STATE POLICIES TO HELP FARM PEOPLE ADJUST

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Policy reforms that address the root causes of the farm crisis of the 1980s are beyond the domain of state government. Control of macroeconomic policy, international trade policy and farm price support policy lies with the federal government. And states do not have the resources to subsidize farm incomes. Yet state governments have long histories of agricultural and rural area policies and programs. Traditional state agricultural policies can be grouped into four areas: (1) agricultural research and education, (2) natural resource conservation and development, (3) market development and (4) taxation.

Beginning in the early 1980s state agricultural and rural area policies began a fundamental transformation as states increased their efforts to shape the future of the agricultural sector of their economies. At least in the near future, the decline in rural areas is argued by state officials to be uniquely a state government "problem." The national impact of the restructuring of rural economies is limited and many in state government feel it will not be directly addressed from the national level (Council of State Governments).

The purpose of this session was to identify and evaluate the most viable policy alternatives for state government in efforts to affect: (1) the number of farms that survive, (2) the ease with which resources exit agriculture, (3) the economic health of rural regions and (4) the future competitiveness of states' farm sectors.

State Policy Initiatives of the 1980s

State policymakers became concerned about the efficacy of agricultural credit markets, the economic stability of the farm sector and traditional means for resource adjustment as the farm credit crisis deepened. These concerns were the foundation for short-term state credit and other transitional policies and programs adopted first by

Midwest states and later considered by states in the West (Gardner). Several states initiated commissions to provide more inclusive direction to policies and make more effective use of limited state resources (Governor's Commission on Agriculture 1984, 1985).

State government policy initiatives range from services such as referral and counseling hotlines and job search and retraining assistance to accelerated farm and financial management educational programs and direct state assisted farm credit programs. While several state farm credit policies were adopted initially to bridge the gap until "normal" times returned to agriculture, there was soon the realization that the existing economic conditions may be the norm. This raised the demands for state government to assist with the transition underway in farming and rural economies through job training and rural economic development policies.

By far the most widely recognized new agricultural policy initiatives of state governments during the 1980s are the farm credit programs. By 1986, over half of all states and all but one or two of the major farm states (California and Florida are two exceptions) had implemented some form of credit assistance program (Gardner). The five basic types of state farm credit programs are (1) linked-deposits (10 states); (2) low interest loans (10 states); (3) loan guarantees (7 states); (4) interest buy-downs (6 states); and (5) interest deferrals (4 states). Seventeen states operate agricultural bond programs providing tax exempt financing for beginning farmer loans and virtually all states have intensified farm financial management educational efforts targeted at both assisting with the transition of resources out of farming and the improvement of the human capital remaining in farming.

Most of the financial programs are targeted to farming operations that are facing significant financial stress, but have a reasonable chance to survive. Of course, state funding constraints limit both the number of farmers who can be helped and the amount of assistance provided. Many farm credit programs were initiated when state government fiscal conditions were favorable.

While 26 states operate toll free hotlines offering referral and counseling services, fewer states have well developed job training, farmer relocation and rural economic development policies. Several states refocused existing programs providing few new resources or directions.

Policy Directions

The workshop participants reached consensus on three groups of state government policies thought most viable. The first group deals with information on the farm and rural economy as a base for public and private decisions, the second with farm credit and the third with resource transitions and economic revitalization.

Farm and Rural Area Information. State governments need to provide accurate and timely information on the condition and performance of farmers and rural economies. This information is essential for guiding policies and providing a base for a thorough understanding of economic conditions on farms and in rural regions. For example, information on farm financial conditions is needed to determine eligibility criteria for targeting farm credit assistance. Information systems need to monitor the performance of farms and rural economies on a continuing basis and the establishment of such systems is a state policy option.

Agricultural Ombudsman. There is an important role for state government in monitoring the operations of federal farm programs at the state level. Most U.S. Department of Agriculture (USDA) agencies responsible for federal farm programs, including Agricultural Stabilization and Conservation Service (ASCS), Farmers Home Administration (FmHA), and Soil Conservation Service (SCS), are organized and managed through state offices. An ombudsman in the governor's office would facilitate the effective execution of federal farm programs.

Accelerated Farm Management and Financial Assessment Education and Counseling. Providing the opportunity for farmers to improve management and financial assessment skills is important for continuing farmers. Financial assessment is also important for farmers moving out of agriculture. Management education and counseling services to meet the demands brought on by the financial crisis require additional resources and innovative approaches to supplement traditional services supported by state government and carried out by state extension services. Hotline referral services are an example.

Farm Credit Policy. The most viable state credit policy alternative, given limited state government resources and the objective of aiding an ongoing adjustment process, is loan guarantees on operating loans for farmers judged able to survive in the long run if they can operate in the short run. This implies very targeted assistance eliminating farmers without much chance for survival and farmers not in need of public support. Buy-down programs involve more direct state budget exposure, do not leverage private capital and do not facilitate the use of economic tests for eligibility.

Legal Structure Modifications Regarding Financial Property Rights. The legal provisions and requirements under state law for liquidation or other modification of the relationship between farmers and creditors have not always served either party well. In some cases the unique character of farming activity and the farm business has placed farmers in greater personal jeopardy than appeared to be intended under existing law. The state of Iowa undertook to change state law in the following areas in an effort to provide both farm creditors and debtors more realistic options in the face of financial stress:

- Right to Cure Default
- Waiver of Homestead Exemption
- Mediation
- Legal Assistance

Workshop participants suggested that there was considerable opportunity for state government to facilitate either the expeditious exit from farming or the continuance in farming under more realistic business circumstances by developing state policy based on agricultural contract or property laws.

Tax Credits Against State Income Taxes for Excessive Property Taxes. For many farmers the property tax is high compared to the ability to pay the tax out of current income. A tax relief program for low income farmland owners, where refundable income tax credits are provided if property taxes are high compared to household income, is a viable approach to targeting assistance to stressed farm households. The tax credit provides relief based on the level of household income and property taxes. Targeting would require credits to increase with increases in property taxes and decrease with increases in income (Governor's Commission on Agriculture 1985).

Mediation Between Borrowers and Lenders. Foreclosure or a debt moratorium affecting public and private lenders, such as that enacted in the 1930s, is disruptive to credit markets because it imposes costs on other agricultural borrowers and reduces credit availability. Mandatory mediation of problem debt situation assists in the more orderly transition of resources whether the transition is out of agriculture or to a more economically viable farm unit.

Reduction in Barriers to Exit. It is within the scope of state policy to lower the barriers for both human and capital resources to exit production agriculture. The major barriers include uncertainty surrounding life out of farming; lack of marketable job skills and employment opportunities; federal income tax liabilities; lack of family income during the transition phase; and liquidation with unstable asset markets. Job training assistance, relocation grants or low interest loans and improved job opportunities are all potentially possible through state policy actions. An early retirement program for older farmers would bridge the gap between exiting farming and receiving retirement benefits.

Rural Economic Development Policies. These policies are aimed at supporting existing business activities and encouraging the creation of new business operations endogenously or by attracting new business locations. All states have adopted a plethora of economic development incentives from tax abatements to targeted training programs. A viable approach for states to provide for the revitalization of rural economies is to review existing development policies and programs and evaluate how effective they are in general and in meeting development objectives for rural regions. Participants thought better managed public incentives for private development were needed rather than more incentives.

Conclusions

Viable state government policy options for addressing the adjustments underway in farming and rural economies fall mainly within the traditional policy domain of state governments — education, development, taxes and information. The new dimension is farm loan guarantees to assist with the ongoing transition. What will make the difference in the success of state policies to assist farming, farmers, farm families and rural economies is innovative political leadership and effective policy administration.

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