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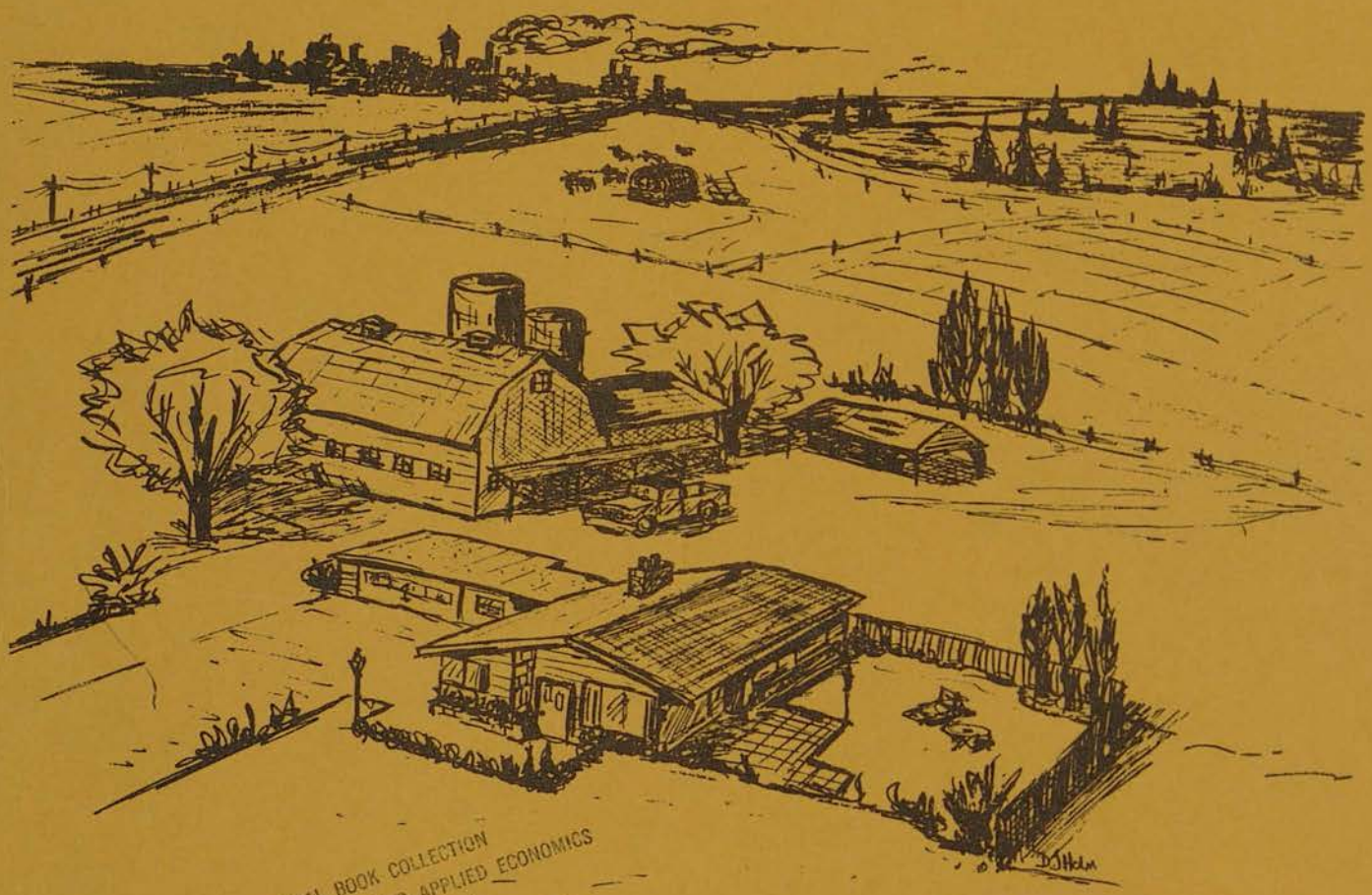
Economics Pamphlet 155

Ramifications of Land Values, Farm Prices and Transportation



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Highlights of Papers Presented at the

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Economics Department
Agricultural Experiment Station

South Dakota State University
Brookings, S.D.

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CAUSES AND CONSEQUENCES OF CHANGING LAND VALUES

By Philip M. Raup, Professor
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(Editor's Note: Dr. Raup's Agri-Business Day address was largely developed from the following paper prepared for presentation at a joint session of the American Agricultural Economics Association with the American Economics Association, New York, New York, December 29, 1977.)

Some Questions of Value and Scale in American Agriculture

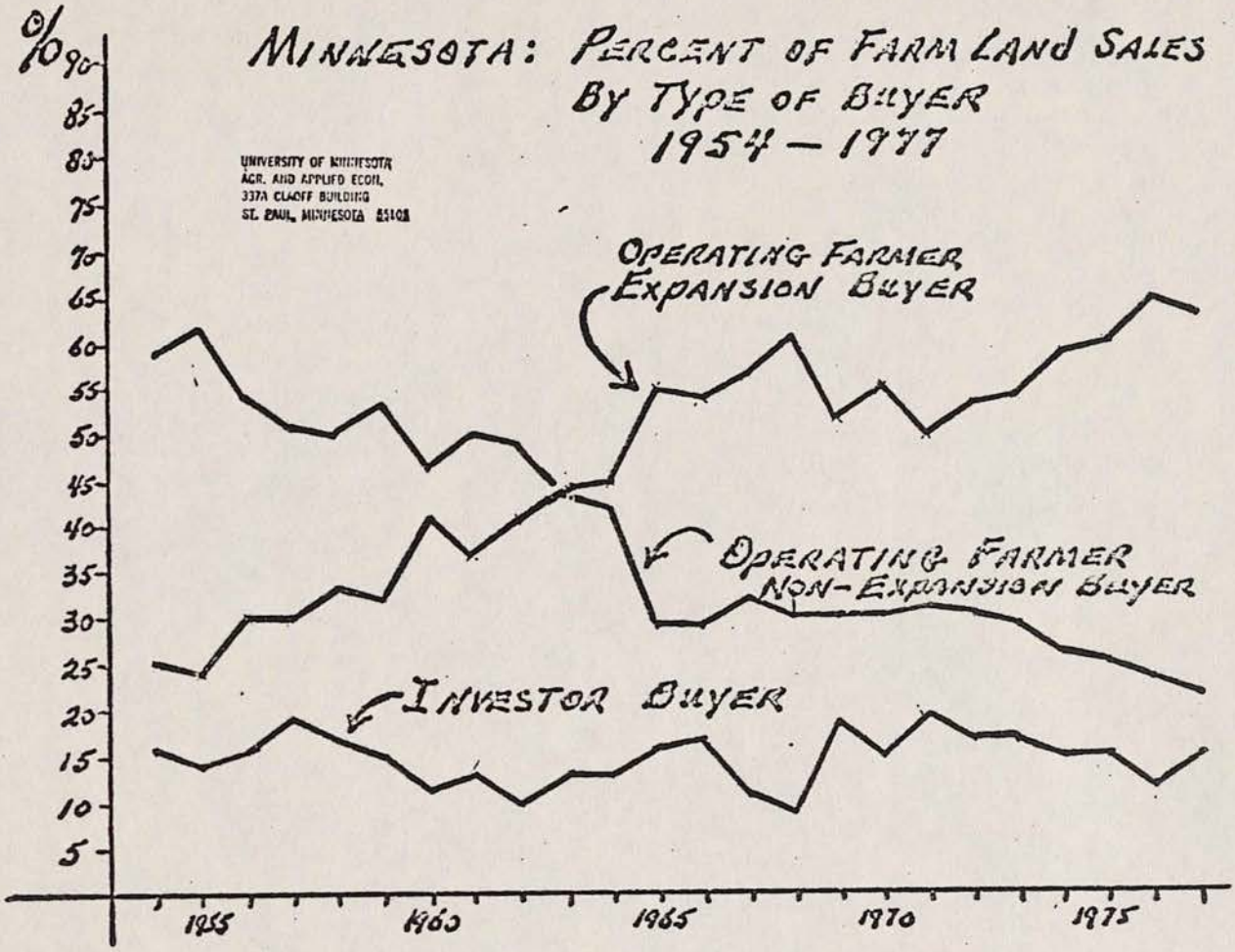
A most revealing characteristic of an economic system is the value it places on land. The modes by which that value is expressed and the methods of its reckoning are identity criteria of fundamental significance. In a market economy, the linkage between this value structure and the income flows that support it provide a trend indicator that is akin to body temperature in the human anatomy. Using this parallel, we must conclude that the American agricultural economy is feverish.

For the 48 contiguous states, agricultural land values tripled since 1967, with over 80 percent of that increase occurring since 1972. The increase has not been uniform among states, with the greatest increases centered in states of the Corn Belt, and in North Dakota, Montana, Pennsylvania and West Virginia. The smallest increase occurred in California, and increases were below the national average in Arizona, New Mexico, the southern Great Plains and Mississippi Delta states, and all states of the Southeast except Georgia, South Carolina and Virginia (U.S.D.A. 1977a, p. 22). In broad terms, cash-grain crop producers have benefited most from recent land value changes, while producers of cotton, fruits and vegetables, other specialty crops, and animal products have lagged behind.

Farm expansion buyers have been the dominant force in this recent upsurge of land values, accounting for 63 percent of all purchases for the year ending March 31, 1977. In Corn Belt counties (for example, in Southwestern Minnesota) this figure approaches 80 percent (Christianson, Nelson and Raup, 1977, p. 19, see Chart I). With some exceptions in areas adjacent to large urban centers, these high farm land prices are not the result of an invasion of the farm land market by non-farm buyers. The principal strength in the current land market is provided by farmer demand for tracts of land to add to their holdings.

This is a reflection of the financial capacity created for existing farmers by the windfall gains of land price inflation. If a farm is debt-free or burdened with only a small mortgage, an established farmer can spread the cost of additional land over his entire acreage, and bid this advantage into a higher price offer for any land that comes onto the market.

A recent study of Illinois farms shows that, if the farm-gate price of corn is two dollars per bushel, it would have required the income-producing capacity of approximately three acres to finance the purchase of one additional acre, at 1976 production costs and land prices (Scott, 1977). This provides



Proportion of Tracts Purchased and Average Sales Price Per Acre by Type of Buyer, by District, Minnesota, 1976 and 1977.

	Operating Farmer Buyer (sole tract)				Expansion Farmer Buyer (operator or investor)				Agricultural Investor Buyer (sole tract)			
	1976		1977		1976		1977		1976		1977	
	%	$	%	$	%	$	%	$	%	$	%	$
Southeast	22	963	20	1269	64	993	63	1280	14	737	18	1023
Southwest	12	894	11	1117	79	1187	77	1392	9	833	11	1160
West Central	18	607	23	649	72	686	67	743	10	624	10	667
East Central	49	300	54	460	36	366	30	463	15	298	16	364
Northwest	15	305	12	449	75	425	68	536	11	275	20	264
Northeast	70	213	40	233	14	206	32	216	16	204	29	135
Minnesota	23	569	22	694	65	831	63	1018	12	592	15	582

a rough measure of the extent to which land prices have been inflated by the demand from farm expansion buyers. A farmer who is not in the top segment of farm income receivers, and who does not own a substantial acreage of debt-free land, is virtually priced out of the current land market.

The danger in this situation lies in the threat of land market instability. For two years we have experienced the phenomenon of falling farm prices and rising land values. One interpretation of the current land market is that it exhibits many of the characteristics of an inflationary boom that is nearing its bursting point. To assess this possibility we need data that we do not have on the nature of the total demand structure for farm land.

The component of that structure for which we have the most copious data is the demand for the products of land. In a recent discussion, Gardner has suggested that "perhaps the demand curve facing American producers of farm commodities has become much more elastic as foreign demand has become more significant in recent years and many more substitutes are available for American-produced commodities. If so, price fluctuations would have been reduced because of a given supply shift." (Gardner, 1977, p. 189).

If Gardner is right, and the demand for American farm commodities has become more elastic, this should be reflected in the derived demand for farm land. It is difficult to interpret recent land market behavior as support for this conclusion.

It is much more plausible to argue that the derived demand for farm land has become less elastic with respect to price. Many of the most important foreign buyers of American farm commodities are in the market more or less independently of price. The Russian demand for American grain has been largely unaffected by price in several recent years. The stability of Japanese demand for grain and soybeans since 1972 suggests that it has been in spite of price, not because of it. This is also the most reasonable interpretation of Chinese demand for American grain.

The five largest recipients of U.S. wheat in 1976-77 were Japan, the USSR, India, the Republic of Korea, and Egypt, in that order. Among them they accounted for 49 percent of all U.S. wheat exports in that year (USDA, 1977b, p. 17). It is improbable that price played an important role in their decisions to import.

Other more direct sources of increased demand for farm land also contribute to inelasticity rather than to elasticity. Hobby farmers are often insensitive to land prices, as are urban refugees seeking rural residences. Foreign buyers of U.S. farm land include a number who are driven by a push-force of fear of domestic instability rather than by the pull-force of cheap U.S. land. Tax-shelter demand for land is not unrelated to land prices, but there is little evidence that land buyers seeking tax shelters are very sensitive to land prices.

In short, it might be argued that the demand for farm land has become more inelastic with respect to price in recent years. This would be consistent with sharply increasing land prices in the face of falling farm commodity prices, but it leaves us with a key question: Is this a transitional phenomenon, characteristic of the up side of a land market boom that is approaching its peak? Or is it a more durable phenomenon, reflecting a genuine shift in the demand curve for farm land?

An answer to this question must begin with recognition of the fact that a greatly increased world demand for American grain and soybeans has created an inflationary psychology, but this is not the only explanatory factor. A variety of institutional arrangements combine to give added purchasing power to prospective land buyers in high income brackets. These include:

1) The privilege of using cash-basis accounting.

2) The preferential taxation of any prospective capital gains.

3) The deductibility of interest on borrowed funds as a business expense, in computing income tax liability.

4) The investment tax credit.

5) The several methods of computing accelerated depreciation.

In combination, these institutional features give a pronounced advantage to a farm land buyer who is in a relatively high income tax bracket, has substantial debt-carrying capacity, is highly mechanized in the production of cash grain crops, and can make optimum use of the investment tax credit and accelerated depreciation. For example, a farmer with a combined federal and state marginal income tax rate of 33 percent (not uncommon in cash grains areas) and using a seven year depreciation schedule can obtain a present-valued tax saving over the seven years equivalent to approximately 40 percent of the cost of a new item of equipment. If his marginal tax rate is 10 percent the tax saving is only 18 percent. If he has no net taxable income he must pay the full price for the equipment item (Fuller, 1977, p. 3). It is not surprising that the greatest increases in farm land prices in the past five years can be traced to farm expansion buyers in cash-grain producing areas. Our institutional structure has reinforced the impact of sharply rising grain prices, following the sudden increase in world demand after 1972.

Any guarantee of farm commodity prices also exerts a differential impact on farms in different size classes. To the extent that a risk pf price collapse is reduced, investment in the production of that commodity is made more attractive to large-scale producers. This creates a dilemma in farm price support policy. If the price is set high enough to cover the costs of high-cost, small-scale producers it produces windfall gains for large-scale producers, enabling them to buy out their small-scale competitors. Alternatively, it enables them to bid up the price of land to levels that discourage the sons of smaller, family-type farmers from seeking careers in farming.

One of the greatest advantages of the single-proprietor of family-type farm has been its capacity to absorb risk. If risk is to great, the farm will fail. But if risk is reduced it increases the attractiveness of land ownership to non-farm investors, whose capital position enables them to take advantage of the institutional features of our tax and credit policies outlined above.

The possibility of a take-over of large segments of American agriculture by non-farm capital is real, but on present evidence the current threat to smaller family-type farms is not from outside investors or non-farm capital. It is from the larger neighboring farms in the same community.

Conflicting economic forces and public policies have created this threat of economic cannibalism within agriculture, in which the strong consume the weak. We have credit policies that cheapen the cost of credit for larger borrowers. We have tax policies that encourage vertical integration, agglomeration, and farm size enlargement. We tax unearned income in the form of capital gains more leniently than we tax earned income. We use investment tax credits and accelerated depreciation to hasten the substitution of machines for labor, with the result that these policies are of greatest advantage to those sectors of the economy that are already most highly mechanized. We adopt farm commodity price support programs that are flat-rate supplements to price, and thus yield benefits that are a linear function of output. If there are any economies of size available through farm size enlargement, this system gives a differentially larger reward to the larger firm. These policies are not scale-neutral. Taken together, they create incentives for farm land buyers to shift attention from efficiency and productivity criteria to a search for rewards in the form of farm expansion, agglomeration and land value appreciation.

In the past, much of the discussion of farm problems has assumed that the distortions of policy outlined above have been of principal value to non-farm investors, large conglomerate corporations, or extremely wealthy individuals. A phenomenon of the past five years has been the emergence of a segment of farmers whose income levels, scale of business, and income tax obligations make them effective users of price, credit, and tax policies that formerly were of primary benefit to non-farmers.

It is ironic that when efforts have been made to shift to accural accounting, reduce the preferenial taxation of capital gains, limit the deductibility of interest on borrowed funds, remove the inequities of accelerated depreciation, repeal the investment tax credit, or put a ceiling on government farm price support payments, family-type farmers have usually opposed any of these reforms. Policies that contribute to the decline of small or family-type farms, in short, have been supported in most cases by family farmers.

Why is this a problem? If small-scale or family-type farmers persistently support policies that contribute to their downfall, why should this invoke a public interest? Time and space limitations prevent any detailed exploration of this issue, but the broad outlines of an answer can be indicated by a focus on two dimensions: The contribution of intermediate-scale farms to innovation and change processes, and the carrying costs of capital in farms of varying scale.

At the lowest level of farm size, innovation becomes an impossibility because risks of failure threaten family subsistence. The scale at which this applies varies tremendously, from perhaps one acre in Java to a square mile in the United States wheat belt. As we ascend the size-of-farm scale, the opportunities for experimentation increase and the price of failure declines. At some point relatively low on the size scale, there is an optimum range in the ability of an individual or a firm to capture the rewards of successful innovation without incurring unacceptably high risk. At smaller scale, the risk is too great. At larger scale, the ability to retain the rewards of innovation must be shared with others, and the time required to secure agreement to changes in traditional modes of technological behavior becomes excessive. Medium-scale, family-size farms in the United States present an outstanding example of this principle, and consumers have been the major beneficiaries.

Competition among farms has insured the rapid diffusion of technological change, and no farm or combination of farms has been able to restrict supply, control price, or retain an unwarranted share of the benefits.

The failures that have occurred in this sifting and winnowing process have been frequent, but they have also been small-scale. While often high-cost to the individuals concerned, they have been low in social cost, to the total economy. Change has been spread over time, and technological unemployment has been accommodated through generational shifts rather than through lay-offs and firings. This is the basis for the conclusion that a major strength of the family-size farm is that it can fail at low social cost.

The significance of this conclusion can be measured by contrasting the impact of technological change in corn and cotton production. Although there were and are large-scale corn farms, single-proprietor family-type farms predominated in corn production during the period of rapid introduction of hybrid corn, and mechanization. This was accomplished without the destruction of rural communities and without dumping large masses of displaced labor into urban-industrial job markets. A much larger fraction of cotton production has historically been produced on large-scale units operated with share-cropping labor. Displacement of this labor through mechanization and the migration of cotton production from the South to the high plains of Texas and the irrigated lands of the Southwest has disorganized the rural communities from which cotton departed and created a burdensome social cost for the cities to which displaced cotton workers fled.

The lesson from American experience is clear. Large-scale farms resist change, but when it comes, it comes with a rush and at high social cost. The society has a direct interest in supporting a mix of farm sizes that will minimize these costs.

A second measure of the public interest in the structure of farm sizes is provided by the cost of capital. If we abstract from highly space-intensive livestock, dairy and poultry production, and fruit, nut and vegetable crops, the cost of land remains the major item of capital investment in American agriculture. And its fraction of total asset value has been increasing. In current dollars, farm land and buildings accounted for 63 percent of the total value of assets in American agriculture in 1940, 57 percent in 1950, 64 percent in 1960, 68 percent in 1970 and an estimated 75 percent at the end of 1977 (Melichar and Sayre, 1977, p. 37). In 1973 (the most recent year for which national estimates are available and before the big increase in farm land values), the value of farm land in current dollars was an estimated 254 billion compared to a total value of all land used in manufacturing and non-farm, non-manufacturing businesses of 206 billion (Kendrick, 1976, p. 77). Since 1973 the value of farm real estate has doubled, and its fraction of the total value of all business capital in land has increased sharply. Farm land ownership has provided the greatest opportunity to benefit from appreciation in asset values in an inflationary period.

Who will supply this expensive land capital to the farming sector? The conventional wisdom is that large-scale units are needed to attract and hold capital in farming. As the fraction of land to total farm capital increases, this argument has seemed to gain momentum. But the assumptions on which it rests deserve a closer look.

Large-scale business firms must receive a rate of return on land capital equivalent to their opportunity cost of capital. If they do not, they find it exceedingly burdensome to immobilize large capital sums in illiquid investments in land. To cover costs of production, large corporate or non-corporate farm businesses must include the full opportunity cost of land capital in their profit calculations.

The situation is sharply different with single-proprietor family-type farms. With full economic rationality they can include in their calculation of rate of return a variety of non-monetary rewards, including pride of ownership, continuity of family, freedom of choice of work time and pace, and ability to identify effort with reward. As Thurow has emphasized, the desire to own assets is not adequately explained by the flows of money income they generate (Thurow, 1975, pp. 141-42). Power, authority, freedom, a purpose of life--these are pervasive motive forces, and the role of public policy is to harness them for the public good.

This has been achieved, although imperfectly, in proprietary types of businesses and especially in family-type farms. Their owners will hold the large sums of land capital required at nominal rates of return that no large-scale business can tolerate. This is not an error in calculation, nor is it evidence of an imperfection in the market for land. It is rather a reflection of the fact that prospective owner-operators of farm land have opportunities to value dimensions of intangible wealth that are denied workers in non-proprietary businesses. They can do this in their bid-prices for land.

This is a part of the explanation for the recent rapid run-up in farm land values. Those aspects of intagible wealth that can be acquired with the purchase of land have appreciated in relative value as they have become scarce in the non-farm world. Pride, status, and a sense of self-worth have been bid into the price of farm land. These same motives lead small-scale family-type farmers to hold capital in land at low social cost. In the short run, mobilization of capital for farming may be more easily achieved by large-scale non-proprietary or corporate units. In the long run, the costs of this capital will have to be covered by the price of food, or the capital will be withdrawn. Family-type farmers will hold land capital at lower cost and without forcing the full costs of carrying this capital into the national food bill.

A population of viable family-type farms is thus not only more efficient in promoting innovation and adaptation to technological change, it will also carry the required capital stock at lower rates of return. The public interest in preserving this structure should be apparent. If it is not effective, we then have two alternative policy options. We can subsidize non-farm investors in order to persuade them to carry farm land capital, or the public can own the land.

We have gone a long way in the direction of subsidizing farm capital investment by the non-farm sector. The aspects of credit and tax policy outlined in the early paragraphs of this paper are an attempt to equip non-owner operators with bid-power in the farm land market that will offset at least in part the advantages that prospective owner operators can gain from their ability to include intangible values in their bid prices. This has not been the result of any conscious public policy. It arises instead from the insistent desire of farm and non-farm investors to acquire a share of recent capital gains in land.

The culprit in this scenario is inflation. In a narrow sense of asset value appreciation, no sector of the American economy has benefited more from inflation than land owners in the grain belts, where family farming has been the predominant type. In a longer run perspective, it is difficult to identify any sector of the economy that has more compelling reasons to bring inflation under control. In the past decade farm land values have tripled, there has been virtually no appreciation in the capital value of common stocks, and we have witnessed a phenomenal growth in the demand for tax shelters in farming and real estate. This has been one of the devices by which non-farm capital has sought some measure of bidding equality with farm owner-operators in the farm land market. It is both a consequence and a cause of land price inflation.

If this policy choice is expanded, it promises to generate a form of tax-shelter socialism for the rich. Since the burden of these preferential tax policies must be borne by other taxpayers, the cost of this method of attracting capital to agriculture does enter the monetized sector. Instead of appearing in the food bill, the costs of subsidies to non-farm investors appear in the form of an altered incidence of taxation, and a distorted pattern of income distribution. The monetary costs can be calculated, but they are almost certainly not as important as the political and social costs of the distortions and inequities resulting from this method of providing capital to agriculture.

If we persist in these policies they will drive the full-time family-type farmer out of farming. The agricultural structure that will emerge will consist of a small number of large to very large units that can take maximum advantage of credit, tax and price support policies, and a large number of small or part-time farms whose owners will reckon their return on capital in terms of amenity values rather than monetary rewards.

We will have an opportunity to test the validity of this observation in the course of the current debate over land costs and farm price support levels. In the final analysis, this is really a debate over the desired level of land values. Farm commodity prices must go up, or land values must come down. As painful as it may prove to be, it is virtually certain that family-type farms have more to gain from a downward adjustment in land values than from an upward adjustment in commodity prices. The risk-bearing capacity of the family-type farm is its greatest comparative advantage. To the extent that risk is reduced, the balance will be tipped toward an agricultural structure dominated by large-scale, highly capitalized enterprises. The goal of agricultural policy is to discover a middle ground, in which appropriate scales of farm size and technology are relatively free from threats of destruction by either their enemies or their friends.

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*Professor, Department of Agricultural and Applied Economics, University of Minnesota.

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LAND USE ISSUES IN SOUTH DAKOTA

Agri-Business Day, S.D.S.U.
April 4, 1978

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South Dakota is oftentimes referred to as being the Land of Infinite Variety. This characteristic of the state is a major part of the land use problem in numerous ways. I make no claim however that our problems are unique to South Dakota or are greater than the problems in other states. Our problems might even seem insignificant in comparison to those encountered in the more populous and rapidly growing states but nevertheless we do have land use problems and they are real.

Land use problems are associated with growth so it is not surprising that our most acute problems are around our growing cities and towns.

When I was asked to give this talk I wrote to all the directors of the planning districts in South Dakota and asked them to list the land use problems they are encountering. The universal answer was urban sprawl and the problems associated with it, such as the indiscriminate and irreversible conversion of prime agricultural land to non-ag uses, conflicts between agricultural and non-ag uses of adjoining land, increased costs of local governments to provide services such as prompt snow removal, bussing of school children, and secondary road improvements and utilities.

One problem which has been given a large amount of publicity in eastern South Dakota is the problem of obtaining sites for solid waste disposal. More about this later.

Another problem, which is part of the urban sprawl problem is the problem of highway safety. The many approaches on what, a short time ago were rural farm to market roads poses problems of traffic safety. School buses make frequent stops to pick up or discharge children on the main road. In most instances there are no set back requirements, consequently homes are built close to the highway which, we know in this country, causes snow to collect in the highway only to be piled on the edge and cause visibility problems for cars entering the highway and incidently, high snow removal costs.

These are some of the chief problems but what are the underlying causes? How did we get this way?

Ultimately, almost all aspect of human activity directly or indirectly requires the use of land. Also, some activities use land very intensively such as urban uses and some uses are extensive, such as agriculture, forestry and outdoor recreation. Some uses are compatible with one another and some are not.

As a general rule in an open market situation especially in areas of expanding population, land use moves from extensive to the more intensive use. When there is a demand for land to be put into intensive uses, agricultural uses, usually gives way to housing. Housing in turn oftentimes is converted to commercial or industrial uses etc.

For several hundred years in America, market forces controlled the private use of land and the pricing mechanism worked quite well. As long as there was plenty of land there was not much need to change the system. Land was viewed as a commodity to be bought and sold in the marketplace just like any other commodity. The owner of the land was under few constraints on how the land was used. An almost unrestricted right to use the land as the owner pleased came with ownership. Also, the major concern in land use decisions were, and in most cases still are of a short-run interest rather than the long term future.

Conditions and concerns about land use is rapidly changing. In addition to land for agricultural production purposes, industrialization, population growth, highways, rural electrification, and rural water systems created greater and different types of demands for land. There became an increasing awareness that the amount of land available is fixed, while the demands for more land continued to grow. This intensified the conflicts between landowners and others relative to land use.

A need to change the system to cope with such emerging pressures became evident in the early part of this century and as a result a third party was interjected into the land use control system.

In any marketplace transaction there are two parties, the buyer and the seller. The third party which entered into transactions involving the use of land is society represented by the unit of government, city or county, in the form of zoning and sub-division regulations. You have heard many times the old cliche "a place for everything and everything in its place." This is the purpose of zoning. Coupled with comprehensive planning, zoning is designed to promote orderly growth and minimize conflicting uses of land as well as public costs. It sounds like a great idea but it has its problems too.

Some rather weird things happen to the price of land when zoning regulations control land use. Consider the case of two farmers living near a growing city. One farm is on what we consider to be prime agricultural land. The other is on much poorer quality soil. The planning commission decides, and the elected officials agree that prime agricultural land should remain in agricultural and that the other land better be converted to residential or industrial use. Zoning regulations are then developed to reflect this decision. As a consequence of these decisions the poorer land might be platted and sold at prices far in excess of the market value of the prime agricultural land. We call these increases in value "windfall gains or windfall profits." The actions of the planning commission might even depress the value of the prime agricultural land if developments spring up nearby because prospective buyers might fear higher taxes and restrictions which might be placed on their agricultural operations such as air pollution (dust and odors), slow moving vehicles on congested streets and highways, etc. We call these losses in value "wipeouts."

This is just one example of how local governmental actions affect land values. The same kind of phenomena occurs when public utilities such as water, sewer, roads, etc. are extended into one undeveloped area and not another. The value of developable land increases and undevelopable land decreases.

South Dakota is in a transition period. Rural zoning is relatively new here and most people are rather uneasy about how it will affect them. Most counties, particularly those with larger towns within their boundaries have comprehensive plans, zoning and sub-division regulations. Some are well written and up-to-date and others are not so good. In too many cases the counties lack sufficient manpower to enforce their regulations. At the present time it appears that dominant rural values are being imposed upon an urbanizing segment of our state. As a consequence urban sprawl in many parts of the state is growing unchecked.

In the rural parts of South Dakota bitter opposition to rural zoning is evident. This is what I mean by my opening statement that being the Land of Infinite Variety can pose problems in controlling land use. In the rural counties of South Dakota and even the rural parts of urbanizing counties the people resist attempts to restrict their use of the land. They do not see the need and regard such regulations as an encroachment on their time honored right to sell to whom they please and to use their land, and even abuse it, as they wish.

Farmers on the urban fringe face a dilemma. They want the protection for their farming operations that zoning provides and the valuation of their land for tax purposes at agricultural value rather than speculative value. But when they want to sell their land they are like all of us. They want to sell at the highest price they can get in the open market. On any urban fringe we can find people who support rural zoning and those who oppose it and probably for these reasons.

The problem of locating sites in rural areas for such key facilities as sanitary landfills poses special problems and under our present laws it will continue to be a major one. I think no person or family would want a sanitary landfill nearby. Part of the problem is that people expect the situation to be worse than it would be if it were developed. They visualize the old city dump with the accompanying problems of rats, flies, smoke and blowing debris. The modern sanitary landfill is much different. The garbage is constantly being compacted and covered every day so pests do not get an opportunity to propagate. The chief problem is traffic on rural roads.

It appears that inequity is a basic problem. The city often does not have a major problem purchasing the land because they are willing to pay substantially more for it than the market value in its present use. It is the neighbors who have not received any windfall gains who must put up with the nuisance. The situation will probably not change unless others in the neighborhood are compensated for the nuisance inflicted on them because of the development. If providing such a facility is a public service, perhaps the public should be prepared to pay for the inconvenience caused by it.

It appears then that windfalls and wipeouts along with our long standing attitudes toward the rights of land ownership are the chief problems in South Dakota.

The U.S. Constitution in the 5th Amendment protects the landowner against the taking of private property for public purposes without just compensation. Clearly when land is taken for highways or similar public purposes the landowner can expect to be compensated for his loss. The 5th amendment does not protect the landowners however, for loss of value in his or her land as a result of public action. There are a few exceptions to this rule such as when public action makes the land inaccessible or renders it practically useless. These cases usually end up in court. For the most part, however we do not have laws or ordinances which serve to compensate the landowner for loss of value due to public action, whether it be a zoning ordinance or undesirable developments in the public interest.

In a few eastern states they are testing an idea which does spread the windfall gains among all the people in the community rather than just to the owner or owners of developable property. This idea is the transfer of development rights. Very briefly, under this program all land within an area is assigned a calculated number of development rights whether the land is developable or not. If any of the land is sold for development purposes the developer must also purchase the right to develop the land. He must purchase more rights than those which go with the land when he bought it. He must buy those extra rights from the other landowners in the area. Because he must buy additional rights from other landowners this tends to lower the price of developable land and other landowners are compensated for any possible loss of value. Perhaps more importantly it tends to lower the speculative value of land and discourages the conversion of ag land to non-ag uses. As you can guess, the program requires a lot of paperwork and the gift of prophesy to determine how much land will be needed for development over a certain period of time. The number of development rights assigned to all the land and the number needed for development are based on these estimations.

New York has passed enabling legislation which allows farmers to establish agricultural districts. The farmers in an area zoned agricultural may petition their county board to establish a district. The procedure used to develop the machinery of the district is about the same as for an irrigation or conservation district in South Dakota. If a district is formed land may still be converted to non-agricultural uses. However, the farmers who keep their land in agriculture cannot be assessed for urban type improvements such as curb and gutter or water and sewer improvements. Furthermore, their land is taxed at agricultural value rather than at speculative value.

The agricultural district idea does not in any way affect the windfall and wipeout problem but does protect the farmer from high taxes and assessments which might force him to sell for development when he might otherwise continue to farm the land.

What are we doing in South Dakota to slow the growth of urban sprawl and to eliminate the windfall and wipeout problem?

In at least two counties ordinances have been passed requiring 36 or 40 acres for every rural residence. In one county the number of such 40 acre plots is limited to one per quarter section on the best agricultural land. This scatters the new residences over a wider area which gives a larger number of rural landowners the opportunity to reap windfall profits on the sale of land and it also keeps the wipeouts to a minimum because it maintains a relatively low population density. The other county does not have the restriction on the number per quarter section so there is very little impact upon the problem of windfalls and wipeouts. Anyone who desires to build in the country can buy 36 acres, get his building permit and sell the unneeded land back to the farmer to be sold again.

I might add that in the county with the one residence per quarter section limitation, a dissident group is attempting to repeal the ordinance and the case is in court at the present time.

Few, if any, will deny that cities should have room to grow. As a matter of fact, the United States Supreme Court has made this very clear in several recent zoning cases. After having made this decision they leave the manner in which a city grows up to the city so long as all types of housing to accommodate all are provided for.

It makes a difference to the taxpayer how a city grows. A recent study in the Rapid City area, by a member of our staff there, Arnold Bateman, showed that scattered development increased cost to local government over the additional taxes collected by an amount about equal to the cost of transporting the school children. This is no small item today. Furthermore, he did not include the cost of police and fire protection because the local government did not increase their manpower.

Another study of Gretna, Nebraska by the University of Nebraska, Omaha compared the costs to local government of two separate developments, one a compact development and the other scattered. Their study revealed that school costs were 82% higher per household in the scattered development than in the compact development. They also estimated the crop production lost because of the scattered development and determined a loss of 263 bushels of lost grain production, per home, over the amount lost in a compact sub-division.

Is this loss of crop production important? A few years ago when it appeared there was a shortage of food in the world there was a lot of interest in the preservation of agricultural land. Now that we are back in a surplus situation and low grain prices, interest in preserving ag land has declined. If we look at history however, we know that food shortages is the norm and that surpluses are a recent phenomenon. The irreversible conversion of prime agricultural land to other uses may or may not be important in the future but I don't believe society can afford to gamble on it.

I don't have any pat, easy solutions to our land use problems and from what I have been able to learn it doesn't appear that anyone does. If there is an answer, it will be in the day to day efforts of our local planning commissions and local governmental officials to inform and involve the citizens in their counties and towns in solving each problem as it comes along. Working together they are most likely to build the kind of communities in which people want to live.

Now, in conclusion I have just a few pictures which illustrate some of the problems I have been talking about.

PRESENTATION OF HONORED AGRI-BUSINESS PERSON OF 1978

By John E. Thompson

In the selection of the Agri-Business Person of the Year we have attempted, over the years, to have leaders selected from major agri-business sectors of our economy. This year we have selected an individual from our most important agri-business sector in South Dakota -- the business of production of agricultural products. We are very happy and proud to honor John E. "Matt" Sutton, Jr., a rancher and community and state leader from Agar, South Dakota.

John E. "Matt" Sutton, Jr., was born on the Sutton ranch at Agar, South Dakota in 1931. He attended rural grade schools and graduated from high school at Onida, South Dakota. "Matt," as he is known, received a degree in Animal Science from South Dakota State University. While at South Dakota State University he was also active in student government, junior livestock judging and football.

Matt was a 2nd Lt. in the infantry and after military service he returned home to help his father and uncles run the ranch which his grandfather established in 1897. Today he owns and operates his own ranch which is part of the original unit. It is a combination cattle and farming operation. Matt has irrigated from the Oahe Reservoir since 1966. He currently irrigates 950 acres of various crops.

The Sutton ranch has been well known as a source of cattle seedstock for many years, particularly for their registered Herefords. The Sutton's have also maintained a private herd of buffalo since 1909. They have an annual buffalo calf crop sale along with their registered quarter horses each fall. Matt's operation still has a few horses, and his family interest in the 60 head of buffalo, but he recently sold his registered Hereford herd to his uncle. He now concentrates on irrigated crops and his commercial cattle herd which includes many of the so called "new breeds."

Matt has been involved in public and livestock organization affairs for many years. His responsibilities in agricultural activities have included being President of the South Dakota Quarter Horse Association, serving on the Board of Directors of the South Dakota Stockgrowers Association, the South Dakota Hereford Association, the South Dakota Livestock Production Records Association, and the National Beef Improvement Federation. He has also served as Horse Superintendent at the South Dakota State Fair, on the County Soil Conservation District Board, the Sully County Planning Commission, and as a 4-H project leader.

Matt served four years in the South Dakota Legislature. He was later co-chairman of Governor Kneip's Council for Tax Decision, and also served two years as Chief Clerk of the South Dakota House of Representatives. A year ago he completed a six year term on the South Dakota Board of Regents for Higher Education, including two years as Chairman of the Board.

In addition to managing his own ranch he is a Director of the Sully County Bank in Onida. He is also President of Sutton, Thomas and Levis Cattle of Harrold, South Dakota, a purebred simmental cattle operation which has produced grand champions at six of the largest shows in the nation in the past two years.

Currently his public service responsibilities include President of the South Dakota State University Ag Advisory Committee and as a member of the State Planning Commission for Education.

Matt is married to the former Helen Tande of Arlington, South Dakota, and they have two children, a daughter, Nancy, who is in Dallas, Texas, and a son, John III, who is in the second grade at Agar.

COMMENTS BY HONORED AGRI-BUSINESS PERSON OF 1978
John E. "Matt" Sutton, Jr.

In the past few years I've become very intrigued with the study of economics. It is sobering when you think of the impact economists have had on the world; people like Adam Smith, Karl Marx, Lord Keynes. The list is short of people who have had more influence over more people's lives than they did. Today, in government and in business, economists are the modern mystics. Lord Keynes predicted the demise of economics. Quite the opposite is true, in terms of activity at least. Though the numbers are great, the one that can map a path out of our economic wilderness and get a majority to follow him has yet to come forward.

Today is Agri-Business Day so I'm going to talk about the business of agriculture as I see it. Agriculture makes a lot of news these days, and the American Agriculture Movement can take much of the credit. Most people say they agree with their goals but disagree with their methods. I'm different I guess. I question their goals, but am awe-stricken by their methods, and the success they have achieved. There is no question in my mind that they are responsible for any changes that come about this spring in the current farm law. Fact is I'm down right frightened by the impact that such a group is able to have on our government which is supposed to represent the epitome of responsible deliberations.

Agriculture has troubles but we are not alone; our whole economy has problems. We've put ourselves into an inflationary trap from which there seems no escape. Our market system economy is designed to work so that the buyer sets the price. We find ourselves now in a situation where organized power groups, be they labor, business, or government, have undue influence in the market place. Even organized consumers have contributed to inflation. Agri-business has been adversely affected. Galbraith's countervailing power theories do not work for agriculture. Many farmers do agree with Galbraith in that they are being exploited. I am not yet willing to admit that I've been exploited. I do think that agriculture as a whole is pulling the wagon the rest of the country is riding in. I'm still hoping that someone can convince the people in the wagon that they at least have to push a little if they aren't willing to pull. I'm still hoping this will happen before the farmers all get in the wagon, but time is getting short.

Politicians have had the farmers on milk replacer long enough. It's about time they put a little hard feed in the ration. They talk in terms of doing this and doing that for the farmer but the only one who has really had guts enough to say it like it is is Congressman Nolan from Minnesota. He has authored the only bill I've seen that could produce 100% parity. It would put agriculture in a strait jacket and you'd have to have a license to farm, but it tells it like it is. You don't hear many farm groups falling over themselves to support it.

Since 1930 we've had experience with nearly every conceivable type of farm program except administration by an agriculture commission. I'd see that as more an admission of failure of respresentative democracy than a solution. We know what it takes to keep commodity production under control with our experience in tobacco and peanuts. It's at the point with tobacco where

acreage allotments now include poundage allotments with all the necessary government employees to check compliance. Tobacco has lost export markets. As of 1967 an acre of tobacco allotment was worth $6,015 to a farm; this according to an article in the February Intellect. It also said in one Kentucky county 52% of the landlords and 50% of the tenants had incomes of less than $3,000 in 1969. The results are obvious, price has been maintained, production has been controlled, the farmer has been saved if he had a farm, but what has been gained? The Talmadge and Dole Bills with the acreage restrictions are new approaches to old ideas. They look great but all objective economists can point out dangers to our general economy. From an agricultural standpoint the effect on animal agriculture could be serious because it will reduce consumption thru higher meat prices and force down the price of feeder animals just when recovery is underway.

The clamor for import controls is close to bearing fruit. I happen to believe that if we are going to have a meat import law it should be counter-cyclical. I don't believe I have to explain that approach to this group. I do think we'd all be better off if there was some way of leveling off beef production cycles that seem now to have become worldwide. My belief today is that it would be extremely dangerous to get any trade bill on the floor of Congress. Taken as a whole no farmer should talk of trade restrictions. Nearly a third of our sales depends on exports. Even Canada has a 3 to 1 ag trade disadvantage with the U.S. It appears that only sugar has to have strict trade restrictions. Beef may need some protection, but I for one am not willing to risk the whole area of world trade on the floor of Congress. Last year Congress came within one vote of passing a trade restriction bill on hand tools out of committee. The President has just put a substantial tariff on CB radios. Protectionism is running at high tide right now. It would be tragic if agriculture would be the segment of our economy that would tip the scales in favor of protectionism. Not only would we lose our markets, we would see prices of many things we buy virtually without competition.

I won't go into it here but a historical review of the Smoot-Hawley Bill of 1930 might be in order. It started as a protection measure for farmers and came out with something for everybody. We know what followed. Whether Smoot-Hawley was at fault or not, most historians give it some blame. Roosevelt and Churchill vowed in the dark days of 1942 that the world should have free interchange of goods unhampered by artificial barriers. I realize at times world trade seems unfair, but not to American agriculture. We have a mechanism for negotiating world trade. Let's improve it, not risk destroying it.

There is no easy fix for agriculture's problems, but there are some things we can change. The first is our state of mind. We must realize we are not the only economic segment with problems and that we are all in this world together. I realize this is hard to accept when we read about wage settlements for coal miners and truck drivers or when we read the annual reports of Pillsbury, Cargill or General Motors; or when we read of automatic pay raises for millions of government employees. Still, the cold hard truth is that inflation is real and deadly serious for us all. I keep hoping somebody can stop this runaway before we crash. I'm convinced if agriculture gives up, the crash is imminent.

There are a couple other traditional thoughts that make agriculture increasingly more unwilling to pull the wagon for everyone else. One is the belief that people are always forced off the farm instead of attracted off, and the second is that every farm youth has an inherent right to farm.

Just recently I heard of a case where a son had bought out the other members of his family on a long-term deal and started farming. He works hard, is totally diversified and should be able to make it. The thing that concerned me was that his folks seemed to feel the government had the responsibility of guaranteeing him a profit. The government has a responsibility to provide a climate where he has a good chance of making a profit, but they have no right to guarantee that everybody who puts a plow in the ground becomes wealthy; and lets face it, every farmer who makes it is wealthy by most accepted standards.

We must decide some goals for agriculture. I think Congressman Nolan has presented a well thought out, logical plan for agriculture and it is an attainable goal if there is a national commitment. I personally wouldn't like it and would consider it a national mistake but at least he's the first politician I know to come forth with something besides political pablum. I am inclined to feel that it is more directed toward social goals than economic goals. What's the difference? Texas newspaperman Jno Owens once said "economics translated to English is bacon and eggs." The social end under Nolan's bill could well be federalized peasantism.

I think another attainable goal is big or corporate farms. It would require some, but less national commitment than for all family farms. There is a great fear of big agriculture, but it is because big farms are a social concern rather than economic. I don't think they will cause higher food prices and could well be the most efficient way of providing the countervailing power agriculture needs. Farms are getting bigger but that is not all bad and probably necessary. The successful big farms I know of are owned by sons of the soil.

I think big agriculture will never totally take over without help because some forms of agriculture never will lend themselves to impersonal management especially animal agriculture. At the turn of the century only a few herd owners grazed most of western South Dakota. They are gone. Just recently in our area I've seen the heir of cannon towels throw in his towel. From our own experience, our family owned a large range in northwestern South Dakota. It was unsuccessful for several reasons many of which we could not control, but mainly it was not diversified enough and had all hired labor. When it sold five years ago, it was divided among five neighbors one of which was a man who worked for us; who had started with nothing and now has a ranch. They are still in operation.

I'm sure big farms are facing utlimate unionism and most any farmer should be able to compete with that if the government insures open markets. If big farms are a menance, current agricultural policy contributes to it. I don't fear big agriculture, but I hate to see their growth encouraged by government subsidies. Expansion of present policy will create a large class of tax supported millionaires.

I think we are naive if we suggest that the government get out of agriculture. I think we are just as naive to think 100% of parity or any other power-marketing concept could involve as many producers as we have without involving the police power of the state.

I also think any income transfer program based on units of production or percent of capital is self-defeating for family farms. I agree with Don Paarlberg who said in his book American Farm Policy, "No question about it: to whatever degree the price supports raised average farm income this was

done by widening the dispersion of income within agriculture." I think there has been a direct correlation in our county between farm payments and land acquisition. It's commonly accepted that government payments are soon capitalized in land values so it follows that big grain farmers who get the bulk of government payments can outbid the diversified farmer for land. Mayer, Heady and Madsen of Iowa State did a study in which they simulated no farm programs and computed the results. They came to the conclusion that the net income of farm operators would have been about 25% lower than the average farm income actually was for 1965 and 1967. Probably we'd get no argument there, but what was interesting to me was that the estimated return to family and hired labor would have been more than 10% higher than it actually was in 1967.

The point I have been trying to make is that if the family farmer is to survive it is going to have to be because of returns to his labor and farm management ability. Not through a contest with his neighbor for government subsidies. I have no fight with the big farmer that got that way by hard work and good judgment. I do resent farmers that got big or rich because they were able to figure out and anticipate government programs or worse yet influencing them in their favor. Currently people are attempting to get a farm program that will enable farmers to make a living by working six months each year. For a lot of farmers that has already been achieved and I have no quarrel if he gets no subsidy. I still think a farmer, if he wants to be called a farmer, should be willing to slop the hogs and pull the lambs before he can complain. The market system is crying for sheep, and production is down again this spring. Eventually, if some people have their way we'll either run out of sheep or the government will force us to raise them because who would raise sheep if he can make a living in grain farming. No offense to you sheep lovers but your numbers are declining.

I still think an attainable goal is maintainence of a free, widely dispersed agriculture system like we still have. Emphasis must be on the fully employed diversified farmer, but with no conscious restrictions on any other type.

To maintain and improve this system we should eliminate self-defeating programs for the family farmer based on payments per bushel or on a percentage of acres owned or operated. Also, contradictory ag programs are numerous, often discriminating against fully employed farmers, and must be re-examined. I'm opposed to payment limitations because they would discriminate against the efficient big farmer if they were effective. I'd leave all income transfer programs to Health, Education and Welfare Department. This would be a bitter pill in many cases but the alternative is worse.

I think most tax shelters for agriculture should be eliminated including, but not limited to, tax exempt capital gains on cattle, investment credit and accelerated depreciation. This is not because these are unfair to non ag taxpayers, in fact I feel they may benefit, but because they have little value to a struggling farmer and probably even drive his costs up. I also think tax farming contributes to wild swings in the cattle business.

I cringed when I saw those guys driving the goats up the steps of the capitol. I cringe even more when I read of farm organizations pleading poverty on one hand and for tax shelters on the other. Reduced estate taxes on farms would be a legitimate exception in my opinion.

Disaster, loan, and storage programs are necessary and valuable for their stabilizing and orderly marketing effects. They must be carefully used, and even then abuse is inevitable. Loan rates must not drive us out of world markets and storage payments themselves dare not be profitable on all stored grain.

The government must help develop and insure access to all markets, domestic and world, but they shouldn't tamper in the marketplace. I've recently been in contact with a large hamburger chain. They were unwilling to assume the risks that the farmers are forced to take as far as raising and feeding cattle. That is both good and bad. Good, in that they stay out of our business, bad in that they operate in the secure world of profits and expansion while expecting us to take the risks and be the shock absorber. If a profit were secure they'd sure want in our business. On the other hand their desire for and ability to make a profit selling hamburgers has created a previously undreamed of demand for ground beef. We dare not tamper with that profit motive.

Government has a responsibility in research, and not just in efficient production.

The only direct income transfers that I'd have outside of H.E.W. would be soil conservation payments. I would make some practices profitable, not just cost sharing, with on-going maintanence payments for approved practices.

Agriculture as a whole must not throw in the towel. There are bound to be some new uses for our products and new products to grow. I'm not a gasohol enthusiast, but that doesn't mean it's not possible. Building materials and paper production may have ag potential. After investigating the hamburger market I'm sure no one knows the best way to produce hamburger; and it will soon represent one-half of our beef sales. Some predict hamburger will go to 60% of sales. Today the industry just finds hamburger where they can. Over 6 years ago, I gave a speech where I said I didn't know if we could compete with imported beef, but I knew we'd never tried. That statement is still true, but I think it is about time we tried.

It is not unreasonable for a farmer to feel exploited. I can sure understand why, but all of us are in agriculture by our own choosing. I think agriculture is our country's strength, but more because of high production than prices received. We dare not jeopardize that production capacity by recimented farming, subsidized cutbacks or unfair production incentives which distort the market place.

I think the dispersed, family-entreprenuer type agriculture is possible without direct raids on the federal treasury. Hopefully sometime soon our nation will come to its senses and somebody will help the farmer pull the wagon.

1978 U.S. GRAIN PRICE AND FOREIGN TRADE OUTLOOK

Agri-Business Day, S.D.S.U.
April 4, 1978

Arthur B. Sogn
Extension Economist, Grain Marketing
South Dakota State University

Fundamentals seem to indicate very little chance for substantial price improvement in any of our U.S. grains for 1978. The projected carryover supplies of wheat are about 60 percent of one year's production, corn 18 percent, barley 43 percent, sorghum 26 percent, oats 42 percent, and soybeans 13 percent. This implies that in spite of reduced plantings indicated for many 1978 grains supplies for 1978 will be as great as in 1977 because of the large carryover supplies. For this time of year projections must be made on the assumption of a normal crop.

There are some reasons why we believe grain prices for wheat and feed grains may be higher by the fall of 1978. First, weather conditions make a world crop comparable to those of 1975, 1976 and 1977 very improbable. Second, export demand for U.S. grains is currently very good, and three, it appears that U.S. ag policy must support grain prices at a higher level than it is currently doing.

U.S. Grain Exports

Grain exports have a direct relationship to U.S. carryover supplies as 54 percent of wheat, 25 percent of feed grains and 60 percent of soybeans raised in 1977 went for export. The demand for U.S. grains for export is currently very good. There are more ships in the Gulf of Mexico than has been seen there since the bonanza export year of 1972. Projections at this time are for a record export year of agricultural products in volume, but not in value. Agriculture exports are projected below last years record of $24 billion, to somewhere around $22.5 billion figure. Volume is expected to raise from around 102 million metric tons last year to about 111 million metric tons this year.

Projected exports of major U.S. grains during the respective crop years are:

Corn	1,750 million bushels
Wheat	1,100 million bushels
Barley	60 million bushels
Oats	10 million bushels
Sorghum	225 million bushels
Soybeans	625 million bushels
Total	3,770 million bushels

Agriculture exports have saved the U.S. economy from possible disaster the past few years with their contribution to the balance of trade. Ag exports contributed $12.4 billion to the balance of trade in 1975, $12.3 billion in 1976, $10.6 billion in 1977, and it's projected to contribute around $9.0 billion in 1978. The contribution to the balance of trade is that balance that ag exports exceed ag imports.

Volume of U.S. Agricultural Exports

Commodity	Fiscal Year 1976	1977	1978[1]
	(Million metric tons)		
Wheat and flour	30.61	24.72	31.0
Feed grains	49.86	50.60	51.6
Rice	1.95	2.23	2.2
Soybeans	15.05	15.16	16.6
Vegetable oils	.89	1.14	1.2
Oilcake and meal	4.87	4.34	4.5
Cotton, including linters	.77	1.03	1.0
Tobacco	.27	.30	.3
Fresh fruit	1.37	1.35	1.4
Animal fats	1.03	1.38	1.3
Total[2]	106.67	102.24	111.1

[1]Forecast. [2]Totals may not add due to rounding.

SOURCE: Ag Outlook AO-30, March 1978.

Value of U.S. Agricultural Exports[1]

Region	Fiscal Year 1976	1977	1978[2]
	($ Bil.)		
Western Europe	7.21	8.61	7.0
European Community	5.69	6.83	5.4
Other Western Europe	1.52	1.78	1.6
Eastern Europe	1.29	.98	1.1
USSR	2.05	1.09	1.4
Asia	7.43	8.13	7.8
West Asia	.82	1.10	1.2
South Asia	1.14	.68	.5
Southeast and East Asia (excl. Japan and PRC)	2.07	2.47	2.5
Japan	3.41	3.88	3.4
PRC	(3)	(3)	.2
Canada	1.43	1.59	1.5
North Africa	.70	.78	.9
Other Africa	.44	.57	.6
Latin America	2.09	2.13	2.1
Oceania	.12	.15	.1
Total[4]	22.76	24.01	22.5

[1]Adjusted for transshipments through Canada and Western Europe. [2]Forecast. [3]Less than $50 million. [4]Totals may not add due to rounding.

SOURCE: Ag Outlook AO-30, March 1978.

	1975	1976	1977	1978*
Ag Exports (billions of dollars)	21.9	22.8	24.0	22.5
Ag Imports (billions of dollars)	9.5	10.5	13.4	13.5
Ag contributions to balance of trade	12.4	12.3	10.6	9.0

*Projected

It is interesting to speculate at this time that if current agricultural policy could raise the price of the major U.S. grains by 50 cents a bushel, the contribution to the balance of trade could increase by nearly $2 billion a year.

There are possible problems in reaching the grain export projections for 1978, in spite of the excellent demand. (1) The explosions that racked the export elevators on the Mississippi River and on the Gulf of Mexico reduced our loading capacity by 10 percent. (2) The weather has slowed shipments. Excessive snow, water and a delayed opening of some of the main rivers for navigation are the main weather-related deterrents to shipping grain. (3) Threatened farmer holding of grain and (4) a current shortage of railroad equipment for loading grain in the country could also delay grain shipments for export.

Reaching the 1978 projections for export grain means the flow of grain must flow steadily, without interruption.

The total deficit in our export trade, which includes agricultural and industrial was nearly $27 billion last year (1977). Oil imports are the largest contributor to the deficits, currently costing about $40 billion a year.

1977 Economic Issues

Most likely the most discussed economic issues in 1977, and so far in 1978 is the decline in the value of the dollar. The value of the dollar effects nearly every person in the U.S. in one way or another. A lower value dollar will make the coffee, cocoa, Toyotas, Volkswagons, cameras and anything made in foreign countries, more expensive comparatively. Conversely, it will make our items for export a better buy. Before those of us closely related to agriculture take joy in what a declining dollar may do to the demand for our grains and other products, we must also remember it also makes our farms, processing plants, export elevators, etc., better buys for foreigners also.

Since the summer of 1977, the U.S. dollar has declined as much as 10 to 15 percent in relationship with the Swiss Franc, the Deutsche Mark, the Japanese Yen, and yes, also the British Pound. We have about kept pace with the Canadian dollar because it too has declined in value. The dollar has declined 5 percent already in 1978 in relationship to the yen.

The main causes of the decline in the value of the dollar are the billions of dollars we are spending abroad for oil, and the lack of confidence in our currency because of the large deficit in our balance of trade. The slowing economies of Europe and Japan have also contributed to our problems by having them push their exports, but slow down their imports.

The dollar will adjust upward again sometime, but then the inverse of a declining dollar will result in its relationship to agricultural trade. In the meantime, we should attempt to sell as much grain for export as we can to rid ourselves of the price depressing carryover supplies of many of our grains.

To avoid any misunderstanding, a declining dollar does not always promise a more competitive price situation for our grains. Some countries use import restrictions and levies to offset this advantage.

1978 Farm Expenses

An integral part of how farmers fare in a given year is what happens to their expenses. Farmers should not experience any increase in agricultural chemicals and fertilizer for 1978. Supplies are plentiful and use of chemicals should be stable, and there may be a small reduction in the use of fertilizer. Energy is expected to continue its rise in cost. Supplies of fuels should be adequate, but always uncertain. In total, 1978 farm expenses should show only a slight increase over 1977. Farm expenses increased about 5 percent in 1977 but because of the large crops were not so significant. Farm expenses could be considerably higher in 1978 in relation to production.

There are several indications that the worst is over for farmers and there are better days and years ahead. There are too many indicators to mention here, however, of special note is that total world supplies were able to increase substantially only 1 year of the three (1975-1977) large world crop year. In other words, world consumption is increasing faster than production based on normal world production. It really is true we may need our grain reserves, but we must not bankrupt our farmers waiting for that seemingly inevitable time.

Fuel and Energy Prices Paid by Farmers

Month and Year	Diesel	Gasoline[1]	Fuels and Energy
	(Cts. per gal.)		(1967=100)
1976			
January	41.4	52.5	185
April	40.7	51.3	183
July	41.7	54.2	189
October	41.5	54.6	190
1977			
January	43.1	54.7	196
April	44.8	56.4	201
July	45.0	57.8	204
October	45.7	57.5	204
1978			
January	45.8	57.8	206

[1]Bulk delivery.

Selected Farm Production Expenses[1]

Account	1975	1976	1977
		($ Bil.)	
Feed purchased	12.6	13.9	13.7
Livestock purchased	4.9	5.8	6.4
Fertilizer	6.4	6.2	5.9
Repair and operation	7.6	8.3	8.9
Hired labor	6.4	7.0	7.6
Interest	6.6	7.3	8.1
Depreciation	12.6	13.9	15.0
Taxes on property	3.3	3.5	3.8
Total production expenses	75.9	81.7	85.7

[1]For calendar year.

IMPLICATIONS OF RECENT DEVELOPMENTS ON LIVESTOCK OUTLOOK

Agri-Business Day, S.D.S.U.
April 4, 1978

Gene E. Murra
Extension Economist, Livestock Marketing
South Dakota State University

Many factors have an impact on the price and profit outlook for livestock. These factors include both those within the industry, such as numbers, weights and grades of livestock, and those external to the industry, such as grain prices, foreign trade and consumer income. Because there are so many factors which affect price outlook, it is virtually impossible to predict exactly what will happen and, recently, an acceptable prediction might be one that merely is in the ballpark. Certainly, it seems that it is much safer to predict long-term trends than day-to-day occurrences. Too many people remember what was predicted for onlv a day, week or month in advance but might forget after enough time passes.

Rather than attempt to cover all factors, this presentation will focus on the major developments which recently have occurred in the hog and cattle industry. The impact of these developments also will be covered.

Hog Outlook

Recent developments - The most dramatic development in the hog industry was the March 1 hog and pig inventory released by the USDA on March 21. Comments on the report were mostly in the "shocked," "surprised," or "disbelief" categories. An indication of "what was expected" versus what the report included can be seen in the following table.

Table 1. A Comparison of Expected to Actual Inventory Estimates, Hog and Pig Report, March 1, 1978.[1]

Category	Expected			Actual
	Minimum	Maximum	Average	
	(Percentage of Year Earlier Figures)			
All Hogs and Pigs	102	111	107	101
Kept for Breeding	105	115	111	99
Kept for Marketing	101	111	106	102

[1]Expected figures are those obtained from livestock market analysts surveyed before the report was released while actual figures are those contained in the USDA report dated 21 March.

The wide disparity between what was expected (a relatively large increase) to the actual report (very small increases and even a decrease) surprised the industry. That is, most analysts expected relatively large supplies of hogs and pigs, something which would depress prices. The actual report showed fairly stable numbers, something which would cause a bullish market.

Other recent developments include (1) an extension of time to the pork industry to evaluate and change the use of nitrates in cured products, (2) a widespread concern about pseudorabies and (3) the impact of a relatively bad winter.

Outlook - Of the above recent developments, the March 1 report had and will continue to have the greatest impact. Prior to the report most price expectations were in the $40-50 range for 1978, with an average in the low $40's. Some possibility for prices in the mid to upper $30's also existed. Currently, most price expectations are in the $45-55 range, with an average in the mid to upper $40's. Again, some predictions include price swings to as low as $40 and as high as $60, although only for short periods of time. As can be seen in Figure 1, such a price level would be comparable to the first half of 1976 and above the levels achieved in the last half of 1976 and most of 1977.

Other recent developments noted earlier also can play a role. The relaxation of the nitrate ban should help on the demand side. The pseudorabies problem could affect the supply side and the past bad weather probably already has affected supply.

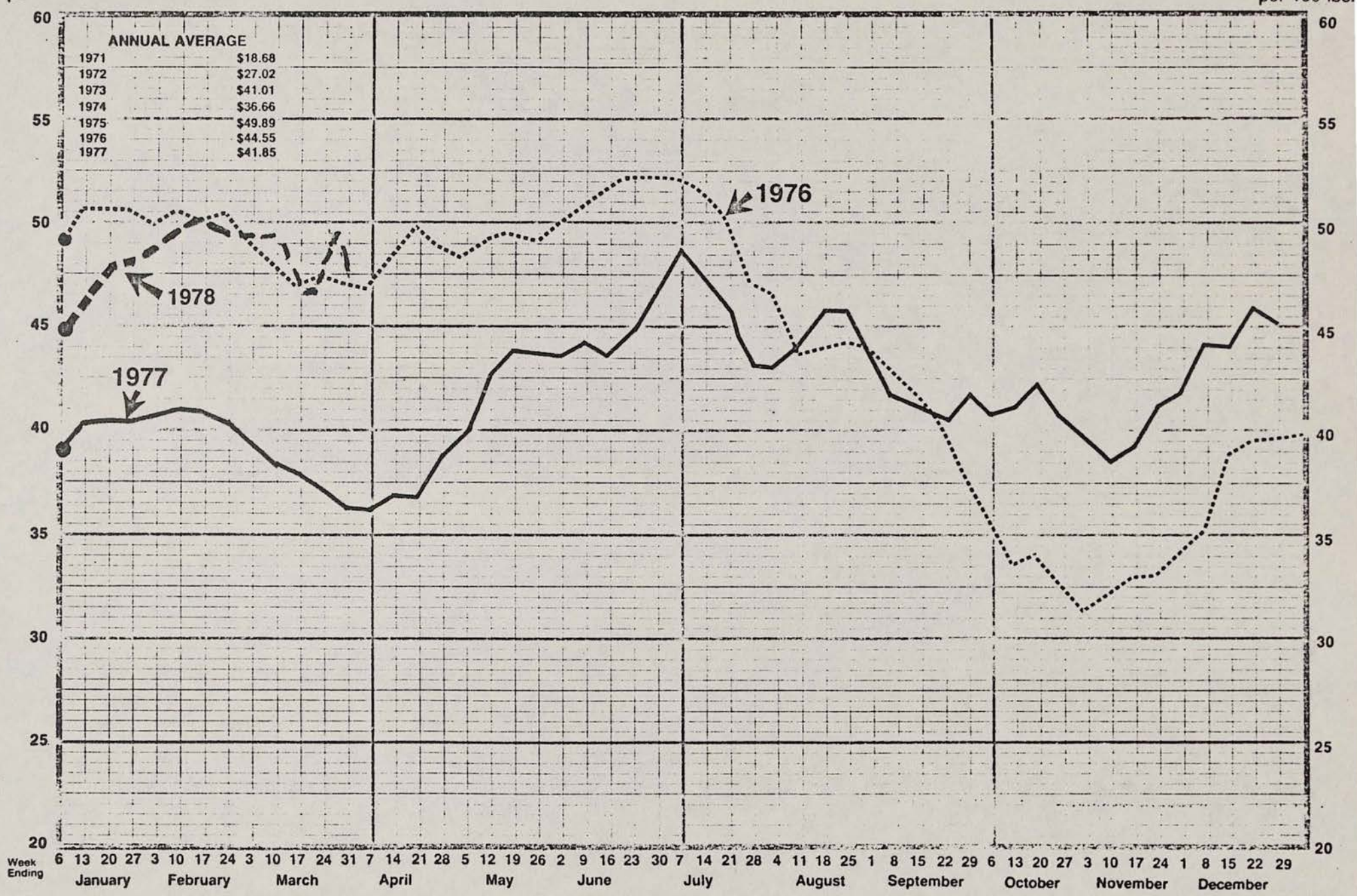
Certainly, there is no guarantee that prices will achieve the levels noted above. However, the level of inventories, the relatively good condition of consumer demand and prices of major substitutes would all lend considerable optimism to hog industry outlook. Certainly, there is more optimism now than only a few months ago. The degree of change in hog outlook probably can best be seen in Table 2. Futures prices for hog contracts for selected days are presented. It is easy to see that the mood changed from October to now. The big change in prices between March 21 and March 28 is due to the March Hog and Pig Report noted earlier.

One final comment. The strong market now along with expected high prices could eventually cause some problems. Consumers may rebel if prices at the retail level get too high and too much expansion may occur if profit-level prices continue.

Table 2. Daily Closing Prices for Live Hog Contracts

Contract Month	Date				
	Oct. 27	Dec. 28	March 21	March 28	April 3
April	33.25	38.35	45.12	47.57	46.90
June	34.67	40.10	47.82	51.75	50.97
July	34.90	40.15	47.72	51.90	51.17
August	33.30	37.50	44.90	50.27	49.92
October	31.40	35.70	40.77	46.27	46.05
December	31.80	35.65	40.95	46.55	47.22
February	---	35.15	41.22	45.85	45.10

Figure 1


Dollars per 100 lbs.
Choice 200 - 220 lb. Hogs
Kansas City
Dollars per 100 lbs.
ANNUAL AVERAGE
1971 $18.68
1972 $27.02
1973 $41.01
1974 $36.66
1975 $49.89
1976 $44.55
1977 $41.85
1976
1978
1977
60
55
50
45
40
35
30
25
20
Week Ending
6 13 20 27 3 10 17 24 3 10 17 24 31 7 14 21 28 5 12 19 26 2 9 16 23 30 7 14 21 28 4 11 18 25 1 8 15 22 29 6 13 20 27 3 10 17 24 1 8 15 22 29
January
February
March
April
May
June
July
August
September
October
November
December

Cattle

Recent Developments - A major development in the cattle area also concerned an inventory report, in this case the January 1, 1978 Cattle and Calf Inventory released on January 30. Although this report was not as surprising as the hog report, the amount of inventory decrease was surprising to many. Total inventory declined by five percent, while beef cow numbers declined by six percent (Table 3). Total decreases since January 1, 1975 were approximately 16 million head. Both the rate and amount of decrease in cattle numbers were greater than that noted in the 1930's, a period of rapid cattle inventory reduction.

Table 3. January 1 Cattle Inventory[1]

Class	1975	1976	1977	1978	1977 to 1978
	-------- Million Head ---------				% Change[2]
Cattle and Calves	132.0	128.0	122.8	116.3	- 5
Cows and Heifers that have calved	56.9	55.0	52.4	49.7	- 5
Beef Cows	45.7	43.9	41.4	38.7	- 6
Milk Cows	11.2	11.1	11.0	10.9	- 1
Heifers 500 pounds & over	19.5	18.5	18.5	17.7	- 4
For Beef Cow replacement	8.9	7.2	6.5	5.8	-11
For Milk Cow replacement	4.1	4.0	3.9	3.9	0
Other Heifers	6.5	7.4	8.1	8.0	- 1
Steers 500 pounds & over	16.3	17.1	16.9	16.8	- 1
Bulls 500 pounds & over	3.0	2.8	2.7	2.5	- 5
Heifers, Steers, and Bulls under 500 pounds	36.3	34.5	32.4	29.6	- 9

[1]Some class totals may not add due to rounding. [2]Percents calculated from unrounded numbers.

South Dakota was one of about a dozen states which had an increase in both all cattle and beef cow numbers. In both cases, increases in South Dakota were the largest of any state. The states cattle inventory went from 3.65 million head to 3.925 million head, while the beef cow inventory increased from 1.378 to 1.478 million head.

Other recent developments affecting cattle outlook included more discussions on meat and cattle imports, cattle on feed reports, and the previously noted hog report.

Outlook - The impact of the inventory report and the total inventory picture in general are the major factors in cattle outlook. Numbers of cattle are at a managable level and, as a result, there is considerable optimism.

This optimism is noted both in the feeder cattle and fed cattle areas, at least in terms of price. The profit picture is the fed cattle area depends both on grain prices (note comments by Art Sogn earlier) and feeder cattle prices. High prices in both of those areas could reduce profits in the fed cattle market. Currently, projections are for prices to be above levels noted during the last two or three years. Estimates range from a minimum of $5 above the higher 1976-77 levels to $15 above lower 1976-77 levels per hundredweight for fed steers and from $10 above the highest 1976-77 levels to $25 above the lower 1976-77 feeder calf prices. Figures 2 and 3 can be used as a basis for 1976-77 prices. Higher feeder cattle prices are a result of the smaller inventory, as noted in Table 4. In addition, higher feeder cattle prices can erase much or all of the profit in the feedlot, even when fed cattle prices are high.

Table 4. January 1 Feeder Cattle Supply

	1975	1976	1977	1978	1977 to 1978
	------- Thousand Head ---------				% change
Calves less than 500 pounds					
On Farms	36,291	34,531	32,363	29,574	- 9
On Feed[1]	996	1,322	1,351	1,614	+19
Total	35,295	33,209	31,012	27,960	-10
Steers & Heifers 500 pounds and over[2]					
On Farms	22,851	24,476	24,942	24,746	- 1
On Feed[1]	9,100	11,542	11,125	11,775	+ 6
Total	13,751	12,934	13,817	12,971	- 6
Total Supply	49,046	46,143	44,829	40,931	- 9

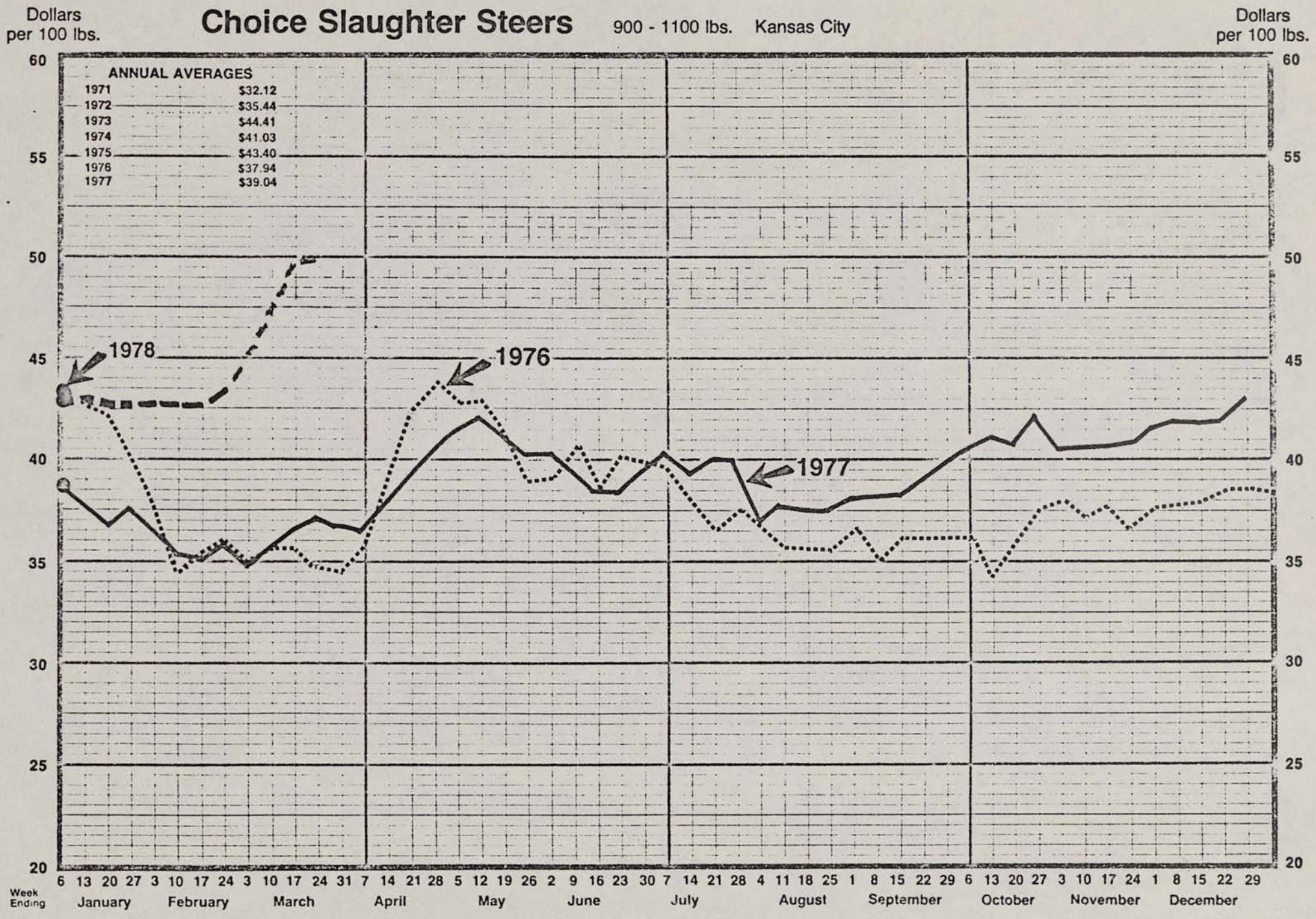
[1]Estimated U.S. steers and heifers. [2]Not including heifers for cow replacements.

Another factor related to the cattle inventory which will affect outlook, especially for selected categories of both live animals and meat, is commercial slaughter. Historically, about 60 percent of commercial slaughter is in the fed category, another 10 percent in the non-fed category and 30 percent in the cows and bulls category. (See Figure 4)

Currently, expectations are that total fed slaughter will not change drastically but reductions are expected in the other two categories, especially cow slaughter. Thus, a higher percentage of the slaughter will be in the fed category. Feedlots will bid for the non-fed animals and producers will hold back more replacement heifers and cull fewer cows as they attempt to rebuild cattle numbers. This probably will mean that feeder cattle prices will be high relative to other cattle prices, and breeding stock will also be relatively high priced. In the meat category, ground beef will probably be priced high relative to meat cuts.

Once again, price projections are subject to change. However, given the level of inventories, favorable consumer demand and prices of substitutes, one must arrive at an optimistic outlook. As for hogs, there has been a change

Figure 2


Dollars per 100 lbs.
Choice Slaughter Steers
900 - 1100 lbs. Kansas City
Dollars per 100 lbs.
ANNUAL AVERAGES
1971 $32.12
1972 $35.44
1973 $44.41
1974 $41.03
1975 $43.40
1976 $37.94
1977 $39.04
1978
1976
1977
60
55
50
45
40
35
30
25
20
Week Ending
6 13 20 27 3 10 17 24 3 10 17 24 31 7 14 21 28 5 12 19 26 2 9 16 23 30 7 14 21 28 4 11 18 25 1 8 15 22 29 6 13 20 27 3 10 17 24 1 8 15 22 29
January
February
March
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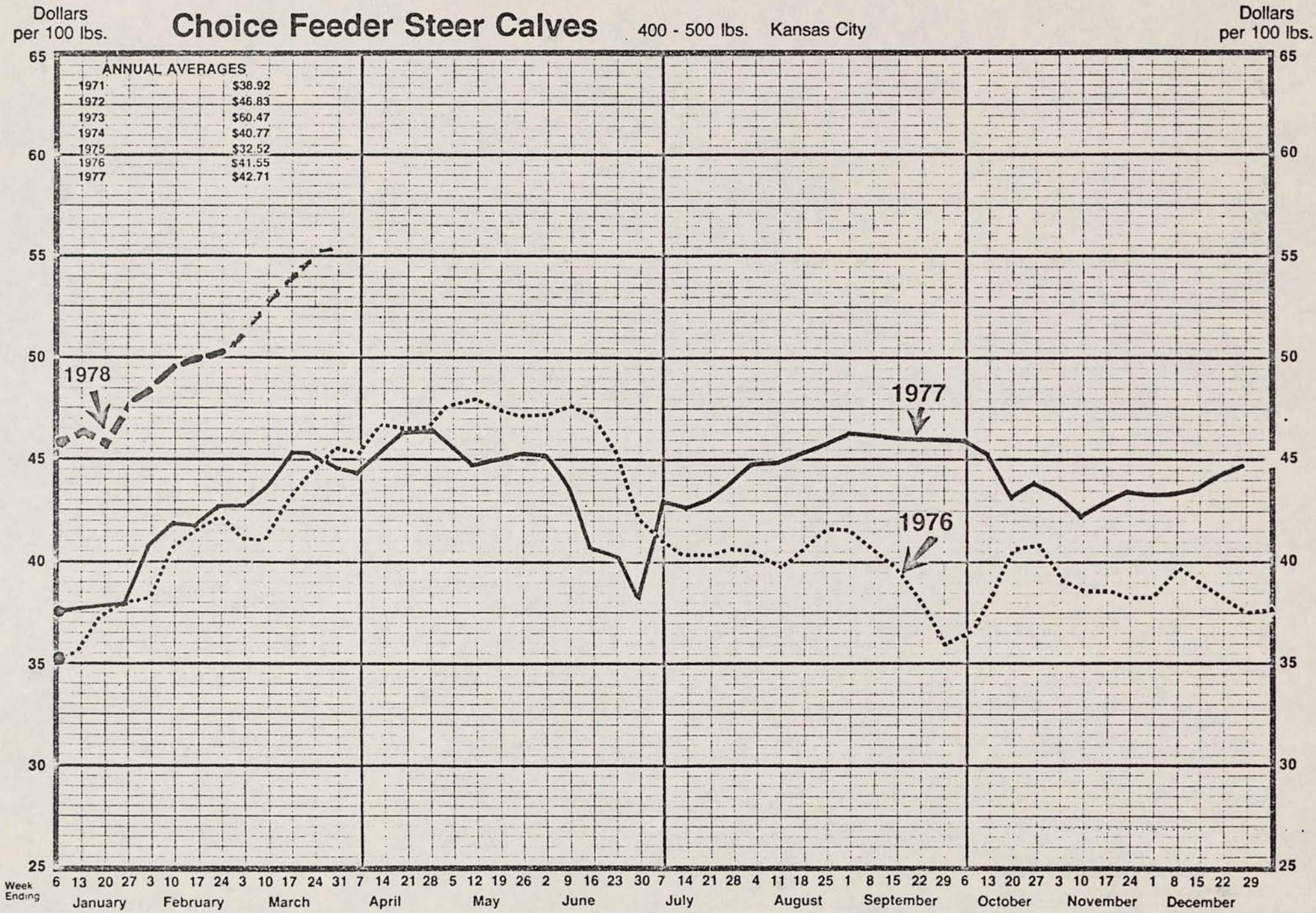
October
November
December

Figure 3


Dollars per 100 lbs.
Choice Feeder Steer Calves
400 - 500 lbs. Kansas City
Dollars per 100 lbs.
ANNUAL AVERAGES
1971 $38.92
1972 $46.83
1973 $60.47
1974 $40.77
1975 $32.52
1976 $41.55
1977 $42.71
1978
1977
1976
65
60
55
50
45
40
35
30
25
Week Ending
6 13 20 27 3 10 17 24 3 10 17 24 31 7 14 21 28 5 12 19 26 2 9 16 23 30 7 14 21 28 4 11 18 25 1 8 15 22 29 6 13 20 27 3 10 17 24 1 8 15 22 29
January
February
March
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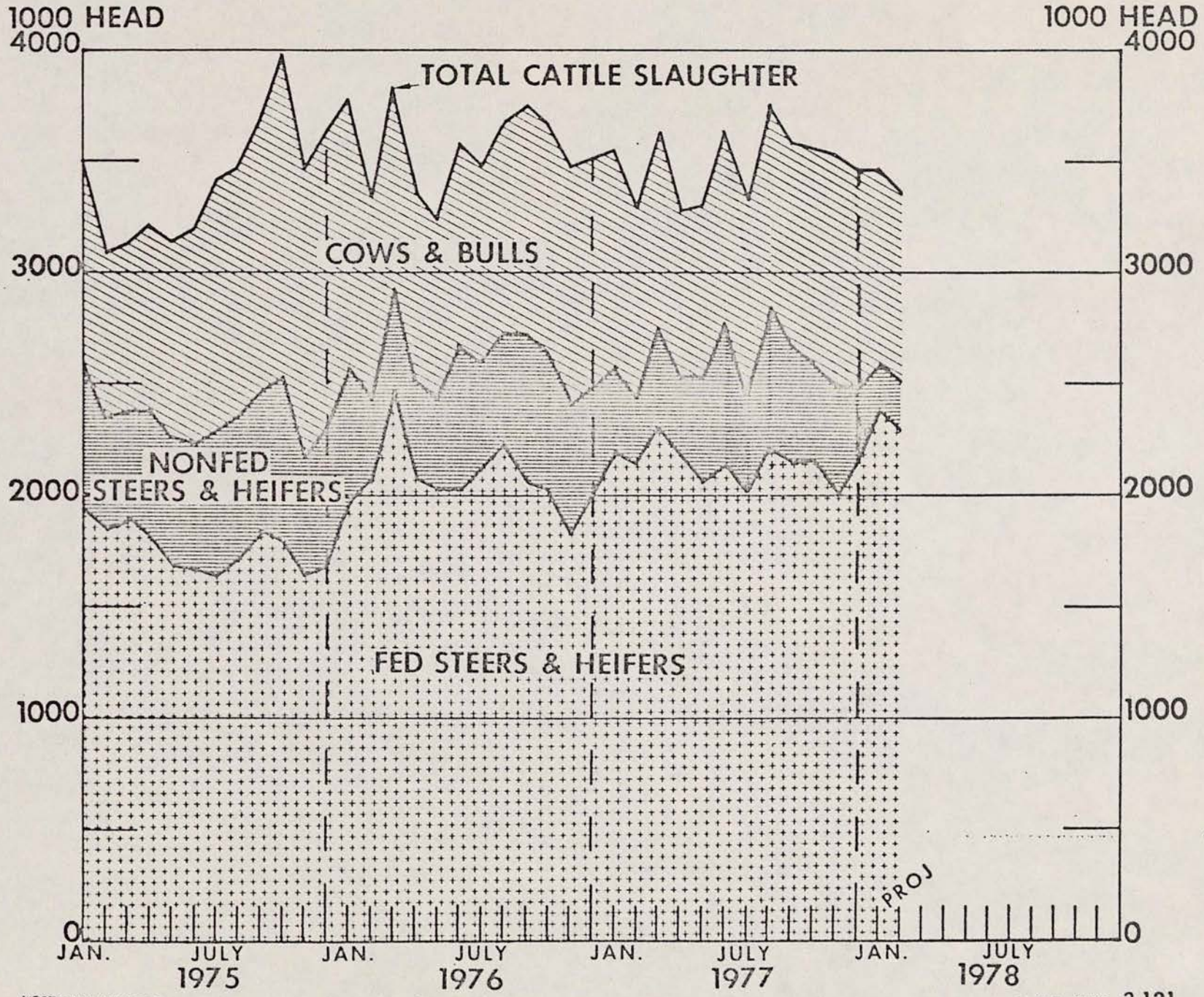
November
December

Figure 4

ESTIMATED COMMERCIAL CATTLE SLAUGHTER BY CLASS, MONTHLY



WESTERN LIVESTOCK MARKETING INFORMATION PROJECT

3/15/78 3.121

in cattle outlook in recent months. The degree of optimism can be discerned from price changes in the futures market, as noted in Tables 5 and 6. Also note the affect of the March hog report on the cattle contracts between March 21 and March 28.

The same warning noted for the hog industry also could be made for the cattle industry. Price increases at the producer level will encourage expanded production. While this is a slower process for cattle than for hogs, it could occur and cause a repeat of the price picture noted for the last three years. Also, if prices get too high, some consumers might switch to other meats or eat less meat.

Table 5. Daily Closing Prices for Fed Cattle Contracts

Contract Month	Date Oct. 27	Feb. 8	March 21	March 28	April 3
April	38.90	44.32	52.02	53.67	51.17
June	39.90	45.60	50.25	52.80	49.67
August	40.00	45.90	49.35	51.72	49.57
October	40.12	45.87	48.45	50.45	49.05
December	40.47	46.20	48.90	50.52	49.05
January	---	46.15	49.10	50.50	49.50
February	---	46.32	49.25	50.80	49.37

Table 6. Daily Closing Prices for Feeder Cattle Contracts

Contract Month	Date Oct. 27	Feb. 8	March 21	March 28	April 3
April	42.30	49.20	54.30	57.00	55.65
May	42.40	49.17	53.80	56.17	53.50
August	42.40	49.25	54.12	56.27	53.60
September	42.40	47.45	54.35	55.90	53.45
October	42.40	49.17	53.40	55.10	52.65
November	---	49.80	---	55.60	53.37
January	---	50.32	---	56.90	54.65

Summary

The outlook for both hogs and cattle can best be described as optimistic. The optimism primarily is the result of factors on the supply side, especially reduced inventories. Other factors can have an effect, but this probably will be less noticeable than that caused by inventory changes.

RAILROADS IN SOUTH DAKOTA

Agri-Business Day, S.D.S.U.
April 4, 1978

A. Clyde Vollmers
Assistant Professor, Agricultural Marketing
South Dakota State University

The current situation facing South Dakota rail users can be described very briefly, its critical. In this presentation I will first examine the present conditions, then explore factors contributing to the situation and conclude by examining alternative courses of action available to South Dakota shippers.

An Assessment of the Current Railroad Situation

The largest railroad in South Dakota, the Milwaukee, which operates 48% of the state's trackage, is bankrupt and the Chicago and Northwestern railroad which operates 34% of South Dakota's trackage is encountering serious financial difficulties.

Although car shortages seem to be a perpetual part of grain marketing, the present shortage is the most serious since the Soviet grain sales of 1972. The carrier with the greatest shortage is apparently the Burlington-Northern which carried 16% of the 1976 carloadings in South Dakota.

Continuing abandonments are rapidly changing the railroad map in South Dakota and this trend is likely to continue into the future (see Figure 1). By May 1, 1977, in response to 4-R's requirement, the railroad companies collectively classified over 50% of the trackage in the state as potentially subject to abandonment. While the classification is constantly changing, the May 1, 1978 classifications are approximately:

219 miles approved for abandonment
468 miles filed for abandonment
459 anticipated abandonment application within 3 years
690 potentially subject to abandonment and subject to further study

Factors Creating the Present Situation In Transportation

Effective policy, in the long run, must be directed at the causes rather than the symptoms of the problem. This section will examine some of the many factors which have contributed to the present conditions which exist in the South Dakota rail system.

1) For many years the railroads have been compelled to serve branchlines which have been operating at a loss, creating a drain upon total profit. When abandonments have been approved, the procedures have been slow extending the profit drain.

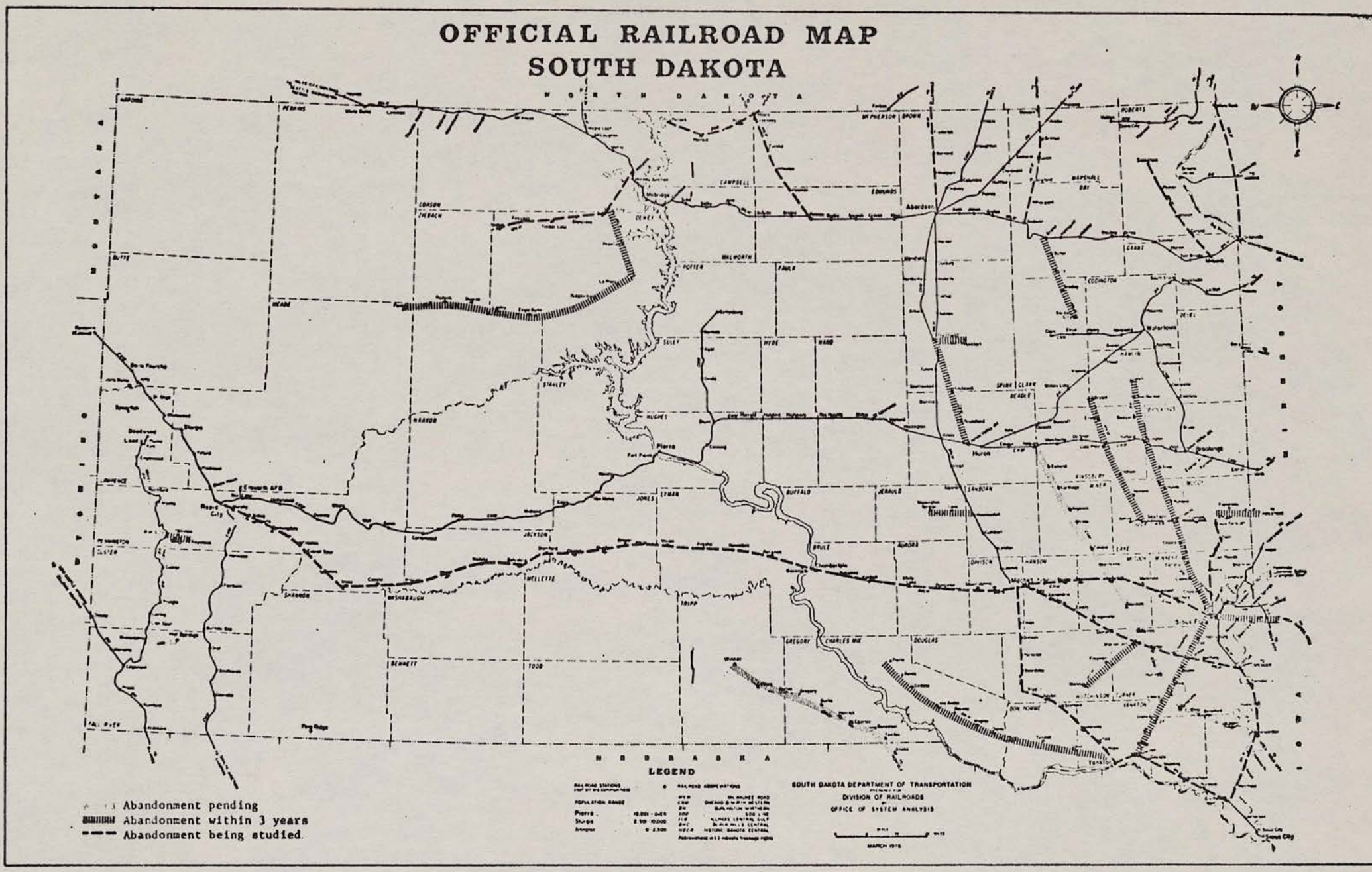


FIGURE 1. Abandonment proposals involve 16 lines within the next 3 years (December 1977 data).

2) The railroads have maintained duplicate lines serving essentially the same area. Given the high costs of line maintenance, the continuation of duplicate lines imposes an unnecessary cost upon the system.

3) The regulation of rates has sometimes had the effect of reducing potential revenue to the railroads. While grain rates are regulated for the railroads, rates for their competition, trucks and barges, are not. This leaves the railroads in an inflexible, uncompetitive position which has reduced potential revenue for the railroads and resulted in some freight moving by alternative modes which could have been shipped more economically by rail. Delays in granting rate changes have also had a significant effect on revenues. During inflationary periods this becomes especially important as increased operating costs cannot be recovered immediately through rate adjustments.

4) The practices and regulations which control the relationship between different railroads and between railroad and shippers increase costs while reducing the effectiveness of rail service. For example, the current car shortage has been created, in part by deteriorating right-of-ways which lengthen turn around time, a lack of investment in rail cars and inefficient use of existing cars. This has resulted from the low per diem rate which encourages railroads to use cars belonging to other carriers and low demurrage rates which allow shippers to use cars for storage.

5) Over 50% of railroad revenues are expended for labor, but labor practices have often failed to adjust to changes in technology which would reduce labor requirements.

6) Poor rail management and an uncertain future have curtailed innovations and adaptations to new technology, organizational improvements and changes in market conditions.

7) Various policies and practices have benefitted other modes at the expense of railroads. Construction and maintenance of the ways have been provided and at least partially subsidized for most other modes while railroads have provided and paid taxes on the rail lines.

8) Rail service involves high fixed costs and relatively small variable costs which means that a decline in traffic reduces revenue substantially more than it reduces expenses. To maintain liquidity many railroads have responded to reduced traffic by attempting to reduce costs. However, the cost reductions have usually involved a reduction in the quality of service which leads to a further traffic decline. And the line is caught in a continuing spiral of traffic reduction and service reductions which often leads to its abandonment.

Alternative Courses of Action Available to South Dakota

Each rail line is a unique case, differing in use, importance and future. Thus, one alternative will not suffice for all lines and various alternatives need to be explored.

1) For lines with very light traffic and little potential for increased traffic flows, the most viable alternative may be to accept the unprofitability of the line, agree to abandonment, and depend upon alternative modes for service. Some lines which have been abandoned could become necessary in the future as

technological and market changes occur. To ensure that the rights-of-way are available at a reasonable cost, selected rights-of-way can be purchased and retained by the state or "rail banked."

However some lines which are currently under study may be salvageable through the joint efforts of the railroads, shippers and the public sector. The following are some methods available to help preserve branchlines.

2) By attracting new industry the viability of the total rail line system can be improved. But industrialization probably will not help preserve branchlines because most firms will not locate on lines which are potentially subject to abandonment. This also indicates the importance of the state rail plan which was recently completed. The state has prioritized lines and made a commitment to preserve selected lines. The state commitment provides an environment in which industries can feel confident about locating on a line. The new industry provides additional revenue to support the line. Thus rail viability is a self-fulfilling prophesy. If shippers believe a line to be weak and do not locate on it, it becomes weak. Similarly, if they believe a line is viable and locate on it, it becomes stronger and the expectations are fulfilled.

3) Decreasing weight limits or increasing taxes on trucks would, by increasing the cost of truck transportation, shift traffic back to railroads. While this could help preserve rail service, it would also increase the cost of shipping goods.

4) Many branchline shippers recognize that the railroads are losing money serving them. Yet, they also feel continuation of rail service is necessary because it is cheaper than alternative modes. Therefore, rather than lose service through abandonment the shippers could propose that a surcharge be imposed on all traffic over a particular line. If the surcharge is sufficient to eliminate the railroad's loss while not increasing the shippers' costs to the level of the alternative modes, both benefit. The railroad by making a profit and the shipper by still paying favorable transportation rates.

5) Occasionally local shippers are indifferent to rail service and the community may be the major benefactor of rail service or there are a large number of benefactors who do not have the ability to work together. For example, a firm may relocate rather than pay higher transportation rates, creating unemployment and a reduced tax base. If the loss of income and taxes to a community is greater than the subsidy needed to continue rail service, a local subsidy may serve the interest of the community.

6) Purchasing an abandoned line and operating it as a short line is another option that may have significant advantages in some circumstances over subsidizing a line. An organization of rail users could result in more efficient scheduling and better services. Expanded volume could be promoted reducing average costs of shipping. Services might also be better tailored to user needs. Some of the disadvantages in terms of administrative overhead, and restrictive practices of large railroad companies might be overcome.

7) Railroads usually look at the profitability of a total branchline and if the total branch is unprofitable, they may petition for abandonment. Some rail lines which are not viable contain segments which are or could be viable for another carrier. Thus shippers (or the ICC) could either persuade the existing carrier to maintain service on part of the line or they could persuade another carrier to take over the line.

8) Provision and maintainence of the way requires an extremely large capital investment for any mode and while the highways, waterways and airways have been provided by the public sector, railroads have been required to provide and maintain the rail lines. In response, several proposals have recently been presented at the national level under which the public would provide and/or maintain the rail line. Most proposals include a stipulation which calls for the railroads to pay a user charge similar to trucks and airlines. This would substantially reduce the capital requirements for railroads and change the fixed costs to a variable cost based upon traffic flow.

Funding Sources

As with most public problems, the various solutions to the railroad problem requires capital. Rehabilitation and preservation of all rail lines in South Dakota is financially prohibitive, and the railroads do not have the capital required to upgrade service for most lines in the state. This leaves a significant part of the financial burden upon the public sector and those shippers dependent upon rail service.

The federal government under the 4-R Act, the Railroad Revitalization and Regulatory Reform Act of 1976, provides funds which can be utilized for rail freight assistance on lines which have been approved for abandonment. During the fiscal year July 1, 1977, to June 30, 1978, the federal share of any assistance program is 90%. The federal share is reduced to 80% in the next fiscal year and to 70% between July 1, 1979 and June 30, 1981. While each branchline is an individual case, it now appears that the state will not provide the matching funds in most cases. Rather local interests will have to raise the funds. South Dakota has received 1.649 million dollars in the current fiscal year under the 4-R Act.

During the 1978 legislative session, the South Dakota legislature enacted legislation which is similar to the Iowa plan. Under this law shippers, the state, and the railroad each contribute 1/3 of the cost of rehabilitating a rail line. As the line generates revenue the railroad will pay back the shippers and the the state.

Financing under either the 4-R Act or the Iowa Plan requires local participation. To facilitate revenue raising by local units of government, the 1978 legislation facilitates establishment of regional local bonding authorities which can secure the capital needed to preserve and upgrade rail facilities by issuing bonds. However, the future of most branchlines still rests with the users. If shippers want to preserve their rail service they will have to "put their money where their mouth is." On a line with more than one shipper this will require some collective action vehicle, possibly a rail user's association. The association could represent users in negotiations and could serve as the vehicle to assess and collect rehabilitation and other funds from shippers.

Conclusion

While South Dakota faces a rail crisis, it also has alternatives available to solve the problems. But retaining service on individual branchlines will require action on the part of shippers. If you want to preserve service in your area you can contact the following agencies:

For Planning

South Dakota Department of Transportation
Division of Railroads
Transportation Building
Pierre, SD 57501

For Abandonment

South Dakota Public Utility Commission
Transportation Division
Capitol Building
Pierre, SD 57501
(Phone 773-3161)

To Work Together With Other Shippers

South Dakota Rail Users Association
P.O. Box 665
Yankton, SD 57078