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Observations On The Future
Of South Dakota Agriculture
And Rural Communities *

by
Dr. Mark A. Edelman **
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ABSTRACT: A short clarification of the current problems facing agriculture and rural communities in South Dakota, the options faced by community leaders, and the policy alternatives faced by national decision-makers in assisting rural communities.

- * Testimony to the United States Congress, Joint Economic Committee Hearings On Agriculture and The Rural Economy, Senator James Abdnor, Chairman Freeman, South Dakota, February 11, 1985
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Observations On The Future Of South Dakota
Agriculture and Rural Communities

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Mr. Chairman, it is my privilege to address your distinguished committee on the profound problems and challenges that are facing South Dakota agriculture and rural communities. First, let me reiterate that my assumed role as an educator is to assist in clarifying the problems, outlining alternatives, and discussing the probable consequences of policy options so that citizens and their leaders have a more informed appreciation of the facts for public decision-making.

Second, it is my observation that our private enterprise and democratic political system has never guaranteed success to all those who entered into business. However, upon occasion we have greatly assisted an ailing city, business, or sector of the economy and our society has always provided an opportunity to start over.

The philosophical principal of our society has been to distribute income according to ability above a minimum level of basic need. The debate focuses on defining the line of compromise in this concept. Ever since colonial days, our political leaders have debated this issue: "What should the government do for the people?" and "What should the people do for themselves?"

Having said that, let me divide my remaining remarks into three areas: (1) the nature of problems faced by rural communities, (2) the options faced by rural communities, and (3) government's role in assisting rural communities.

The Rural Community Problem

How should rural communities, which are largely dependent upon agricultural commerce, adjust to their declining farm customer base? A certain number of customers are required for a business or any other rural institution to survive. As a result, many rural communities face increasing prices and/or declining local services as their customer population shrinks. This, in turn, tends to increase the cost of living and/or reduce the standard of living for remaining residents.

Declining farm numbers is a continuing trend for South Dakota. Census Bureau farm numbers peaked at 83,303 in 1935 and declined to 37,148 in 1982. The state-wide net decline in farm numbers between 1978 and 1982 was 398 farms per year or 1.0% per year according to the 1982 Ag. Census.

As is true for many states a dual trend is emerging in farm numbers. Numbers of farm exceeding 1,000 acres in size have increased as have numbers of farms that have less than 140 acres. The major decline in farm numbers has occurred in the medium size farm group.

Farm numbers are expected to continue to decline, the question is: "How fast?" A 1983 analysis by Professor Janssen and myself at SDSU projected less than 30,000 farms

by the year 2,000 simply based on the current age distribution of our farmers and ranchers. We simply have about twice as many that will exiting due to age as we have had entering the industry in our state.

The rate of decline in farm numbers is no doubt affected by the current financial stress in agriculture. Last week, SDSU Professor Schmiesing and I released a survey of agricultural finance conditions as viewed by 53 % of the 346 South Dakota agricultural lenders in November 1984. The lenders indicated their customers' financial position as follows: 14.3% superior 23.1% good, 38.5% average, 16.0% weak, and 8.1% inferior. In addition, 46.9 % of the lenders' farm customers had increased their total debt during the past year. Total debt stayed the same for 34.2% and declined for 18.9%.

While the net impact of financial stress is to accelerate the rate of decline, it must be said that lower machinery and land prices are providing opportunities for some new entrants into agriculture.

Rural Community Options

Rural community decision-makers that are faced with declining farm numbers have four basic community options:

Option 1. Attempt to diversify the regional economy into basic industries that do not depend upon the number of farms in the area; Fostering home grown, as well as outside industry, might provide local stability in employment and income.

Option 2. Attempt to expand the trade area to stabilize the economy; Knowing your customer area, market share penetration, and customer behavior patterns can assist in adjusting the local goods and service mix.

Option 3. Consolidate to maintain maximum services; In a recent meeting, a board of director member of a business said that he would rather take his firm under bankruptcy than to consider partial consolidation or merger with a competitor. The point is that voluntary consolidation of functions and services, in the private as well as public sector, can in many cases be mutually beneficial to both firms and might maintain more local services than continued competition and involuntary consolidation.

Option 4. Do nothing except decline economically as farm numbers and the population base decline.

The first three options require investment of time and money with no guarantee of success. An evaluation of community strengths, weaknesses, opportunities, and threats can assist in this decision-making process. The option selected may vary depending on the resources, opportunities, leadership, and values of the community involved.

There will be economic gainers and losers as a result of the current financial stress in agriculture. Some communities are beyond help, due to lack of resources and opportunity. Others may simply lack leadership. As a result, some communities may remain economically viable, only if community leaders actively address the present situation.

What Can Government Do To Assist Agriculture And Rural Communities?

First, there is no question that government has a role to play in setting our monetary policy so as to promote long run price stability and low inflation. Agriculture and rural communities benefit from stable prices just as other sectors of the economy.

Second, moving toward a balanced budget could possibly reduce interest rates and reduce the exchange value of the dollar which would tend to stimulate exports and reduce imports for agriculture. However, reducing the federal budget deficit may not reduce the value of the dollar as much as some in agriculture may hope. As long as we continue to fight inflation during the 1980's, interest rates must remain above the inflation rate. Assuming all else constant, this implies that we are likely to see a higher valued dollar than we experience during the inflationary 1970s.

Third, the government must decide its future role in farm policy during 1985. We cannot expect to maintain a constant share in world commodity markets with high price supports on top of a strong dollar. Cargill's recent Argentine wheat import caper demonstrated that.

It is true that the largest factor pricing us out of the world market has been the rise in the value of the dollar. However, if the value the dollar does not decline, we must consider lowering supports if we want to improve our competitive position in world trade.

On the other hand, rapid movement toward market oriented policy will result in more farm failures in the short run and larger adjustments for rural communities.

The instability of the world trade and exchange system in the 1970's, was the cheapest and biggest rural development program the midwest had ever seen in our nation's history. The question is should this international instability be allowed to cripple rural America in the 1980's. Or should some government assistance be provided to absorb the adjustment and diversify rural America's economy.

What specific programs could the government adopt to assist rural communities? One approach is to do nothing. A second approach is to assist financially stressed producers in order to slow the adjustment process. Third is to assist rural communities in implementing their economic development plans. Let's take a closer look at the last two options.

What Should Government Do About Financially Stressed Farmers?

Option 1. Let present trends and uncertainties in world production, trade, exchange, and government policy determine the income of individual farmers and ranchers based on their luck and ability to cope with their environment. Let those who do not succeed, rely on their own resources, churches, private charities, community resources, and current government programs to start over.

Option 2. Government helps financially stressed farmers to stay in business through targeted direct financial

assistance, self-help risk reduction programs, and/or marketing and financial management training. For example, the SDSU Ag Lender Survey indicated that over half of their farm customers' records were inadequate for financial planning purposes.

Option 3. Government assists financially stressed farmers to start over by assisting in the provision of off-farm employment opportunities, targeted financial assistance to provide for minimum basic needs, and/or targeted educational and training assistance programs geared to new skills or starting another business in the region.

What Should Government Do About Rural Communities?

Option 1. Let local resources and present trends in economic forces determine growth and decline of communities.

Option 2. Government provides aid targeted to all rural communities in a comparable fashion to urban programs.

Option 3. Government targets aid to rural communities under severe stress in agriculture.

Option 4. Government assists rural regions in developing and implementing economic revitalization plans.

In conclusion, I hope that I have stimulated some thoughts on the challenges ahead. Certainly SDSU Extension programs in rural development, agribusiness management, and public policy, as well as farm finance, marketing, and

agricultural production management, can assist in making the tough decisions facing many agricultural producers and rural communities under financial stress. In particular, SDSU Economist Tom Dobbs has discussed local development options with many local development groups across the state. The SDSU Agricultural Experiment Station and Census Data Center can provide relevant local information for developing action oriented plans in many of the areas suggested by your rural initiative.

In closing, I certainly want to commend you Senator for your attempt to gain greater visability for the plight of rural America. Your rural agenda is broad and complete. I wish you best success in taking the message to Washington.