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Agricultural and Economic Development in South Dakota



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Agricultural and overall economic development are closely intertwined in South Dakota. Total earnings in the State were \$4,305 million in 1982, \$720 million of which came directly from farming and ranching. In addition to the amount generated directly from agriculture, much income in other sectors results from sales of supplies and consumer goods to farmers and ranchers and from the marketing and processing of agricultural commodities. The connection between agriculture and the rest of the State's economy is further reinforced through off-farm employment by farm families.

Because of these interconnections, it is useful to think in an integrated fashion about agricultural and economic development options facing the State. This newsletter is intended to indicate some key economic development concerns of South Dakota citizens and policy makers in the 1980's.

Some areas of focus in South Dakota economic development

Between 1965 and 1979, non-agricultural wage and salary employment in South Dakota rose by 55% (from 155,000 to 241,000), while agricultural (farm and ranch) employment declined by 35% (from 66,000 to 42,000) during approximately the same period. Non-agricultural employment declined between 1979 and 1982, because of the national recession, but it recovered some in 1983.

Given the structure of South Dakota's economy, what can be done to accelerate income and employment growth? Three often-discussed agricultural and economic development possibilities are mentioned here.

One is **expansion of agricultural production**. Various means can be used to pursue this--including higher yielding crop varieties, more intensive fertilization, and expanded irrigation. The latter is expected to receive a great deal of attention in South Dakota during the 1990's. The economic feasibility and actual expansion of agricultural production will remain sensitive to market prices for crop and livestock commodities, as well as government food and agricultural policies. An area of current interest involves the potential for "energy crops" such as fodder beets and sweet sorghum. Studies are being conducted to determine if such crops could both economically provide some of the nation's liquid fuel needs and partially replace some food and feed crops for which markets have been "soft".

A second possibility, one being talked about a great deal at present in South Dakota and surrounding states, is increasing the amount of **agricultural processing**. Expansion in agricultural processing would increase "value added" (and, hence, personal income) and employment in the State. It could also strengthen markets for locally produced agricultural commodities. Several possibilities have been explored recently by various individuals and groups--including sunflower crushing and production of grain alcohol, wheat gluten, and high fructose corn syrup. Unfortunately, overall success in development of agricultural processing in South Dakota was rather limited during the 1960's and 1970's. Employment in the "food and kindred products" sector (which constitutes much of what we consider as agricultural processing) stood at 8,000 in 1982, compared to 7,700 in 1955 and

8,200 in 1960. Thus, there are major challenges in further developing this sector in South Dakota. Economies of large size and high capital-to-labor ratios associated with many types of agricultural processing must be contended with.

Expansion of manufacturing (other than agricultural processing) is a third means of rural economic development. This was a vital source of expanded income and employment in many South Dakota communities during the 1970's. Large, medium, and small towns participated in this expanded employment, as did both farm and non-farm families. Partly as a result of manufacturing growth, the number of women in South Dakota's labor force expanded by 45% over the decade of the 1970's. Many farm families supplemented their income through such off-farm employment. The August 1983 **South Dakota Labor Bulletin** projects 7,440 new job openings, a 29% increase, in the State's manufacturing sector (including agricultural processing) during the 1980's. Continued expansion in the 1990's is unlikely to come as easily as it did in the 1970's, however. For one thing, competition from products produced by extremely low-wage labor in developing countries will increasingly be felt. Also, the scope for expanding the South Dakota work force through increased participation of women is less now than it was 15 years ago.

Although the three areas just discussed have received a great deal of attention in South Dakota's agricultural and economic development efforts, other areas deserve attention as well. The South Dakota Labor Department projects the largest number of new jobs in the State during the 1980's to come in the services and retail trade sectors, with 15,200 and 9,445 new jobs, respectively. The finance, insurance, and real estate sector is expected to rank fourth in growth (behind manufacturing), with 4,205 new jobs.

Policy considerations

Public financial assistance for new or expanding enterprises is one of many available economic development policy options sometimes considered. Experience tells us, however, that subsidized public financing can be wasteful if other factors influencing economic feasibility are not strongly positive. We have observed this most recently in the fuel alcohol industry, where generous tax and financial assistance programs have been inadequate to overcome technical and economic factors working against the economic feasibility of small-scale plants. On the other hand, an active public role in arranging financing may be required for complex, multi-purpose water development projects. Whether or not subsidies are involved, the public sector may need to be actively involved to structure mechanisms for providing front-end financing and capturing repayment from various beneficiary groups.

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