wheat or feed grain program	76.2

Source: 1984 South Dakota Agriculture Policy Survey completed by 480 farmers and ranchers.

[a]The "No Response" category in this table and many subsequent tables indicate the percentage of the 480 South Dakota respondents that did not provide a response to a specific question. All respondents answered most survey questions but different respondents did not necessarily provide their responses to identical sets of questions.

TABLE 2. SUMMARY OF RESPONDENTS AGRICULTURAL LAND OPERATED, OWNERSHIP, TENURE AND USE

Acres operated[a]	Percent of respondents	Tenure class	Proportion of land owned[a]	Percent of respondents
Under 260	12.7	Tenant	0	9.8
260 - 499	24.6	Part-owner:	1 - 49%	21.5
500 - 999	27.5		50 - 99%	32.9
1,000 - 1,999	18.3	Full-owner	100%	29.8
2,000 or over	9.4			
No response	7.5	No response		6.0
Total	100.0	Total		100.0
Mean	920	Mean	62%	
Median	600	Median	67%	

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

Source: 1984 South Dakota Agriculture Policy Survey completed by 480 farmers and ranchers.

TABLE 3. FARM ORGANIZATION MEMBERSHIP CHARACTERISTICS OF RESPONDENTS

Percent of Respondents Who Indicated Membership In:	
Any farm organization	66.7%
Any general farm organization	48.7%
Any commodity organization	42.1%
General and commodity farm organization	25.2%
Specific General Farm Organizations:	
National Farmers Union	31.0%
American Farm Bureau	16.7%
National Farmers Organization	5.4%
American Agricultural Movement	1.9%
Grange	1.0%
Specific Commodity Organizations:	
Pork Producers	17.5%
Cattlemens Association	14.8%
Wheat Producers	10.8%
Milk Producers	8.3%
Soybean Association	3.1%
Corn Growers	2.9%

Source: 1984 South Dakota Agriculture Policy Survey completed by 480 farmers and ranchers.

FEDERAL BUDGET POLICIES

Federal budget deficits

Fiscal and monetary policies affect farmers costs of purchased inputs-especially the cost of credit and also affect the exchange value of the dollar and the demand for farm commodities.

Federal budget deficits have become 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 160 billion dollars in each of the past 2 years (1983-84). This represents over 20% of Federal spending in this period. In order to reduce budget deficits, either spending must be reduced or taxes must be increased.

The Federal debt is simply the 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. Since 1980, interest expense to finance Federal deficits has increased more rapidly than any other portion of the Federal budget. In 1984, interest expense on the Federal debt was about $138 billion - 16% of Federal spending and 3.8% of GNP.[7]

Farmer respondents were asked their opinion on five statements concerning Federal budget deficit issues. Responses to these statements were quite uniform and consistent in all 17 states surveyed. In every case farmers were greatly concerned about the policy direction of continued Federal budget deficits.

In South Dakota, 85% of respondents disagreed with the statement "We should keep things as they are and not worry about balancing the budget." Only 3% agreed with this statement (Table 4). Young farmers and those with the largest sales volume had the strongest disagreement (97-98%) with the present situation.

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[7] U.S. Department of Commerce. Survey of Current Business. November 1984.

Also, about 85% of South Dakota respondents felt we should reduce Federal budget deficits in order to reduce interest rates for borrowers <u>and</u> also to reduce the debt burden on future generations.

Responses to the three previous statements received the highest percentage of disagreement (or agreement) to any statements in this survey.

Farmers were more divided on specific proposals to reduce Federal budget deficits. Two policy options considered were 1) to freeze present Federal expenditures and raise taxes, or 2) balance the budget even if it requires a substantial cut in all Federal government programs, including farm programs. A strong majority (63.1%) of South Dakota respondents favored substantial cuts in all Federal programs including farm programs as the preferred method of reducing Federal budget deficits. Only 17% of respondents disagreed and nearly 20% were unsure or had no response. A plurality (40.2%) were opposed to the idea of raising taxes and feeezing Federal expenditures, 29.5% favored the idea and 30.5% were unsure or had no response (Table 4).

Several respondents wrote comments favoring Federal program cuts as long as farm program budget cuts were not targeted for deeper cuts than other areas of the Federal budget.

Farm program participants were less likely to favor Federal budget cuts and more likely to favor raising taxes than nonparticipants. Dairy farmers were also less likely to favor Federal budget cuts. However, a majority of all types of South Dakota farmer-respondents favored reduced Federal spending as the preferred method of reducing budget deficits. The only difference by type of respondent was the percent margin of preference. Likewise, a plurality of all types of farmer-respondents were opposed to tax increases and only freezing Federal expenditures.

TABLE 4. RESPONDENTS OPINIONS ON FEDERAL BUDGET DEFICITS AND DEFICIT-REDUCTION POLICY OPTIONS.

Statement	Response					
	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	No Response
	-----percent of 480 respondents----					
We should keep things as they are and not worry about balancing the budget	1.5	1.5	3.8	36.7	48.3	8.3
We should reduce the deficit in order to reduce interest rates for borrowers	39.0	44.6	6.3	2.7	1.9	5.6
We should reduce the deficit in order to reduce the debt burden on future generations	37.5	47.9	4.5	0.8	1.7	7.5
We should freeze present federal expenditures and raise taxes	7.9	21.5	21.5	26.7	13.5	9.0
The Federal budget should be balanced even if it means a substantial cut in all government programs, including farm programs	26.6	36.5	16.1	13.2	3.8	3.8

Source: 1984 South Dakota Agriculture Policy Survey.

A substantial majority of farmer-respondents in all 17 states preferred Federal budget cuts as the principal method of obtaining a balanced Federal budget.

A plurality or majority of farmer-respondents in each state were opposed to raising taxes and only freezing Federal expenditure as the major methods to reduce Federal budget deficits.

In summary, most respondents were very concerned about Federal budget deficits and generally favored reducing deficits by across the board expenditure cuts (including farm programs) over the combination of a tax increase and spending freeze.

Federal funding priorities for agriculture

Progress in reducing Federal budget deficits will likely require budget cuts or spending freezes on many Federal programs. Priority uses of limited Federal funds will become ever more important issues.

Respondents were asked about their top priority for use of Federal funds for agriculture programs and about possible redirection of Federal commodity programs.

A plurality (39.4%) of South Dakota respondents selected export expansion and international market development programs as their top priority use of Federal funds for agriculture. Nearly one-half of respondents were evenly divided between soil conservation and erosion programs or commodity price and income support programs as their preferred use of limited Federal funds (Table 5).

There were significant differences in top priority funding selection by commodity interests and other respondent characteristics. Livestock producers -- particularly beef producers -- were evenly split on soil conservation and export market development, with price and income supports far behind in preference. Grain producers overwhelmingly picked export-market development as their first choice, price and income supports as second choice and soil conservation as third.

Respondent operating small farms selected soil conservation as their top priority while medium and large-scale farm operators strongly preferred export market development. Soil conservation was their (third) choice.

Export market development was the top funding priority of those who had participated in farm programs, followed by increased price and income supports. The top funding priority of nonparticipants was soil conservation followed by export market development.

Some respondents suggested other agriculture funding priorities including Farmers Home Administration programs, natural disaster programs and programs oriented to small farms.

Many interest groups (including agriculture organizations) have expressed concern about rising costs of Federal farm commodity programs. Several proposals have been made to reduce Federal spending for commodity programs. One suggestion is to maintain existing price and income support programs but funded at lower levels (this implies reduced loan rate and target price levels). Another concept is to phase out commodity price support programs and substitute a farm income insurance program with cost shared by farmers and the government. Income insurance would extend far beyond existing crop insurance programs and would also be available to livestock producers. Insurance premium level would be based on the amount of income insured and the probability of the insured producers income falling below the selected level. This policy proposal has not been tried in the United States. (Knutson-Penn-Boehm, pp. 229-230).

Only 70% of South Dakota respondents selected either of these two policy options. A slight preference was given to a low "safety net" price and income support programs instead of an untried farm income insurance program.

Nearly one-sixth of the respondents made other policy proposal suggestions -- which ranged from 90-100% parity pricing, PIK programs instead of cash payments, soil bank programs, and elimination of all farm programs.

In other words there was little respondent agreement on specific proposals to reduce or redirect commodity programs.

TABLE 5. RESPONDENTS OPINIONS ON USE OF FEDERAL FUNDS FOR AGRICULTURE PROGRAMS

	Percent of 480 respondents
I. Top priority use of agriculture funds:	
Soil conservation and erosion programs	24.2
Price and income support programs	24.4
Export expansion and international market development	39.4
Other	7.7
No response	4.3
Total	100.0
II. If major changes in agriculture programs were required, due to funding limits, which option would you prefer?	
A low "safety net" loan and target price program	37.0
Replace commodity programs with a farm income insurance program with costs shared by farmers and government	33.3
Other	16.7
No response	13.0
Total	100.0

Source: 1984 South Dakota Agriculture Policy Survey

COMMODITY PROGRAMS[8]

Federal commodity programs providing price and income supports have been with us since 1933. Through the years, various program features have been modified, including a greater emphasis on voluntary producer participation rather than mandatory controls and cross-compliance requirements. Present wheat and feed grain programs combine the policy tools of price support loans, deficiency payments and target prices, acreage reduction programs and farmer-owned and CCC grain reserves. In addition, a payment-in-kind (PIK) program was used for feed grains in 1983 and for wheat in 1983 and 1984.

Farm commodity programs were designed to assist a chronic low income sector with excess capacity of labor and land. At the time commodity programs were started (1933), over 20% of the nations population lived on farms. Export markets were not a major factor and the scientific-technological revolution in agriculture was just beginning.

By the 1970's, U.S. agriculture has become internationalized and the farm sector, now 2.5% of our nation's population, is divided into a commercial sector which produces most of our food and fiber and a larger number of small, mostly part-time farmers who receive most of their family income from nonfarm employment. Domestic commodity policies have slowly adjusted to these new realities.

The emerging dual structure of agriculture (full time commercial farms and small part-time farm operations) has resulted in the following tradeoff - do we

[8]References for commodity programs section:

Ronald Knutson, J.B. Penn and W.T. Boehm. Agricultural and Food Policy, Prentice Hall, 1983.

Ronald Knutson and James Richardson. Alternative Policy Tools for U.S. Texas Ag. Expt. Station B-1471, College Station, Texas, August 1984.

U.S. Department of Agriculture. Agriculture Information Bulletin Background for 1985 Farm Legislation, Washington, D.C., September 1984. No. 467-Wheat; No. 471-Corn; No. 472-Soybeans; No. 473-Oats; No. 474-Dairy; No. 475-Sorghum; and No. 477-Barley.

design our programs for those 20% that produce 80% of the food or the 80% of farms that produce 20% of the nations food and fiber.

The internationalization of U.S. agriculture also has implications for commodity programs. Loan rates provide a price floor but need to be set close to world market price levels or the U.S. risks losing market share to competitors. Loan rates and target prices set too high above world market prices create added production control programs. Farmers in competing nations are increasingly able to take advantage of U.S. production cutbacks and increase new export market share. International markets are very unstable making it difficult to design farm programs that can provide price stability and protection and also retain or expand our agricultural exports.

In this economic environment, the policy choices for commodity programs in 1985 become complex.

<u>Who Should Decide</u>?

Congress and the Administration have been the principal decison-makers on agriculture policy. The key participants in the policy-making process are spokespersons for various private interest groups, members of the House and Senate Agriculture Committees and Appropriations Committees, the President, the Secretary of Agriculture and other Executive branch officials.

In response to the question, "Who should make the major farm policy decisions?" only 19.0% of the respondents favor continuation of the present system in which Congress and the Secretary of Agriculture make the key decisions. Almost two-thirds of the respondents favored change from the present system. Those favoring change were evenly divided between an (1) independent decision-making board of farmers, agribusinessmen and consumers and (2) farmer organized and financed commodity programs of their own. Nearly one-sixth were not sure, offered other comments or had no responses.

Respondents with a technical school or college education favored a Presidential appointed board while respondents with grade school or high school education favored producer controlled and financed programs. Continuation of the present system was the third choice of both farm program participants and nonparticipants.

The present system was also the second or third choice of producer-respondents in all other 16 participating states.

Many respondents wrote comments indicating that the present system is too sensitive to short-term politics. Farmers have experienced emergency program changes, embargoes and PIK programs. In some cases, program provisions have been changed after their crop has been planted[9] creating additional uncertainty for management planning.

A producer controlled and financed supply management program would be a major extension of the concept of marketing orders or collective bargaining. Federal marketing orders and agreements are prevalent in the fruit, vegetable, nuts and dairy industries and were authorized by the Agricultural Marketing Agreement Act of 1937. Legislation would be required to extend and/or revise this concept for application to wheat, feed grains and oilseeds industries.

Agricultural marketing boards have never been used in the United States but are used extensively in Canada, Australia, South Africa and many other nations. Export market management is the most frequently performed function of a national agricultural marketing board. Board membership usually consists of producer, business and government officials.

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[9]As an example, key provisions of the 1984 wheat program were changed in early April, 1984 several months after the program was announced and long after the winter wheat crop had been planted. A paid diversion feature was increased from 5% to 10%, the PIK payment factor was increased from 75% to 85% and target prices were reduced from $4.45 to $4.38. Source: U.S.D.A. Wheat-Background for 1985 Farm Legislation, Agriculture Information Bulletin No. 467. Washington D.C., September 1984.

Agriculture marketing board proposals in the United States are patterned after the Federal Reserve System or the Farm Credit System. The Board would be "independent" of the Administration but remain accountable to the Congress. Members would be appointed on a nonpartisan basis by the President, subject to Senate confirmation, for long terms (exceeding the 4-year term of a President) and would include producer, agribusiness and consumer representatives. The Board would be expected to formulate intermediate and long-term policies for the agriculture sector, subject to Congressional guidelines. Administration of board policies could be handled by U.S.D.A. or a successor agency. Major changes in legislation would be required to implement this concept. This approach has been endorsed by the Midwest and National Governors Conference in 1984 (Kansas Ag Working Group, 1984).

The options picked by South Dakota respondents indicate that many farmers are dissatisfied with the present policy process and outcomes. They are interested in a more stable, longer-term approach to policy decisions that could be provided by either an independent board or through farmers controlling and financing their own programs.

The responses may also be a reaction to producer groups losing control over the agriculture policy agenda to other interest groups. The present system of influencing policy making includes a complex array of interest groups and several key decision points. It takes considerable time and effort to understand and participate in the present system.

Future Commodity Program Directions

Respondents were almost evenly split on the future direction of commodity programs - 24.5% favor continuation of present voluntary programs, 25.1% favored mandatory programs or a return to acreage allotments and marketing quotas, and 27.7% favored elimination of all acreage reduction price support and grain reserve programs. Another 13.0% had no response while a fairly high percentage (8.8%) wrote other comments including proposals for parity pricing, expanded and lower cost crop insurance programs, income insurance programs and soil bank programs.

Economic interests and recent participation in farm programs were significantly related to respondent preferences. Crosstabulations indicated grain producers give a slight edge to continuation of voluntary programs while livestock producers gave the edge to elimination of farm programs. Operators of mid-size family farms gave the edge to continuing present programs while a plurality of small farm operators preferred eliminating farm commodity programs. Farm program participants generally favored the existing voluntary programs or a movement toward mandatory programs, while nearly one-half of nonparticipants favored eliminating commodity programs.

South Dakota respondents followed a pattern similar to respondents in the other 16 states. In no state did an absolute majority of respondents favor a specific direction for future commodity programs although regional differences were evident.

Although producers were divided on the general direction of future commodity programs; they were in greater agreement on specific programs. These are discussed in the following sections.

<u>Loan Rates and Target Prices</u>

The level of price and income support is generally a major issue if voluntary programs are continued. The present system of loan rates (price supports) and target prices (used to calculate deficiency payments which provides income support) was established in 1973 although some modifications have been made since then. Loan rates and target prices on major commodities for the 1984 farm program were:

	Loan rate	Target price
Wheat	$3.30	$4.38
Corn	2.55	3.03
Sorghum	2.42	2.88
Oats	1.36	1.60
Barley	2.08	2.60
Soybeans	5.02	None

The loan rate not only provides a price floor to grain farmers but also affects the United States ability to compete in export markets. Loan rates on major U.S. export crops (wheat and corn) may also provide a price floor to the world market permitting other major exporters to undercut our price and sell more in world markets, and reduce U.S. export levels. Loan rates and target prices above market price levels also lead to higher production levels which is why these benefits are tied to production control (acreage reduction or set-aside) programs. The impact of loan rates on export markets is magnified when the U.S. implements production control and storage programs while other export nations increase production.

If voluntary programs are continued, two-thirds of South Dakota respondents favored retaining income support programs (target prices/ deficiency payments) and most respondents favored increasing target price levels or leaving them at 1984 levels (Tables 6 and 7).

Higher loan rates, continuation of target price programs and higher target prices were most strongly favored by grain farmers and farm program participants. For example, continuation of target price was favored by an overwhelming percentage (77% - 16%) of farm program participants but narrowly favored (42% - 40%) by nonparticipants.

A higher proportion of South Dakota and Texas respondents favored higher levels of loan rates and target prices than respondents in other states.

Acreage Diversion Payments

If voluntary programs are continued, 60% of respondents favored continuation of acreage diversion payments (Table 6). Farm program participants were much more likely (67% - 22%) to favor paid acreage diversion than nonparticipants (45% - 41%). Many farmers indicated that loan values, target prices and acreage diversion payments were all necessary policy tools for ensuring high rates of voluntary program participation.

Across the country farmers were divided on the merits of paid acreage diversion. Producers in major grain producing states favored acreage diversion payments while those in other states opposed it. Texas and South Dakota reported the highest percentage of producers favoring these payments.

Grain Reserves

The farmer-owned grain reserve (FOR) program was adopted in 1977. This program is a 3 year loan program with reserves remaining in producer hands until release is authorized by the Secretary of Agriculture. This program tends to stabilize price and provide 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 (56.6%) of respondents favor continuation of the farmer-owned reserve program, while 23.3% are opposed and 20.2% offered no opinion (Table 6). Two-thirds of the respondents were in favor of setting a quantity size limit to the reserve. Almost one-half (49.4%) were in favor of setting a limit to the reserve based on the percentage of the previous year's commodity use. Another 17.4% favored discretionary authority given to the Secretary of Agriculture which is similar to present policy (Table 7).

Farmer respondents in all 17 states favored continuation of the farmer-owned reserve program.

TABLE 6: IF VOLUNTARY PROGRAMS ARE CONTAINED IN THE 1985 FARM BILL, SHOULD THE FOLLOWING POLICY TOOLS BE USED?

Policy tool	Yes	No	Not sure	No response
	-----percent of respondents-----			
Target prices/deficiency payments	66.7	21.7	8.8	2.9
Acreage diversion payments	60.0	27.3	11.0	1.7
Farmer-owned grain reserve	56.6	23.3	18.3	1.9

Source: 1984 South Dakota Agriculture Policy Survey completed by 480 farmers and ranchers.

TABLE 7: RESPONDENT OPINIONS ON GRAIN COMMODITY PROGRAM PROVISION (PERCENT OF 480 RESPONDENTS)

I. Where should price support loans be set compared with 1984? ($2.55 for corn; $3.30 for wheat)

Higher	About the same	Lower	No opinion	No response
54.6	27.3	5.4	9.8	2.9

II. Loan rates for all price supported commodities should be based on a percent of the average market price for the past 3-5 years.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree	No response
4.0	33.1	21.0	24.4	14.0	3.8

III. If target prices are continued, where should they be set compared with 1984? ($3.30 for corn; $4.38 for wheat)

Higher	About the same	Lower	No opinion	No response
42.5	40.6	5.2	8.8	2.9

IV. If a grain reserve is continued, how should the size of reserve be set?

No limit	Set by Secretary of Agriculture	Based on percent of previous years use	Not sure	No response
9.8	17.3	49.4	20.6	2.9

Source: 1984 South Dakota Agriculture Policy Survey completed by 480 farmers and ranchers.

Payment Benefits

The distribution of commodity program benefits by farm size and maximum payment limits per farm have been major social and political issues for many years. Present commodity program payments (deficiency payments, paid diversion, storage 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. However larger farm operators would also have less incentive to reduce production surpluses.

Congress enacted the first program payment limitation 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 farm.

Respondents were asked for their recommendation for future limits. Nearly one-half (49%) recommended no change and one-third (33.6%) recommended a reduction in payment limits with $25,000 per farm most frequently recommended. Approximately one-seventh wanted to increase the limit or eliminate it completely (Table 8).

Crosstabulations reveal major differences in opinion by respondent characteristics. Young respondents (less than 35 years old) and large farm operators (with annual sales above $200,000) were most interested in increasing or eliminating payment limits.

A majority of small farm operators and those not participating in farm programs favored reducing payments. Older producers with less than a high school education and livestock producers generally favored reducing payments or keeping the present $50,000 limit. A majority of grain farmers, farm program participants, middle-age farmers and operators of medium size farms favored keeping the present $50,000 limit.

TABLE 8: RESPONDENT OPINIONS ON COMMODITY PROGRAM PAYMENT LIMITATIONS

I. The present limit on direct payments to each farmer is $50,000 per year. What recommendation would you make for the future?

	Percent
Eliminate payment limitation	8.9
Increase the limit	5.6
Make no change	49.0
Decrease the limit	33.6
No response	2.9
Total	100.0

II. Future farm programs should direct the most price and income support benefits to:[a]

	Percent
Small farms with gross sales less than $40,000	17.1
Small and medium farms with gross sales less than $200,000	69.4
Benefits should not be limited by farm size	5.4
No response	8.1
Total	100.0

Source: 1984 South Dakota Agriculture Policy Survey completed by 480 farmers and ranchers.

[a]Respondent summary statistics to II based on their joint responses to the following two questions:

Future farm programs should be changed to give most price and income support benefits:

a. to small and medium size farms with gross annual sales under $200,000

b. to small farms only (those with less than $40,000 in gross annual sales)

Available responses ranged from strongly agree to strongly disagree.

An overwhelming proportion (69.4%) of South Dakota respondents favored directing program benefits to small and medium size farms with annual sales of less than $200,000. A much lower percentage of respondents favored directing benefits to small farms only (Table 8).

Overall, there was substantial agreement on directing program benefits to small and medium size family farms but somewhat less agreement on specific payment limits.

<u>Payment-in-Kind (PIK) Programs</u>

The 1983 PIK program greatly reduced grain reserves and involved the highest participation rate for any farm program in the past 20 years. Two-thirds of respondents participated in a PIK program and 74% participated in a commodity program in 1983. A PIK program was also available for wheat producers in 1984.

In 1983 the PIK program was available as an option to wheat and feed grain producers. The basic farm program required 20% of their wheat or feed grain base in an acreage reduction and paid land diversion program. An additional 10-30% of their base acres could be idled under the PIK option.[10] The PIK payment factor was 95% for wheat and 80% for corn. The number of bushels of PIK corn received by a participant (for example) was their number of PIK corn acres times program yield per acre times 80% (the PIK payment factor). The PIK grain was obtained from CCC reserves or farmer-owned reserves.

The PIK option was implemented because the amount of grains in reserve was determined to be excessive by the Secretary of Agriculture in relation to price objectives. PIK combined production controls with the movement of grain out of existing reserves. The PIK program combined with a severe drought in the

[10] In addition a whole-based PIK option (100% of feed grain or wheat bases) was also available where the producer bid on the PIK payment factor percentage. The total amount of wheat or feed grain base acres idled in any county was limited to 50 percent.

TABLE 9: RESPONDENTS SHARPLY DIVIDED ON MERITS OF PAYMENT-IN-KIND (PIK) PROGRAMS

Response	The Payment-in-kind Program: Should be used again if large stocks reappear? (%)	Is basically unfair to livestock & poultry producers (%)
Strongly agree	16.0	22.3
Agree	26.5	29.2
Not sure	11.7	19.0
Disagree	24.8	22.3
Strongly disagree	18.8	4.4
No response	2.3	2.8
Total	100.0	100.0

Source: 1984 South Dakota Agriculture Policy Survey completed by 480 farmers and ranchers.

central cornbelt reduced corn production over 50% from the previous year and greatly reduced feed grain reserves. Wheat production and reserves were down by a much lower percentage.

The PIK program provided some price and cash flow relief for many crop farmers, but had adverse effects for livestock feeders and agribusiness input supply and marketing firms.

South Dakota respondents were evenly divided (42.5% - agree, 43.6% - disagree) on whether a PIK program should be used again if large stocks reappear (Table 9). Grain producers favored continuation of PIK programs by a 2-1 margin, while livestock producers were opposed by a similar margin. Similarly, PIK program participants favored the program while non-participants were strongly opposed.

A majority (51.5%) of respondents agreed or strongly agreed that the PIK program was basically unfair to livestock and poultry producers, while 26.7% disagreed or strongly disagreed (Table 9). Grain producers were evenly divided on the fairness question while livestock producers thought PIK was unfair by a 77-16% margin. A plurality of farm program participants viewed PIK as unfair to livestock and poultry producers while over 3/4 of non-participants felt it was not fair.

The PIK program was controversial for respondents in most other states. It received the most support from respondents in the South and Cornbelt regions and the least support in the Northern Plain and Western states.

Dairy Program

The 1984 dairy program includes some production control payments for the first time in history. A production control program was added because 1982-83 CCC purchases of surplus dairy production amounted to 10-12% of total milk production. Present policy also includes mandated price support reductions if CCC annual purchases remain above 5 billion pounds (4-5% of total production).

Less than one-third (31.1%) of respondents favored continuation of production cutback payments to dairy farmers in 1985 and in later years if milk production is excessive. Forty percent did not favor continuation of productin cutback payments and 28.5% were unsure or had no response (Table 10).

Farmers less than 50 years old, those with post-high school educations and dairy producers generally favored production cutback payments while older producers and other livestock producers were mostly opposed to the new dairy program.

In the other survey states a large percentage of respondents had no opinion about the dairy program. A plurality of Minnesota and Wisconsin respondents favored the dairy program while a majority or plurality in the other 15 states opposed it.

TABLE 10: DAIRY PROGRAM CUTBACKS RECOMMENDED BY MAJORITY OF RESPONDENTS

"If milk production is excessive in 1985, payments for production cutback by dairy farmers should be continued."

Response	Percent of Respondents
Strongly agree	6.7
Agree	24.4
Not sure	26.0
Disagree	23.5
Strongly disagree	16.9
No response	2.5
Total	100.0

Source: 1984 South Dakota Agriculture Policy Survey completed by 480 farmers and ranchers.

INTERNATIONAL TRADE POLICIES

U.S. agriculture competes in an international market. Grain exports have increased from grain harvested from 1/6 of U.S. crop acres in the 1950's to nearly 1/3 of harvested crop acres in the 1980's. On the other hand, the U.S. has continued to remain a net importer of livestock and dairy products.

Japan and Western European nations are the largest single customers for U.S. agriculture exports. About 40% of U.S. agriculture exports are now shipped to and paid for by customers in developing (Third World) nations. These customers located in Asia, Africa and Latin America are our largest growth markets (U.S. Foreign Trade Statistical Report, 1984).

Organization of International Trade

The most significant trade policy question in our survey was "How should international trade be organized?" Of the respondents, 18.1% favored more agreements with other food exporting nations to control production and raise prices, 26.5% favored strengthening the General Agreement on Tariffs and Trade (GATT) to provide a relatively open market for all food exporting and importing countries, 30.0% favored more agreements with food importing nations to insure that the U.S. receives a minimal share of the international market, and 25.4% were undecided. On this question, there were no significant differences across commodity interests.

The results generally reaffirm the recent dual policy of pursuing long-term agreements (LTAs), where appropriate, and strengthening the GATT open market by multi-country trade negotiations. If anything, we suspect that the present sentiment is shifting more toward customer agreements to protect our share of the international markets. This might be expected because of the recent shrink in total world trade and the previous growth in the proportion of trade with non-GATT nations.

In addition, the survey shows support to be weak for a "food OPEC" or grain cartel. This is a proposal that has periodically received some media attention in South Dakota.

Policy Options to Increase U.S. Export Sales

Farmer respondents were very concerned about recent declines in U.S. agriculture export markets. As mentioned earlier, their top agriculture funding priority was export market development.

The second trade policy question on the survey was "What should be done to increase U.S. export sales?" This question determines whether the respondents agree or disagree with 9 specific strategies that could increase U.S. export sales (see Table 11).

In general, South Dakota respondents were not satisfied with the present marketing system and were strongly in favor of making some changes in U.S. trading strategies. Over 71% of respondents disagreed or strongly disagreed with the suggestion that the U.S. should not make any great effort beyond previous policy, More than 60% of the respondents agreed with (1) establishing an international trade marketing board, (2) lowering federal budget deficits to lower the exchange value of the dollar, (3) providing more food aid to hungry nations.

Young producers, those with more years of schooling and operators of large farms were more dissatisfied with present trade policy than other respondents. These same groups were most likely to favor Federal deficit reductions as a means to lower the exchange value of the dollar which would hopefully expand agricultural exports.

One half of South Dakota farmer respondents favored the strategy of expanding farmer-financed foreign market development programs. A plurality (42.5%) of respondents favored a policy of matching export subsidies of our competitors. A recent example of this policy was in 1983 when the U.S. matched French export subsidies on wheat sold to Egypt.

A majority of grain producers and farm program participants favored matching export subsidies while livestock producers were about evenly split on the issue. Wheat and beef producers and those with a college or technical school education were most likely to favor farmer-financed market development programs.

A plurality of South Dakota respondents were opposed to (1) lowering U.S. import barriers and (2) lowering U.S. price supports. Of those expressing an opinion on lowering price supports, grain producers strongly disagreed, however, livestock producers were about evenly split on this strategy. On lowering import barriers, no differences occurred across commodity interests.

The plurality of South Dakota producers were undecided on initiating a two-price plan. Predictably, South Dakota producers were also more undecided on all trade strategies than on domestic farm policy options. On trade issues 21 to 42% were not sure or left the question blank, whereas 5 to 10% is the norm for the other policy questions.

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

The conflicting benefits of freer trade versus benefits of protectionism were reflected in the South Dakota respondent preferences in matching export subsidies and opposition to lowering import barriers and domestic price supports. It is not unusual for respondents to favor export market development and freer trade philosophies and oppose specific strategies of reducing import barriers and domestic price supports. Trade strategy preferences of South Dakota respondents were consistent with those of respondents in other states.

TABLE 11. RESPONDENT OPINIONS ON POLICY OPTIONS TO INCREASE U.S. EXPORT SALES.

To increase export sales, the United States should:	Response: Strongly agree	Agree	Not Sure	Disagree	Strongly Disagree	No Response
	-----percent of 480 respondents-----					
1. Not make any great effort beyond previous policy	1.9	6.0	9.6	39.4	31.7	11.5
2. Establish an international trade marketing board (such as a Canadian Wheat Board)	14.0	52.7	18.8	2.9	1.0	10.6
3. Lower Federal budget deficits to reduce the value of U.S. dollar and improve our competitive position	27.5	35.4	15.6	9.0	2.3	10.2
4. Provide more food aid to hungry nations	18.1	42.7	14.0	12.7	2.7	9.8
5. Expand farmer financed foreign market development program	10.8	39.2	22.7	11.5	4.4	11.5
6. Match export subsidies of our competitors	11.3	31.3	28.8	12.1	2.9	13.8
7. Set up a two price plan with a higher domestic price and let exports sell at the world market price	7.1	27.1	30.4	19.8	6.3	9.3
8. Encourage lower trade barriers for food importing nations by lowering U.S. import barriers	7.1	23.1	21.3	26.5	10.6	11.5
9. Lower U.S. support prices to be more competitive in world market	4.4	15.8	21.3	36.3	11.5	10.8

Source: 1984 South Dakota Agriculture Policy Survey completed by 480 farmers and ranchers.

PRODUCTION RISK/NATURAL DISASTER POLICIES

Weather is a major source of risk in agriculture.

Current policy favors a new concept of all-risk crop insurance programs. However Federal crop insurance programs have been available in a more limited form since 1938 with 10-20% of farmers annually enrolled in crop insurance programs (Halcrow, 1984, pp. 242-244).

From 1974-81, disaster payments were used along with Federal crop insurance as a policy tool. Payments were made to producers of feed grains, wheat and selected other crops who suffered losses from natural forces - weather, pests, diseases. Disaster payments were pegged to target prices and the basic goal was to cover producers' out-of-pocket costs. This program essentially provided free crop insurance and was widely used by farmers in high-risk production regions. For example, South Dakota farmers collected 9.8% of wheat and feed grain disaster payments during this period, although the proportion of wheat and feed grains raised in South Dakota is much less. (USDA <u>Ag Statistics</u> 1979 and 1982).

Since 1980, there has been a major policy shift to using all-risk crop insurance as the nation's primary means of disaster protection for farmers. Disaster payments have been phased down as all-risk crop insurance has expanded to more counties and now covers more crops. Under the new FCIC program, the Federal government subsidizes 30% of the premium cost up to 65% yield protection. Premiums are actuarially determined and costs vary according to yield protection and price level protection selected.

What do farmers think of present production risk policies? Only 29.4% of South Dakota respondents favor the present policy of increased use of all-risk crop insurance, while 31.7% favor a return to disaster payments and 23.1% prefer elimination of both protection policies and 15.8% were not sure or suggested other policy proposals such as farm income insurance.

Farm commodity program participants favored reinstating disaster payments while non-participants favored elimination of both programs. The present crop insurance policy was the second choice of both groups.

Less than 15% of respondents feel that the Federal crop insurance program is a good buy, provides adequate coverage and is easy to understand. One-third to nearly one-half of respondents thought it was expensive, inadequate or complicated, while 41% to 51% were unsure (Table 12).

The predominant responses suggests many farmers may not be well informed about the benefits and costs of using crop insurance in their specific situation. This suggests that a strong educational effort is needed to assist farmers in understanding the potential of crop insurance in their own operation, if present policy emphasizing all-risk crop insurance is to be successful.

TABLE 12. RESPONDENTS VIEWS ON FEDERAL CROP INSURANCE

Cost	%	Level of coverage	%	Level of understanding	%
Good buy	9.4	Adequate	13.8	Easy	14.4
Expensive	49.0	Inadequate	40.4	Complicated	34.4
No opinion	34.1	No opinion	33.5	No opinion	40.6
No response	7.5	No response	12.3	No response	10.6
Total	100.0		100.0		100.0

Source: 1984 South Dakota Agriculture Policy Survey.

% = percent of 480 respondents

SOIL CONSERVATION POLICIES

Since 1933, the federal government has been involved with voluntary soil conservation programs on our nation's farms and ranches. Past and present programs have emphasized technical assistance and cost-sharing programs and have not been linked directly to income and price support benefits of commodity programs. As mentioned earlier, respondents are concerned about soil conservation but only 24.2% favor these programs as the highest farm program spending priority.

Two major soil conservation policy issues are (1) linking soil conservation measures to qualify for commodity program benefits and (2) targeting soil conservation funds.

Linking Soil Conservation and Farm Commodity Programs

The first issue was presented to respondents in the following statement: "To help achieve national and state soil erosion control goals, each farmer should follow recommended soil conservation measures for his farm to qualify for price and income support programs." This proposal was popular with South Dakota respondents with 69.1% in agreement, and only 21.5% in disagreement and 9.3% not sure or with no response (Table 13). A majority of respondents in all 17 states agreed with this proposal contradicting the idea that only Great Plains farmers are interested in conservations cross-compliance.

A two-thirds majority of South Dakota grain producers agreed with soil conservation requirements, but livestock producers--beef producers in particular--even more strongly agreed with conservation requirements as a precondition to receiving income and price supports.

Several respondents expressed concerns about western rangelands that were plowed and planted to wheat. These landowners may now qualify for commodity price and income supports even though soil erosion has greatly increased and they are not enrolled in a soil conservation program.

Recent USDA studies indicate that most soil erosion occurs on about 20% of the nation's cropland. Lesser amounts of soil erosion (above the natural rate of soil erosion) occur on another 20-30% of cropland and some pasture and rangeland. (Knutson, pp. 332-337). Less than one-half of the cropland with moderate-to-severe erosion problems are operated by farmers normally involved in commodity programs.

Consequently, tying soil conservation measures to qualifications for farm commodity program benefits is only a partial solution to the soil erosion problem. Farm program benefits would need to be made more attractive to have the same level of program compliance. Budgets for the Soil Conservation Service and ASCS would need to be increased to handle the added costs of implementing additional soil conservation plans.

Targeting soil conservation funds

Targeting soil conservation has become an issue as public awareness of soil erosion problems have increased while funding remains limited. Soil conservation cost-sharing funds have been used for many different types of conservation practices including construction of drainage systems, terrace and waterway construction and agricultural lime. According to USDA studies as summarized by Knutson, "The benefits of cost-sharing programs were widely dispersed among soils having different erosion characteristics. Less than 19% of soil conservation practices installed have been placed on the highly eroding lands. Over one-half of the cost-sharing practices have been placed on lands with erosion rates of less than 5 tons per acre per year". (Knutson, pp. 334). Soils with erosion rates of less than 5 ton per acre per year are generally not considered to have significant erosion problems.

TABLE 13. RESPONDENTS OPINIONS ON SOIL CONSERVATION POLICIES

I. Farmers should be required to follow recommended soil conservation merasures to qualify for price and income support programs.

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	No Response
-----percent of 480 respondents-----					
28.1	41.0	8.4	13.7	7.9	0.9

II. Soil conservation funds should be distributed to states:

In proportion to number of farms	In proportion to number of farm acres	With the most severe erosion problems	Not sure	Other	No response
-----percent of 480 respondents-----					
10.4	31.3	42.5	8.3	6.3	1.3

Source: 1984 South Dakota Agriculture Policy Survey completed by 480 farmers and ranchers.

Presently, most of the Federal soil conservation funds are distributed to states based on the number of farms with some funds targeted to states with the most severe soil loss problems.

Most South Dakota respondents were divided on the issue of targeting soil conservation funds. A plurality (42.5%) favored more funds to states with the most severe erosion problems. Another 31.3% favored allocating funds based on farm and ranch acres and only 10.4% favored distributing funds based on number of farms (Table 13). Compared to many other states, South Dakota is large in acreage and small in farm numbers. This might partly explain producer attitudes on this question.

Also, for present federal conservation aid distribution purposes, soil loss is defined without regard to the inches of topsoil available. Areas with 1 inch of topsoil and areas with 6 feet of topsoil are treated the same if the estimated annual "soil loss" is equal. Many areas of South Dakota are "fragile" because of a shallow layer of topsoil but may not be targeted because of low estimated soil loss. Some areas in other states have deep topsoil, but may be targeted because they have higher annual soil loss.

FARM CREDIT (FARMERS HOME ADMINISTRATION) POLICIES

Since the 1930's the Federal Government has assumed the role of providing adequate amounts of credit to agriculture. The Farmers Home Administration was originally established in 1946 to provide credit to farmers who could not get credit from other sources. Today the Farmers Home Administration finances a variety of farm credit, rural housing, industry and commercial business loan and grant programs. In early 1984 FmHA held 8.5% of farm real estate debt and 15.1% of farm nonreal estate debt.[11] The percentage of farm debt financed by FmHA has increased in recent years. Nearly one-third of South Dakota farmers are FmHA borrowers.

[11]USDA. Agricultural Finance-Situation and Outlook, AFO-25, December 1983.

FmHA credit policies concerning farm loan renewal, extension and foreclosure are very controversial when economic times are rough. Respondents were asked to evaluate FmHA credit policies to existing borrowers:

48.5% favored continuing present policy of not foreclosing unless all repayment efforts have failed.

26.0% favored moratoriums on foreclosures either for all farm borrowers or selected young farm borrowers.

14.6% favored a stricter policy on delinquent loans.

9.9% other and not sure

We were not able to segregate opinions of FmHA borrowers from other respondents, therefore the responses represent non-borrowers as well as FmHA borrowers.

There were major differences in opinion by commodity enterprise. A higher percentage of livestock producers favored moratoriums than grain producers.

In addition, there were differences by age of respondent. Almost 47% of the over-65 respondents favored a moratorium compared to about 25% for the other age categories. On the other hand, nearly half of the under-65 age categories favored continuation of present policy, whereas only 37% of those over-65 favor present policy. Perhaps the differences by age are, in part, due to the ability of those over the age of 65 to remember the Great Depression.

Many South Dakota respondents wrote in comments about FmHA credit policies. The main concerns were: 1) the lack of time FmHA loan officers had available for adequate credit supervision. 2) FmHA is involved in too many credit programs, 3) farm-related FmHA credit programs should be targeted to small farmers, young farmers and others trying to get started and 4) Farm credit moratorium proposals. Several comments were adamantly opposed to or in favor of credit moratoriums.

The most frequent preference in all 17 states was continuation of present credit policies. Second choice was a credit moratorium.

Since the survey was conducted the Administration has announced a revised credit program for farm borrowers including FmHA borrowers in financial difficulty. The FmHA protion of the revised program:

(1) Permits FmHA to defer for 5 years up to 25% of the principal and interest owed by farm borrowers with approval made on a case-by-case basis. To qualify, eligible farmers will have to show a positive cash flow projection.

(2) Encourages FmHA to contract with commercial banks to expedite servicing loan applicants.

Other provisions of the farm credit program provides additional loan guarantees to commercial banks with substandard farm loans. To qualify the bank will need to reschedule the loan payments and write down 10% of the principal of the plan. Also, financial advisors from the private sector have been hired to assist farmers with financial planning.

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SURVEY ON AGRICULTURAL POLICY ALTERNATIVES
Cooperative Extension Service and Agricultural Experiment Station
South Dakota State University

1. What should be the policy toward production and price supports after 1985? (Check one.)

_____ keep present voluntary programs with minor revisions.
_____ have a mandatory set aside and price support program in years of excess supply with all producers required to participate if approved in a farmer referendum.
_____ re-establish acreage allotments and marketing quotas for each farm as a basis for price supports.
_____ eliminate set aside, price support, and government storage programs.
_____ undecided
_____ other ______________________________

2a. If voluntary price support loans and grain reserve programs are continued, should target prices and deficiency payments also be continued in the 1985 farm bill?

_____ yes _____ no _____ not sure

b. If target prices are continued, where should they be set compared with 1984? ($3.03 for corn; $4.45 for wheat)

_____ higher _____ about the same _____ lower _____ no opinion

3a. Where should price support loans be set compared with 1984? ($2.55 for corn; $3.30 for wheat)

_____ higher _____ about the same _____ lower _____ no opinion

b. Loan rates for all price supported commodities should be based on a percent of the average market price for the past 3-5 years.

____ strongly agree ____ agree ____ not sure ____ disagree _____ strongly disagree

4. Should payments for acreage diversion be continued in future programs?

____ yes _____ no _____ not sure

5a. The payment-in-kind program should be used again if large stocks reappear.

____ strongly agree ____ agree ____ not sure ____ disagree ____ strongly disagree

b. The payment-in-kind program is basically unfair to livestock and poultry producers.

____ strongly agree ____ agree ____ not sure ____ disagree ____ strongly disagree

6a. Should a farmer-owned grain reserve be continued?

_____ yes _____ no _____ not sure

b. If a grain reserve is continued, which policy below would you prefer?

_____ no limit on the size of reserve.
_____ let the Secretary of Agriculture set the limit on the amount.
_____ set a limit based on a percent of the previous year's use.
_____ not sure.

7a. To help achieve national and state soil erosion control goals, each farmer should be required to follow recommended soil conservation measures for his farm to qualify for price and income support programs.

_____ strongly agree _____ agree _____ not sure _____ disagree _____ strongly disagree

7b. How should federal government funds for soil conservation programs be distributed?

_____ give funds to all states in proportion to number of farms.
_____ give funds to all states in proportion to the acreage within each state.
_____ give more funds to those states with the most severe erosion problems.
_____ not sure
_____ other ____

8. The Farmers Home Administration was established to provide credit to farmers who could not get credit from other sources. Which credit policy should it follow with present borrowers? (Check one.)

_____ continue the present policy of not foreclosing unless all repayment efforts have failed.
_____ provide a moratorium on all foreclosures to keep distressed borrowers operating until the economy improves.
_____ provide a moratorium on foreclosures only for selected young "deserving" farmers.
_____ set a stricter policy on delinquent loans and increase the number of foreclosures.
_____ not sure
_____ other ____

9. Which government policy would you prefer to deal with farm production risks from natural disasters? (Check one.)

_____ continue present all risk crop insurance where producers pay about 70 percent and the government pays about 30 percent of the cost.
_____ return to disaster payments where government pays all the cost.
_____ eliminate all disaster payments and Federal Crop Insurance programs.
_____ not sure
_____ other ____

10. Check your opinions about the new Federal Crop Insurance program: (Check one on each line.)

a. _____ a good buy _____ expensive _____ no opinion

b. _____ adequate coverage _____ inadequate coverage _____ no opinion

c. _____ easy to understand _____ complicated _____ no opinion

11. Future farm programs should be changed to give most price and income support benefit:

a. to small and medium size farms with gross annual sales under $200,000.

_____ strongly agree _____ agree _____ not sure _____ disagree _____ strongly disagree

b. to small farms only. (those with less than $40,000 in gross annual sales.)

_____ strongly agree _____ agree _____ not sure _____ disagree _____ strongly disagree

12. The present limit on direct payments to each farmer is $50,000 per year. What recommendation would you make for the future?

_____ increase the limit to ____________.
_____ make no change.
_____ decrease the limit to ____________.
_____ eliminate the limit completely.

13. If milk production is excessive in 1985, payments for production cut-back by dairy farmers should be continued.

_____ strongly agree _____ agree _____ not sure _____ disagree _____ strongly disagree

14. Who should make the major farm commodity policy decisions? (Check one)

_____continue the present system with Congress and the Secretary of Agriculture.
_____have the President appoint an independent board or commission operating under Congressional guidelines with farmers, agribusiness and consumers represented.
_____let producers organize, control and finance their own supply management program.
_____no opinion
_____other_____

15. How should international trade be organized? (Check one)

_____strengthen the General Agreement on Tariffs and Trade(GATT) to provide a relatively open market for all food exporting and importing countries.
_____enter more agreements with food exporting nations to control production and raise prices.
_____enter more agreements with food importing nations to insure that the U.S. receives a minimal share of the international markets.
_____not sure

16. To increase export sales, the United States should: (Check one for each proposal.)

	STRONGLY AGREE	AGREE	NOT SURE	DISAGREE	STRONGLY DISAGREE
a. not make any great effort beyond previous policy.					
b. provide more food aid to hungry nations.					
c. match the export subsidies of our competitors.					
d. encourage lower trade barriers for food importing nations by lowering U.S. import barriers.					
e. lower U.S. support prices to be more competitive in the world markets.					
f. expand farmer financed foreign market development programs.					
g. establish an international trade marketing board. (such as the Canadian Wheat Board.)					
h. lower federal budget deficits to reduce the value of the dollar and make the U.S. more competitive.					
i. set up a two price plan with a higher price for commodities used in the domestic market and let exports sell at the world market price.					

17. If major changes were required in funding government programs, which would you favor?

_____ a low "safety net" loan and target price program.
_____ replace commodity programs with a farm income insurance plan with costs shared by farmers and government.
_____other_____

18. Federal deficits have been running $100 to $200 billion per year. (Check your opinion on each proposal.)

	STRONGLY AGREE	AGREE	NOT SURE	DISAGREE	STRONGLY DISAGREE
a. We should keep things as they are and not worry about balancing the budget.					
b. We should reduce the deficit in order to reduce interest rates for borrowers.					
c. We should reduce the deficit in order to reduce the debt burden on future generations.					
d. Freeze present federal expenditures and raise taxes.					
e. The federal budget should be balanced even if it means a substantial cut in all government programs including farm price and income supports.					

19. If only limited government funds are available for farm programs, which of the following should get top funding priority? (Check one.)

_____ increased funding for soil conservation and erosion programs.
_____ increased funding for price and income support programs.
_____ increased funding for export expansion and international market development.
_____ other ____

20. To help analyze your answers, we would like to know a little about you and your interests:

a. Check the price and income support programs that you participated in during 1983.

	Wheat	Feed Grains	Cotton	Rice	Peanuts	Tobacco
Acreage Reduction Program	_____	_____	_____	_____	_____	_____
Payment-In-Kind	_____	_____				

b. Your age: (Please Check)
_____ under 35 _____35-49 _____50-64 _____65 and over

c. Number of acres farmed (including government idled acres)in 1983. _______

d. Percent of land owned that you farm. _____ e. Acres in grass that you farm._____

f. Approximate annual gross sales from your farm in recent years:
_____$40,000 or less _____$40,000-$199,999 _____$200,000 and over

g. Your most important source of farm income in 1983:
_____grain _____ beef _____pork _____dairy _____sheep _____poultry
_____mixed grain and livestock _____other_____________________

h. What was the last year of school you completed?
_____grade school _____some high school _____high school graduate
_____some college or technical school _____ graduate from college

i. If you or members of your family were employed off the farm, what percent of your total farm family income in 1983 came from off-farm employment and investments?
_____0-24% _____25-49% _____50-74% _____75-100%

j. Please check your membership in these organizations in 1983:
_____Farm Bureau
_____Farmers Union
_____Grange
_____National Farmers Organization
_____American Agricultural Movement
_____other general farm group
_____labor union
_____Cattlemen's Association
_____Pork Producers
_____Milk Producers
_____Corn Growers
_____Wheat Producers
_____Soybean Association
_____other commodity group

Thank you for answering these questions. All your individual responses will be kept confidential. You need not sign your name. You are welcome to make any comments on a separate sheet. Please return in the enclosed self-addressed envelope. It requires no stamp