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Centennial Observations
on South Dakota's
Agricultural Economy

by

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Many communities in South Dakota, as well as organizations and institutions have celebrated, are celebrating or soon will be celebrating their centennial. SDSU, for example, is celebrating its centennial this year.

A typical part of such a celebration is to reflect on conditions reported to exist 100 years ago, take stock of current situations and ponder what future changes are likely to occur. Associated with such thoughts are questions of how such changes will affect us, our children and our grandchildren.

It is likely that few, if anyone, could have accurately portrayed 100 years ago the type of economy we are experiencing today. It is equally unlikely that anyone will be any more successful in describing the situation our grandchildren will experience in the year 2081. For planning purposes, however, there can be value in considering likely trends in the future and the forces shaping such trends.

It is well recognized that South Dakota's overall economy has been greatly influenced by changes and developments in the agricultural sector. Further, it can be expected that for many years to come agricultural activities will continue to dominate the state's economic scene. Glimpses of the state's economic future, therefore, depend importantly on the success with which the future course of events in agriculture can be projected. Follow-

ing is a brief review of several prevailing economic forces and some judgments on the likelihood of their continuing to influence our economic future.

1. Wise Farm and Ranch Management Decisions

As in the past, it is likely that the most important condition influencing the future strength of agriculture will be the wisdom of farmers and ranchers in managing their operations. This vitally important knowledge base, influencing management decisions, pertains to a host of questions. Among them are what products should be produced? What is the best method for producing them? How much should be spent on production inputs? Should crops be insured? When and how should products be marketed? How can farmers and ranchers take maximum advantage of government programs? Should money be borrowed and if so how much and for what purpose? Should more land be rented or bought? How might community services be organized and financed to get the greatest return from the tax dollar? How might farm enterprises be owned and controlled to achieve desired tax advantages and estate planning goals?

An important question in regard to these questions and many more is how can farmers and ranchers obtain the knowledge base to make informed judgments? No doubt much of their acquired knowledge will continue to be gained through formal education, participating in on-going adult educational programs, by self-education through newspapers, magazines, radio, television and through visits with others who can help in broadening their needed knowledge base.

2. Technological Developments

Another factor that has greatly

strengthened agriculture in the past and can be expected to be a significant and prevailing force for the future is technological advance. We are well aware of the impacts on the social and economic fabric of our communities from such things as new machines, seeds, livestock breeding programs, fertilizers, insecticides, transportation patterns, irrigation and electrical power. It can be expected that technological developments in agriculture will continue and that farmers and ranchers will adopt those which are to their economic advantage.

The adoption of technological changes has resulted in larger and fewer farms, and changes in the population distribution and life style of our citizens. While the past rate of decrease in number of farms will probably not continue indefinitely, it is expected that the decline in numbers will persist for several years. It has been estimated, for example, that the state's 38,500 farms in 1980 will decrease by 20 percent to about 30,000 in the year 2000. The impact of this trend on the survival of small farms and businesses which depend on farm customers can be rather severe. Our transportation and marketing patterns can also be greatly affected as can the tax burden on those trying to continue to finance adequately public services. It is important to try to anticipate such changes and seriously consider appropriate plans to cope with them.

An example of a new innovation that is likely to have very important implications on our agricultural economy is the increase in use of computers. In order to realize the greatest benefit from computers, special training in the management capabilities of various units is vitally important.

3. Continual Changes in Supply and Demand Situations for South Dakota's Agricultural Products

The forces of supply and demand can be expected to continue to greatly influence the strength of South Dakota's agricultural economy. In this regard, particularly in relation to agricultural policy, two specific situ-

ations need to be recognized: (1) farmers and ranchers, as part of a national production system, are faced with "inelastic demand" for their products, and (2) farmers and ranchers have a strong tendency to increase production to achieve the highest profit possible.

"Inelastic demand" means that a small change in total production tends to result in a relatively large change in the price of that product. For example, if the production of wheat or soybeans increases relative to domestic and foreign demand for these products, a more than proportional decrease in prices can be expected. This type of "inelastic" demand situation for agricultural products can be expected to continue.

Another situation that will no doubt prevail is that no farmer, without externally-provided incentives, can be expected to decrease his production in the hope prices will be higher for his product. He knows that only if all or most of the farmers do so will there be a noticeable effect on prices. For this reason, government supply control measures are supported most strongly when product prices are low.

Increased foreign purchases for agricultural products also have an upward influence on prices as do adverse weather and growing conditions. In the future we can expect continued efforts to promote export outlets for agricultural commodities. Expanding foreign markets for agricultural products can not only improve net farm income, but also improve our foreign balance of payments and generally strengthen our overall economy. Uncertainty in foreign markets, however, tends to increase instability in product prices. Special efforts will no doubt be made to try to reduce such instability.

The dynamics of supply and demand for agricultural products can also be expected to continue to result in widely fluctuating net farm income. For example, net farmer income for the nation for the six year period 1975 to 1980 ranged from under \$20 billion for 1976, 1977, and 1980 to over \$32 billion for 1979. Some major reasons for

fluctuations in net farm income are: (1) changes in total production, (2) changes in foreign sales, and (3) changes in farm production expenses. For example, production expenses increased from \$119.2 billion in 1979 to \$130.7 billion in 1980.

The wide variations in net farm income suggests that serious consideration should continue to be given to various marketing alternatives such as vertical integration from oil and fertilizer production fields to final delivery to farmers, as well as organized marketing through regional, national or international pooling arrangements.

4. Increasing Importance of Off-Farm Sources of Income

A rather recent trend is a substantial increase in the income earned by farm families from off-farm sources--a trend which is likely to continue. In recent years, for example, U.S. farm families have earned as much or more income from off-farm sources as they have from farm sources. Part-time farmers, farm wives working off the farm and income from off-farm investments have become an important part of the income picture for agricultural residents and will likely continue to be even more important in the future.

5. Institutional Structures to Strengthen the Future for Agriculture

In the past 100 years many institutions, or ways of doing things, have been created to improve family living conditions in rural areas. Included among these are such services as our rail and highway transportation systems; rural electric, rural telephone and rural water systems; production and marketing organizations including co-operatives; farm credit systems; agricultural research and cooperative extension educational programs; farm organizations; soil conservation services; agricultural policy programs (ASCS offices); rural schools; churches; and many more.

It is interesting to ponder what types of institutions or changes in existing institutions might be needed or expected in the next 100 years. For

example, what type of institutional arrangements would be most appropriate to improve direct marketing of agricultural products throughout the world? What type of arrangements might be devised to provide greater stability in agricultural product prices? What type of land ownership and land management patterns might evolve or be encouraged? Will the goal of farm ownership and management in the same person be realistic considering existing and expected future capital requirements? What type of programs and policies might be needed to meet existing and future concerns of conservationists, environmentalists, those concerned about tax policies, inflation, land use for recreation and primarily interested in maintaining and improving quality of living in rural areas?

6. A Final Observation: Investments in People to Strengthen the Future for South Dakota's Agricultural Economy

Economic growth and development--nationally and internationally--depends critically on the knowledge and information systems in society. This point has been emphasized many times by scholars of economic growth and development. One such scholar is South Dakota's Theodore W. Schultz, who won a prized Nobel Laureate Award in 1979 for his pioneering research showing high rates of return to investments in the education of people. Included in a recent book written by Dr. Schultz is the following quotation: "The most important economic resource in the world...consists of the acquired abilities of people--their education, experience, skills, and health. This 'human capital'--not space, energy, crop-land, or other physical properties of the earth--is decisive in improving the welfare of poor people throughout the world."

People are the driving force behind economic growth and development. After all, it is people who make decisions on technological development, institutional change, public policies, and the management of farms and ranches. The future of South Dakota in the next 100 years will depend in no small measure on the extent of attention that we, our children and our

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grandchildren give to maintaining and strengthening the educational resource-base of the state.

Editor's Note:

From all of us to all of you, a happy holiday season.

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